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FEATURED Q&A

Will Financial Inclusion Increase in Colombia?



Colombian President Juan Manuel Santos and FARC leader Rodrigo Londoño signed a renegotiated peace accord last November. Development has lagged in certain sectors, including financial services, in locations hard-hit by the conflict. // Photo: Colombian Government.

Q Banco de Bogotá recently announced plans to expand its “Route to Financial Inclusion” financial literacy program to an additional 50 municipalities in Colombia this year. The initiative is rooted in the bank’s efforts to expand coverage in areas of the country where development has lagged, particularly in rural areas ravaged by the country’s five-decade armed conflict. Now that Colombia’s peace accords have been signed, what are the chances for increased banking penetration in the country? To what extent should banks operating in Colombia invest in increasing financial literacy and adoption of financial products? What are the main obstacles that still block some Colombians from being part of the formal financial system?

A Manuel Orozco, member of the Financial Services Advisor board and director of the Migration, Remittances and Development Program at the Inter-American Dialogue: “The end goal of financial education is to reach economic independence by building assets. Financial education provides tools and instruments to manage income and disposable income by motivating people to increase their savings, enjoy financial access and improve their income by better allocating their funds. Overall, Colombia has been quite successful at getting people into the financial system. It is one of the countries with a high bank account ownership among its population of nearly 60 percent. The efforts to continue getting people into the financial system are tremendously important. However, Colombia also faces the challenge of getting users to perform payments outside the cash-based economy. Although people own accounts, 97 percent of day-to-day transactional ac-

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TOP NEWS

BANKING

NCB Jamaica Reports \$41.8 Mn in Profit

National Commercial Bank Jamaica reported its highest-ever quarterly profit for the three-month period that ended March 31. Its acquisition of a stake in Guardian Holdings helped fuel profit.

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REMITTANCES

Remittances to Mexico Grow 15.1% in March

Remittances grew to \$2.05 billion in March. Transfers grew 7 percent in the first quarter.

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BANKING

Brazil Fuels Profits at Spain’s Santander

Banco Santander announced a 14.3 percent rise in profit for the first quarter, fueled in part by a sharp increase in profit at the bank’s Brazil unit. Santander’s CFO, José Antonio García Cantera, expressed optimism about Brazil’s financial sector.

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García Cantera // File Photo: Banco Santander.

BANKING NEWS

Brazil Fuels Profits at Spain's Santander

Spain's Banco Santander announced April 26 that its profit for the first quarter rose 14.3 percent, beating analysts estimates, fueled in part by a sharp increase in net profit at its Bra-

Santander's net income from Brazil soared 77 percent, year-on-year.

zilian unit, MarketWatch reported April 25. The Spanish bank said its net profit for the quarter amounted to 1.87 billion euros (\$2.05 billion), as compared to 1.63 billion euros for the same quarter a year earlier. Analysts had expected net profit of 1.75 billion euros for this year's first quarter, according to a poll of analysts by data provider FactSet. Net income from Brazil soared 77 percent year-on-year following a rise in the South American country's currency amid efforts by President Michel Temer to boost the economy, Bloomberg News reported. Brazil now accounts for 26 percent of Banco Santander's profit, the news service reported. Brazil's "financial sector should do very well given that the financial penetration in Brazil is still very low compared with more developed economies," Banco Santander's chief financial officer, José Antonio García Cantera, told Bloomberg Television in an interview.

National Commercial Bank Jamaica Reports \$41.8 Mn in Profit

National Commercial Bank Jamaica on April 28 reported its highest-ever quarterly profit, 5.87 billion Jamaican dollars (\$41.8 million), for its quarter ending March 31, the Jamaica Gleaner reported. That profit amounts to earnings per share of 2.39 Jamaican dollars, up from 1.47

Jamaican dollars a year earlier, the bank said. "We are encouraged by the performance," NCB's deputy managing director, Dennis Cohen, told investors at a briefing. The company's 29.9 percent acquisition of Guardian Holdings helped to fuel group profits in the quarter, the company said. Net fees and commissions in the quarter rose to 3.5 billion Jamaican dollars in the quarter, as compared to 2.6 billion Jamaican dollars a year earlier. NCB also hired a cost "czar" in order to review key spending, said Patrick Hylton, NCB's group managing director. "What we have done is essentially started the process of creating a framework for a more rigorous assessment of all the areas of spend across the group," said Hylton. "We have given that responsibility to one person to create a plan, the major areas of which have been defined to create governance structure around spending in order to ensure that we get the best value for money." Hylton did not announce



Hylton // File Photo: National Commercial Bank Jamaica.

the name of the person hired for the position. NCB is also investing heavily in expansion, the bank said, noting capital expenditure of 2.4 billion Jamaican dollars, twice the amount from a year earlier. The spending is mainly tied to NCB's retail banking division, with 1 billion Jamaican dollars allocated to the construction of a new banking center in Montego Bay. The bank is also spending 628.7 million Jamaican dollars in its payment services division, related to upgrading card technologies, NCB said. Over six months, profits amounted to 9.5 billion Jamaican dollars, up from 5.9 billion from the year-ago period. Earnings per share were 3.84 Jamaican dollars, as compared to 2.44 a for the same period a year earlier. During the quarter ending in March, NCB Financial Group became the holding company for NCB and its businesses after Jamaica's Supreme Court

NEWS BRIEFS

Bradesco Beats Estimates With \$1.47 Billion in Profit for First Quarter

Brazil's Banco Bradesco on April 27 reported recurring net income of 4.65 billion reais (\$1.47 billion) for the first quarter, beating estimates, Reuters reported. Profit increased 6 percent from the prior quarter, the bank said. A reduction in loan-loss provisions led to the higher-than-expected profit. Analysts, in a consensus estimate, had expected the bank, led by CEO Luiz Carlos Trabuco Cappi, to post profit of 4.39 billion reais.

Kuczynski Calls for Improvements to Peru's Pension System

Peruvian President Pedro Pablo Kuczynski on May 1 said the country's pension system must be improved, state-run news agency Andina reported. "I think we need to focus on pension system. There is a committee led by the Economy and Finance Ministry that works on this particular issue," Kuczynski said during a ceremony. He also called for improvements to the country's health system.

Pangea Expands Money-Transfer App to Honduras

U.S.-based Pangea has launched its mobile money-transfer app in Honduras, its sixth Latin American market, the company announced May 1. The smart-phone app is also available in Mexico, Colombia, Guatemala, El Salvador and the Dominican Republic. The Chicago-based company raised a new round of funding in December in order to fund its planned expansion into 16 more countries by this year's third quarter. Users of the app can send money that can be collected either in cash at pickup locations or deposited directly into a bank account or onto a debit card.

and shareholders approved the new holding structure. The restructuring was aimed at facilitating the company's future expansion in the Caribbean, the Gleaner reported.

Brazilian Police Investigating Banco Panamericano Deal

Brazil's federal police on April 19 launched an investigation into the purchase of shares of Banco Panamericano by state-owned Caixa Participações, the parent company of national savings bank Caixa Econômica Federal, The Wall Street Journal reported. The investigation is into whether Caixa Econômica Federal managers committed fraud that would have led to their clients losing money, the police said,



Esteves // File Photo: Harvard Business School.

Reuters reported. Caixa said it is cooperating with the investigation. The shares were later sold to investment bank BTG Pactual, The Wall Street Journal reported. The former CEO of BTG, André Esteves, is also being investigated as part of the probe, because he oversaw BTG's 2011 purchase of a controlling stake in Banco Panamericano. Approximately 200 federal police conducted raids following the court order, which also froze bank accounts holding a combined 1.5 billion reais, or \$480 million. BTG was ordered to provide documents about the deal. Both the investment bank and Esteves deny wrongdoing. BTG said it did not play a role in Caixa Econômica Federal's purchase in 2009 of a 35.5 percent stake in Banco Panamericano. When BTG in 2011 bought a controlling stake of Banco Panamericano, which is now called Banco Pan, Caixa retained

its stake in the bank. Banco Pan posted a loss of 237.2 million reais in 2016, finishing the year with a credit portfolio of 19.2 billion reais, The Wall Street Journal reported.

REMITTANCES NEWS

Remittances to Mexico Grow 15.1% in March

Remittances sent to Mexico grew 15.1 percent year-on-year in March to \$2.05 billion, Goldman Sachs said in a May 2 note, citing the country's central bank. When measured in pesos, remittances grew 25.9 percent, given the peso's depreciation. "We do not rule out that the solid performance of remittances since November

2016 reflects to a certain extent concern about potential restrictions and/or taxation by the U.S.," wrote Alberto Ramos, co-head of the Goldman Sachs' Latin America economic research team. U.S. President Donald Trump has repeatedly vowed to build a massive wall along the U.S.-Mexico border and has floated the idea of taxing or blocking remittances in order to force Mexico to pay for it. During the first quarter of the year, remittances to Mexico grew 7 percent as compared to the same quarter last year, or 20.8 percent in pesos, the central bank said. In last year's fourth quarter, remittances grew 12.4 percent year-on-year, or 32.9 percent in pesos. "We expect workers' remittances to perform well going forward, with growth in dollar terms stabilizing at around 5 percent [year-on-year]," Ramos said in the note. "We highlight [that] solid workers' remittances flows have been adding support to the current account and to private consumption, particu-

FEATURED Q&A / Continued from page 1

activities are performed in cash. The challenge is not only to expand the financial advising effort beyond account ownership and savings formalization, but also to perform electronic-based fund transfers. However, consumers believe that the costs of doing so are higher than for cash. Retailers also find it more expensive to charge electronic transactions because of tax regulations. Therefore, a strategy for financial inclusion is one that includes advising as well as institutional reforms and incentives to consumers and retailers to promote greater adoption of electronic funds and enhance the role of domestic payment networks."

A **Wally Swain, senior vice president for emerging markets at 451 Research in Bogotá:**

"The long conflict has left the Colombian countryside significantly behind the curve on a number of fronts, from basic infrastructure to education to health care to banking. The only bank with significant coverage is Banco Agrario, a public institution without sufficient resources to lead a

'banking the unbanked' initiative. I remember a trial a few years ago led by the coffee growers' association and Telefónica that for various reasons never got beyond a limited

“The biggest barrier has been the rural dwellers themselves, who would rather work with cash than a remote and perhaps dubious bank.”

— Wally Swain

test. The coffee growers had very broad objectives, including improving how farmers managed their rather 'spiky' cash flow: they only get paid when they deliver their harvest, which in Colombia means twice a year. The biggest barrier has been the rural dwellers themselves, who would rather work with cash than a remote and perhaps dubious bank. Cell phones get stolen all too frequently so are not perceived to be safer than

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larly for low-income families, who have a high propensity to consume and are the overwhelming recipients of such transfers.” [Editor’s note: See [Q&A](#) on remittances in the Feb. 23-March 8 issue of the Financial Services Advisor.]

POLITICAL NEWS

Venezuela’s Maduro Calls for New Constitution

As a wave of anti-government protests intensified and entered a second month, Venezuelan President Nicolás Maduro called May 1 for a new Constitution, saying the move was needed to restore peace to the country and prevent his opponents from staging a coup, the Associated Press reported. Maduro signed an order that would lead to the creation of a “constituent



Maduro // File Photo: Venezuelan Government.

assembly” to rewrite the current Constitution, which came into force in 1999 early in the presidency of Maduro’s predecessor, the late Hugo Chávez, The Wall Street Journal reported. “We need to transform the state, especially that rotten National Assembly over there,” Maduro told red-clad supporters at a May Day rally in Caracas. Maduro said a constituent assembly would ease Venezuela’s economic crisis and guarantee peace in the Andean nation, Maduro said, though he did not explain how. “I don’t want a civil war,” he said. Opposition leaders rejected Maduro’s plan, saying it was a move ahead of next year’s planned presidential election to retain power. “What the Venezuelan people want isn’t to change the Constitution,

ADVISOR Q&A

What Can Ecuador Expect of its New President?

Q Former Ecuadorean Vice President Lenín Moreno was confirmed the winner of the country’s April 2 presidential runoff election after 10 percent of the votes were re-counted and showed him defeating his opponent, Guillermo Lasso, by a slightly wider margin than had first been reported. Lasso has called for a full recount of all the votes, but the national electoral council has denied the request. Is Moreno’s mandate weakened by not having a full recount of the vote? How will Moreno differ from or align with his predecessor, President Rafael Correa? How well will Moreno be able to work with the Andean nation’s legislature to address Ecuador’s most pressing economic issues?

A Vicente Albornoz, dean of business and economics at the Universidad de Las Américas in Quito: “On May 24, Moreno’s presidency will start with a strong government, but with weak legitimacy. His government will be strong because his party will be in control of all branches of power, and also of all the key institutions, such as the attorney general and the national accountability office. But at the same time, his government will have a weak legitimacy, due to anecdotal (yet not conclusive) evidence of electoral fraud in the second round of

but to change Maduro through voting,” Julio Borges, the leader of the opposition-controlled National Assembly, told reporters in Caracas, the Associated Press reported. Rewriting the Constitution would amount to a “giant fraud” and a “trap” by Maduro and his allies, said Borges. If a constituent assembly is created to redraft the Constitution, Maduro’s government is expected to give itself the power to appoint

the presidential election. Additionally, his government will face a significant reduction in economic activity and maybe, for the first time since Ecuador has had reliable national accounts, a second consecutive year of GDP decline. The causes for the current economic slump are related to the high dependence of economic activity on public expenditure. Since the fall of oil prices, public expenditure has been declining, and due to the lack of confidence in public policies, the probability of private investment becoming the new driver of growth in the economy is remote. Moreno’s economic policies will differ in some aspects from his predecessor’s, mostly because his ideology is further to the left and because he has almost no experience in economic management. He will need to rely more heavily on his advisors, and, considering the current rumors, those advisors will be selected on the basis of ideology rather than pragmatism. His relationship with the legislative branch will also be different from Correa’s, because this time the government will be managing ‘scarcity,’ rather than ‘abundance,’ and that will create tensions inside the government’s party.”

EDITOR’S NOTE: More commentary on this topic appears in the April 28 issue of the Latin America Advisor.

a majority of its delegates and then use it to delay regional elections scheduled for this year, as well as next year’s planned presidential election, political analyst Luis Vicente León told the AP. “It’s a way of calling elections that uses up energy but does not carry risk, because it’s not a universal, direct and secret vote,” he said. “And it has the effect of pushing out the possibility of elections this year and probably

NEWS BRIEFS

Eight Killed in Crash of Colombian Military Plane

A Colombian military aircraft crashed near Bogotá on May 1, killing all eight people aboard, Colombian officials say, the Associated Press reported. Local authorities said the plane may have run into an antenna or bad weather, but the cause of the crash is still being investigated. Three civilians were among those on the plane. President Juan Manuel Santos expressed his condolences on Monday via Twitter.

Temer Vows to Continue Push for Reforms in Brazil

Brazilian President Michel Temer said that despite seeing nationwide demonstrations against some of his proposals, the government will press forward with the reforms his administration started, The Rio Times reported May 1. He said protests like the one on April 28, which was one of the largest strikes the country had seen in decades, are typical of a democracy but that "whatever happens, with protests or no protests, Brazil continues and will continue to work." Temer said that despite demonstrations against the government's social security and labor reforms, the proposed measures will benefit workers and will help reduce unemployment

Colombian Central Bank Cuts Key Interest Rate by Half Percentage Point

Colombia's central bank on April 28 cut its overnight interest rate by the greatest amount since 2013, the Financial Times reported. Policymakers cut the key interest rate by a half percentage point to 6.5 percent, the third cut this year. The decision came amid indications that Colombia's economy will continue to struggle in the near term and as inflation continues to slow.

next year as well." If a constituent assembly goes forward, the opposition also would likely need to focus on being represented in the body, which could distract them from organizing the near-daily protests that have been occurring in Venezuela for the past month, the AP reported. In some of the latest anti-government demonstrations, protesters attempted to march on government buildings in Caracas, but the peaceful march turned chaotic when police officers blocked their path and launched tear gas to chase them away. A separate pro-government march celebrating May Day occurred without incident, the AP reported. The two demonstrations together brought hundreds of thousands of people into the streets in the capital. At least 29 people have been killed in protests in Venezuela over the past month, and hundreds have been injured.

ECONOMIC NEWS

U.S. to Allow Imports of Argentine Lemons

The U.S. Department of Agriculture on May 1 said Argentina would be able to export lemons to the United States for the first time in 16 years starting this month, days after U.S. President Donald Trump met with Argentine President Mauricio Macri and discussed the matter, among other issues, Reuters reported. In December, the USDA during then-U.S. President Barack Obama's administration said it would lift the ban on Argentine lemons, giving lemon growers from the country's northwest region access to the world's largest consuming market of the produce. However, following Trump's inauguration in January, the USDA issued a 60-day stay on the new rule, and extended the stay for another 60 days. According to the USDA statement, the government will not extend the stay again, and the rule allowing imports will take effect starting after the stay expires on May 26. The U.S. government enacted the ban in 2001 after citrus farmers in California expressed concerns that Argentine lemons carried diseases that could hurt their crops. The USDA said Argentine lemons would

at first only be imported to the northeastern United States this year and next year. The USDA proposed the new rule allowing Argentina to export lemons to the United States as relations between the two countries warmed following the election of Macri in late 2015.

Mexico, U.S. Extending Deadline for Sugar Trade Deal

The Mexican and U.S. governments have agreed to extend the deadline for negotiating a sugar trade agreement to June 5, according to a letter sent by Ronald Lorentzen, the acting assistant secretary for enforcement and compliance at the Commerce Department, to Juan Cortina Gallardo, the president of Mexico's sugar chamber, Reuters reported. Late last year, the U.S. sugar industry lobbied for the Commerce Department to withdraw from a 2014 trade agreement with Mexico that sets prices and quotas for U.S. imports of sugar from Mexico, unless the deal could be renegotiated. Lorentzen said in the note that "there remain outstanding issues between the parties," adding that the current agreement would be null if a new deal is not reached by

Mexico and the United States extended the deadline for a deal to June 5.

June 5. If a new accord does not come to pass, large anti-dumping tariffs would likely be implemented against sugar imports from Mexico. The negotiations come as Mexican-U.S. relations have been frayed during the administration of U.S. President Donald Trump, who has said he wants to renegotiate the North American Free Trade Agreement. Mexico is the top foreign supplier of sugar to the United States, where the government gives quotas to approximately 40 sugar-producing countries each year through trade programs.

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cash—even though bank balances would presumably be protected even if the phone is stolen. That is why the participation of a respected bank like Banco de Bogotá is critical for success. They have brand presence and, more importantly, an understanding of barriers and risks. Colombian banks are too powerful politically for disruptive solutions like Kenya's M-Pesa system or a similar peer-to-peer payment system in the Philippines to pass regulatory muster. The large banks are central to any successful implementation."

A **Enrique Gómez-Pinzón, executive partner at Holland & Knight in Bogotá:** "Financial inclusion is a decisive factor in development and economic growth. It is becoming more significant in Colombia, where basic needs of a major part of the population are not met, and where armed conflict has contributed to underdevelopment in certain areas. Colombians who are outsiders to the financial institutions are so for a variety of reasons. Accessibility to financial institutions in rural areas is difficult, since their telecommunication and transportation infrastructure is still straitened. The environment in areas afflicted by armed conflict is still one of distrust, as people have long been ripped of their belongings. The income of this population is often barely enough—or not enough—for daily survival, which makes it difficult for them

to even think about building capital or using the financial services, since daily priorities seem to demand all of their resources. Amid the implementation of Colombia's peace agreement, and as the country increasingly invests in infrastructure, the game-changer

“**Financial inclusion is a decisive factor in development and economic growth.**”

— Enrique Gómez-Pinzón

for achieving financial inclusion has to be education. Efforts like the 'Route to Financial Inclusion' are crucial in order to achieve a cultural shift of both people and financial institutions: They help financial markets to truly understand the consumers' needs, and the consumers to become more familiar with financial services and options. In such an aim, the young population is a strategic target, since it is composed by the potential financial consumers of the near future."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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Youth, Skills and Entrepreneurship in Latin America

The launch of a report produced by the OECD, ECLAC and CAF – Development Bank of Latin America

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