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FEATURED Q&A

What Types of Pension Reforms Are Needed in Peru?



Peru's pension system, which underwent reforms last year, needs further changes, President Pedro Pablo Kuczynski said recently. // File Photo: Peruvian Government.

Q Peru's pension system needs to be improved, President Pedro Pablo Kuczynski said in a May 1 speech. The statement followed actions last year by Peruvian lawmakers in which they voted to allow account holders to withdraw 95.5 percent of the money from their private pension accounts upon retirement, and also allow Peruvians to withdraw 25 percent of their accounts to repay mortgage loans. What are the effects of those measures on the country's private pension system? How strong is Peru's current pension system, which includes a public system, known as ONP, and a private system, with providers known as AFPs? To what extent does the private system need reforms?

A Roberto Abusada Salah, president of the Peruvian Economy Institute: "The legislation that Congress passed last year allowing individuals in Peru's private pension System (PPS) to withdraw 95.5 percent of total funds upon retirement and 25 percent of the accumulated funds at any time for use toward the purchase of a home has effectively destroyed the very essence of the PPS by rendering it merely a scheme for forced savings. Undoubtedly, the whole system—including the public pay-as-you-go program (ONP)—has been in need of a comprehensive reform, even since before the enactment of the legislation in question. The primary problems of the present system are manifested in the high costs of the PPS and in the massive debt overhang the public system is certain to generate for future generations to bear, resulting in an unsustainable long-term macro-fiscal situation. In addition, the current system has very low coverage: while only 30 percent of the

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The New York-based company said strong results in Latin America helped fuel first-quarter profits, which increased 59 percent year-on-year.

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Mexican Antitrust Regulator Fines Pension Managers

The Federal Competition Commission fined four pension fund management companies and 11 individuals for restricting competition in the market. The fines totaled \$58 million.

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BANKING

Banco do Brasil Misses Estimates for Q1 Profit

State-run Banco do Brasil reported a first-quarter profit of 2.52 billion reais, or \$794 million, excluding one-off items. Analysts had expected profit of 2.93 billion reais from the bank, headed by Paulo Rogério Caffarelli.

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Caffarelli // File Photo: Brazilian Government.

BANKING NEWS

Itaú Unibanco in Talks to Acquire XP Investimentos

Itaú Unibanco, Brazil's largest private bank, is in talks to acquire XP Investimentos, the country's third-largest brokerage by equity-trading volume, according to two people with knowledge of the deal, Bloomberg News reported May 9. Itaú would acquire XP as an alternative to an initial public offering by the brokerage. XP, which is backed by private-equity firm General Atlantic, filed for an IPO on May 9. General Atlantic may also sell a stake in XP. It acquired an additional 16 percent stake in the investment company in April of last year, increasing its stake in the company to 49 percent. Both the brokerage and Itaú declined to comment on the matter. XP is currently seeking a banking license in Brazil and has plans to expand to New York, Miami and Geneva. XP accounted for 10.8 percent of the equity-trading volume in Brazil for the first three quarters of last year, up from 9.9 percent year-over-year. The company has been compared to Charles Schwab Corp. for bringing online investing platforms to the middle class, giving middle-income Brazilians specialized investing advice and products that had previously only been available to wealthy Brazilian investors.

ELECTRONIC PAYMENTS NEWS

First Data Reports Stronger Results in Latin America

New York-based First Data Corporation reported today that strong results in Latin America helped push financial returns into positive territory in the first quarter. The company's Global Business Solutions unit in Latin America posted revenue of \$59 million in the first quarter, up 59 percent compared to the same period

last year, driven by strong results in Brazil and Argentina. In its Global Financial Solutions unit, Latin America revenue was \$33 million, up 6 percent, or up 8 percent excluding currency impacts, benefiting from stronger performance in Colombia and Argentina. Overall, the company's consolidated revenue for the first quarter was \$2.8 billion, up 1 percent as compared to the same period a year ago. One of the world's largest electronic payments processors, First Data serves roughly 6 million merchants and some 4,000 card issuers in 35 countries.

PENSIONS NEWS

Mexican Antitrust Regulator Fines Pension Managers

Mexico's antitrust regulator, the Federal Competition Commission, on May 4 fined four pension fund management companies and 11 individuals for restricting competition in the market by making agreements to limit transfers of retirement accounts from one manager to another, The Wall Street Journal reported. The commission fined the firms and individuals a total of 1.1 billion pesos, or \$58 million, for creating six bilateral agreements between November 2012 and June 2014 that were signed by pension fund managers, called Afores, which manage mandatory work retirement savings accounts. Profuturo GNP Afore, Afore Sura, Afore XXI Banorte and Principal Afore were the Afores fined, in addition to the 11 individuals. The Federal Competition Commission said the agreements put weekly caps on the number of transfers between two Afores, which was meant to lower the commercial cost involved in competing for accounts, but that the savings that resulted from the agreements did not translate into better commission for pension fund customers. "In a market where the investments and commissions charged by Afores are regulated, transfers are a fundamental source of competition," the commission said. "Agreeing to limit them reduces incentives to offer better service, and eliminates the

NEWS BRIEFS

Bradesco Names Lazari Head of Insurance Group

Brazil's Banco Bradesco has named Octávio de Lazari Junior as the head of its insurance operations, O Estado de S.Paulo reported May 15. The bank's director of credit, Lazari in his new position will replace Randal Zanetti, who is becoming president of Bradseg Participações, the holding company Grupo Bradesco Seguros. Lazari is also considered a possible candidate to take over as Banco Bradesco's chief executive officer when current CEO Luiz Carlos Trabuco Cappi retires. Cappi turned 65 last October, and the bank's shareholders raised the retirement age for its CEO that month to 67.

Banco do Brasil Misses Estimates for Q1 Profit

State-controlled Banco do Brasil on May 11 reported a first-quarter profit before one-off items of 2.52 billion reais (\$794 million), missing estimates amid a decline in interest and fee income, Reuters reported. Analysts had expected a quarterly profit of 2.93 billion reais. The bank's actual profit was 44 percent higher than in the fourth quarter and 96 percent higher than in the first quarter of last year. The bank's write-offs of bad loans nearly tripled and defaults over 90 days were higher than estimates.

Nomura Taps Ardura for Latin America Sales Post

Asian global investment bank Nomura named Alberto Ardura as its managing director and head of Latin America sales and client coverage in its emerging markets division, the company announced May 9. Ardura is joining Nomura from Deutsche Bank, where he most recently served as managing director and vice chairman of corporate finance for Latin America. Before working at Deutsche Bank, Ardura served as chief country manager and head of fixed income currencies and commodities for Mexico at Merrill Lynch.

possibility for workers to reward or punish their Afore based on their level of satisfaction.” The agreements were monitored through emails that were meant to obscure the identities of the Afores, the commission said, indicating that those involved in the scheme knew that what they were doing was illegal.

Brazil Committee Approves Draft Pension Reform Law

A special committee in Brazil’s lower chamber of Congress on May 3 passed a measure to reform the country’s politically sensitive pension system, Folha de S.Paulo reported. The vote was 23 in favor and 14 against. Dozens of prison guards protesting the new retirement rules stormed the committee room after the vote and were pushed back by police using pepper spray, Reuters reported. Lawmakers had to adjourn the session as a result. Although more than 70 percent of Brazilians oppose the bill, which would cut benefits and extend the number of years people need to work, economists warn that the social security system is one of the main threats to Brazil’s finances. Without the overhaul, Brazil’s population is expected to raise social security spending to 17 percent of GDP by 2060. A full vote on the pension reform plan has been delayed until later this month or even June.

INSURANCE NEWS

GraceKennedy Posts \$8.78 Million in Profit for First Quarter

Jamaican financial services and food conglomerate GraceKennedy Limited posted a first quarter net profit of 1.14 billion Jamaican dollars, or approximately \$8.78 million, a 28 percent drop year-over-year, The Jamaica Gleaner reported May 14. The decline in profit was due to higher costs in both divisions, with

earnings per share falling to 1.02 Jamaican dollars per share, down from 1.50 Jamaican dollars per share during the same period a year earlier. The group’s banking and investments division posted a net profit of 107.1 million Jamaican dollars during the first quarter, insurance posted 87.5 million Jamaican dollars and money services posted 751.4 million Jamaican dollars in profit. The Kingston-based company’s food-trading segment delivered a profit of 725.6 million during the same period. The insurance segment saw an 11 percent decline in profit year over year, while the food trading division saw a 15 percent decline. The insurance segment experienced higher revenues during the first quarter year-over-year, but its net profit was negatively affected by higher costs. During the quarter, GraceKennedy renamed EC Global Insurance Company as GK Insurance. Both GK General Insurance Company and the GK Insurance saw an increase in revenues. On May 8, the group divested its 30 percent stake in Trident Insurance Company. The proceeds totaled approximately 56 million Jamaican dollars. The financial group saw increased volumes of business in its remittances division.

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population in the highest 20 percent income bracket does not have a pension plan, among the remaining 80 percent of Peruvians, the proportion not covered under any type of plan exceeds 50 percent and rises to a staggering 90 percent within the neediest quintile. The government is currently evaluating the total overhaul of the system in order to present to Congress a complete reform proposal that would introduce individual capitalization accounts in the public system; institute a non-contributive program to provide a minimum universal coverage; create a government-matching subsidy to promote the participation of independent workers in a pension program; and finally, establish a unified back-office to serve all private pension fund administration firms (AFPs). This last measure would cut costs and eliminate the current socially wasteful practice whereby each AFP maintains a sales force geared primarily toward gaining market share.”

FINANCIAL TECH NEWS

Brazilian Fintech Could See \$24 Bn in Revenue in 10 Years

Brazilian financial technology firms could generate a combined \$24 billion in revenue over the next decade, posing a threat to the market share of the country’s large, established banks, according to a new report from Goldman Sachs, The New York Times reported. Among the most promising segments of the market are payments, lending, insurance and personal finance, said the report, entitled “Fintech Brazil’s Moment.” Brazil’s highly concentrated banking sector means the impact of fintech on the sector will be greater in Brazil than in other countries, the report found. “We believe the Brazilian financial system is particularly susceptible,” said the report’s authors, Carlos G. Macedo, Marcelo Cintra, Steven Goncalves and Nelson Catala. Brazil’s top five banks, not

A Francisco Durand, professor of political science at the Catholic University of Peru: “Since 2014, in a rare public debate, pensioners finally demanded and obtained changes, beginning with the ‘commissions’ AFPs charges, which are among the highest in Latin America. Congress adopted a proposal to let the four AFPs compete to offer lower rates. Prima (BCP group) won, and a strong migration of pensioners to the winner is expected. Also, most retired pensioners (frustrated by small monthly payments) demanded the freedom to withdraw 95.5 percent of their funds, plus withdrawals to pay mortgages for all pensioners. A proposal to ‘broaden the base’ (only 40 percent have ‘formal jobs’) and include ‘independent workers’ failed in 2014 after mass mobilizations. In addition, the Peruvian economy is now growing slowly and international reserves have decreased significantly. For all

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including development banks, hold 84 percent of the country's loans, creating "an oligopolistic market structure," the report said. The top five banks also have 90 percent of the country's bank branches, an increase from 71 percent a decade ago, the report added, pointing out that the market is more concentrated since the 2008 financial crisis. In comparison, the top five banks in the United States have about 20 percent of the country's bank branches. Bank fees and interest rates in Brazil are also among the world's highest. "We believe this unique market structure positions fintechs to have a larger impact in Brazil than in other developed markets," said the report's authors.

POLITICAL NEWS

Brazil Electoral Court to Hear Case That Could Annul '14 Vote

Brazil's electoral court will take up a case next month that could annul the results of the country's 2014 presidential election, which could potentially unseat President Michel Temer, the court's leader said May 16, Reuters reported. The trial would restart on June 6, said Judge



Temer // File Photo: Brazilian Government.

Gilmar Mendes, who is also a member of the country's Supreme Court. The trial had been paused in early April so that the defense could present new testimony and arguments. Prosecutors in the case allege that former President Dilma Rousseff's Workers' Party received large amounts of illegal campaign contributions in connection with the far-reaching kickback scandal at state-run oil company Petrobras. Ex-

ADVISOR Q&A

Do Venezuela's Crises Spell Trouble for Cuba?

Q Since late President Hugo Chávez took power in Venezuela in 1999, the Andean nation and Cuba have had close ties. Those ties have included Venezuela sending oil to Cuba on preferential terms and Cuba sending doctors and other professionals to Venezuela. Venezuela, however, is now beset by a political and economic crisis, including skyrocketing inflation, shortages of food and basic goods, and recent deadly protests. In which ways does Cuba still rely on Venezuela, and how important is that support to the island nation? Is Cuba at risk of losing the support that Venezuela has provided? To what extent has the thaw in relations between Cuba and the United States affected Cuba's reliance on Venezuela?

A Carlos Saladrigas, chairman of the Cuba Study Group and Regis HR Group: "Upon Hugo Chávez's rise to power, Venezuela's oil largesse was crucial in pulling Cuba out of the doldrums of economic stagnation during the 'Special Period,' which followed the loss of Soviet subsidies. The relationship that ensued between the two countries, like the old Soviet arrangement, became an economic arrangement that was not based on market fundamentals, but rather on political goals and affinity. Both allowed Cuba's economy to exist on make-believe

premises that masked its massive economic inefficiencies and own internal distortions. Although Chávez bought additional time for Cuba to reform and diversify its economy, fear of change, bureaucratic rigidity and lack of political consensus squandered the Venezuelan resources and the opportunity for a more relaxed process of reforms. Since Raúl Castro became president, he has shown that he understood the dilemma, no doubt prodding him to accept the re-establishment of relations with the United States. Yet, his brother's longevity and lack of internal consensus paralyzed or significantly slowed the implementation of needed reforms. As Venezuela spirals into collapse, nine years older, and with one year to go before he steps down, Raúl is now facing the prospect of leaving to his successor the very economic quandary that he inherited—an economy on the brink of collapse. Like a recovering addict, Cuba needs to recognize and accept the problem. Given the absence of potential new benefactors, this reality shock might finally convince Cuban leaders that there is only one way out. Reform or death!"

EDITOR'S NOTE: More commentary on this topic appears in the May 12 issue of the Latin America Advisor.

ecutives from construction conglomerate Odebrecht have testified that they made some 300 million reais (\$97 million) in illegal donations to Rousseff's 2014 presidential campaign. Rousseff has strongly denied the assertion. Temer was elected that year as Rousseff's vice president and took over as president last year after Rousseff was impeached. Prosecutors in the case have said that Temer did not request

donations himself. Also, despite the potential threat against Temer stemming from the case, Mendes, who has links to a political party that is allied with Temer's, told Reuters in March that Temer would not necessarily be forced from office even if the election were annulled because he did not head the ticket. [Editor's note: See related [Q&A](#) in the April 20 issue of the daily Latin America Advisor.]

NEWS BRIEFS

Honduras Transfers Gang Members to Maximum-Security Prison

The Honduran government said May 16 that it had transferred 773 gang members to a maximum-security prison as part of a plan to relocate approximately 2,000 inmates in order to prevent penitentiaries from becoming headquarters for criminal activities, Reuters reported. Hundreds Mara Salvatrucha, or MS-13, and Barrio 18 gang members were transferred from the overcrowded Marco Aurelio Soto prison to a high-security prison known as El Pozo II.

Head of Argentine Rights Group Charged With Misuse of Public Funds

The head of Argentine human rights organization the Mothers of Plaza de Mayo, Hebe de Bonafini, has been charged with misusing public funds allocated to a social housing project, BBC News reported May 16. The program was created under former President Cristina Fernández de Kirchner and was managed by de Bonafini's foundation, which is a collective of mothers looking for children who disappeared during the dictatorship under Jorge Rafael Videla from 1976 to 1981. De Bonafini denies wrongdoing, and says the accusations were politically motivated.

Chile, China Agree to New Cooperation on Tech

Chile and China have agreed to strengthen coordination and cooperation efforts in order to bolster their strategic partnership in sectors including connectivity, information communication, high-tech sectors and astronomy, the two countries said in a joint statement May 15, Chinese state news agency Xinhua reported. Chilean President Michelle Bachelet has been on a state visit to China and attended the Belt and Road Forum for International Cooperation in Beijing.

Mexican Journalists Protest Killings

Journalists demonstrated May 16 in Mexico and some media in Sinaloa state canceled their editions that day in efforts to pressure authorities to act against a growing wave of murderous attacks on journalists in the country, Agence France-Presse reported. The demonstrations followed the May 15 killing of award-winning journalist Javier Valdez, 50, who covered the country's drug war and was fatally shot in broad daylight in Sinaloa's state capital, Culiacán, outside the offices of Riodoce, the weekly newspaper he founded. "How long will there be killings without pity and with impunity," Riodoce said on May 16. The headline of an editorial in La Jornada, the national daily where Valdez also worked as a correspondent, read "Murderous impunity." Journalist groups called for the government to increase its efforts to investigate and bring to justice the perpetrators of attacks against journalists. "This wave of violence shows the state of emergency in which Mexican journalists are living," said Emmanuel Colombie, the Latin America director of Reporters Without Borders. After Valdez's killing, Mexican President Enrique Peña Nieto vowed to defend press freedom and added that he had ordered "an investigation of this outrageous crime." Also on May 15, assailants killed a reporter at a small weekly newspaper in Jalisco state and critically wounded his mother, an executive at the publication.

ECONOMIC NEWS

Mexico Expecting NAFTA Talks by Late August

Mexican Economy Minister Ildefonso Guajardo on May 16 said he expects U.S. President Donald Trump's administration to inform Congress early next week of its intent to renegotiate the North American Free Trade Agreement, or NAFTA, which would lead to talks being held

among the United States, Canada and Mexico by late August, Reuters reported. Guajardo added that he would have more information about the time line for renegotiation after meeting with U.S. Trade Representative Robert Lighthizer in Vietnam on May 11 during the Asia-Pacific Economic Cooperation, or APEC, meetings. "Probably the notification will be sent to Congress by the U.S. executive at some time early next week," he said May 16 after meeting with U.S. Commerce Secretary Wilbur Ross the day before. During his campaign, Trump had vowed to withdraw the United States from NAFTA if he could not renegotiate a better deal for the country. In Washington, Ross and Lighthizer said they would prefer to keep the current trilateral format in the NAFTA renegotiation talks. Guajardo also said on May 16 that a dispute between the U.S. and Mexican sugar industries could be resolved within the next two weeks, before a June 5 deadline. Late last year, the U.S. sugar industry lobbied for the U.S. Commerce Department to renegotiate or withdraw from a 2014 agreement that set prices and quotas for U.S. imports of Mexican sugar. The U.S. sugar lobby wants Mexico to export less sugar. A spokesman from the U.S. Commerce Department said Ross and Guajardo had discussed possible solutions to the dispute and are continuing to work toward a settlement.

Cuba Could See Two Million U.S. Visitors Annually: Report

Some two million U.S. travelers could be visiting Cuba annually by 2025, up from 285,000 last year, representing a "huge" opportunity for U.S.-based airlines, hotel companies and cruise lines, Boston Consulting Group said in a report released May 10, Reuters reported. Although the opportunities are promising, U.S. companies will see challenges operating in the centrally planned economy, according to the report. "The reality is that U.S. travel to Cuba is in its nascent stages, and all the players are still learning how to make it work," the report said. Cuba's government is aiming to double hotel capacity by 2030.

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these reasons, the pension system is 'more democratic' but less profitable. It remains to be seen if it can function properly under these conditions."

A **Roberto Flores Saona, foreign exchange analyst at Inteligo:**
 "Allowing the withdrawal of 95.5 percent of the money from pension accounts has contributed to boosting confidence in capital markets, leading investment firms to launch new products. The measure related to mortgage repayments has also added some dynamism to the real estate market. However, the problem is that these types of measures should be part of an integral reform in the system. By contrast, they were isolated measures and highly influenced by political pressures. In fact, they were approved without a formal debate in the economics commission. Moreover, the measures created an asymmetry with the public system, as workers in the ONP cannot transition to the private system because they would lose almost 15 years of contributions. The pension system in Peru is still in an incipient phase, especially in terms of coverage. Currently, only 34 out of 100 adults belong to a pension system. Further, most people who work in the informal sector, which accounts for 70 percent of the

economy, do not contribute to any system. Regarding the different types of systems that coexist, the private pension system has moderated its growth pace in recent years, particularly in terms of contributors, mainly

“Most people who work in the informal sector, which accounts for 70 percent of the economy, do not contribute to any system.”

— Roberto Flores Saona

due to the creation of Pension 65 and the option to select the ONP. The private system does need integral reforms. There is scope to adjust the fees and also to increase the limit for the AFPs to invest abroad. Furthermore, the government in coordination with the AFPs and the regulator, SBS, should develop a new integrated system that guarantees a minimum pension and increases national coverage."

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Advisor Video

Dominican Foreign Minister Miguel Vargas Maldonado

The Dominican Republic's foreign minister discusses relations with the United States and Haiti as well as Venezuela's political and economic crises with the Advisor's Nicole Wasson.

View a video of the interview.

PLAY

