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FEATURED Q&A

Will 'Positive Data' Benefit Brazilian Banks & Borrowers?



Advocates for "positive data" believe the practice benefits people with good credit histories, but critics cite privacy concerns. // Image: Cafe Credit via Creative Commons.

Q Regulatory changes under consideration in Brazil could speed the country's inclusion of "positive data" in consumer credit reporting, which supporters say benefit people with good credit histories by allowing lenders to better assess risk in extending loans. What are the most important trends in Brazil that relate to positive data, and what are the effects on consumers and financial services providers? Is enough being done to protect consumers' privacy? How big of an effect will such changes have on other industries that sell big-ticket items, such as household appliances and vehicles? Have other countries in Latin America and the Caribbean found the right balance in the debate over how to use and regulate consumer data?

A Steve Liston, vice president for Global Government Relations at Equifax, Inc.: "Brazil has had limited success in implementing a positive data registry. With Chile and Costa Rica, Brazil is among a minority in the region where positive credit history data and other credit-relevant data are not readily available to help assess credit risk. This makes it difficult for lenders to adjust interest rates according to the risk a borrower presents and to responsibly offer credit to consumers and business owners who have not had it before, which represents a large proportion of the Brazilian population. According to the World Bank's General Principles on Credit Reporting, credit reporting systems best promote financial inclusion and financial stability when they include positive data, such as a borrower's full payment history and credit limits. Data should be gathered from a wide range of sources, including retailers and cooperatives, among other lenders. Empirical

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W.R. Berkley Establishing New Units in Mexico

The U.S.-based company, which offers property and casualty insurance, is establishing new subsidiaries in order to offer coverage in Mexico.

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Payments Startup bridge21 Adds Banks to Network

The company, which uses bitcoin in money transfers from the United States to Mexico, has added 38 additional banks to its network.

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BANKING

Brazil Orders Caixa Not to Refinance JBS Credit Lines

Brazil has ordered state-run Caixa Econômica Federal not to refinance the credit lines of the holding company of meatpacker JBS, executives of which have accused President Michel Temer of trying to block a corruption probe, an accusation Temer denies.

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Temer // File Photo: Brazilian Government.

BANKING NEWS

Brazil Orders Caixa Not to Refinance JBS Credit Lines

The Brazilian government has ordered state-run lender Caixa Econômica Federal not to refinance any existing credit lines to J&F Investimentos, a holding company controlled by the members of the Batista family, who have accused President Michel Temer of working to block a corruption probe, and who run JBS, a meat-packing company that is embroiled in its own corruption scandal, Reuters reported June 7. Earlier this year, former JBS Chairman Joesley Batista submitted to Brazil's Supreme Court a recording of a conversation he had with Temer on which Temer is allegedly heard endorsing Batista's bribing of Eduardo Cunha, the jailed former speaker of the lower house of Congress. One source said that the government's ordering that Caixa cease doing business with J&F was retaliation for the accusations Batista made against Temer. Caixa is J&F's largest creditor, with outstanding loans worth 9.7 billion reais, or approximately \$3 billion. Caixa first made provisions related to J&F when it set aside extra capital to reclassify some of its loans that it deemed riskier than before. Caixa took steps for extra provisioning after it asserted control over unnamed collateral J&F had put forth for a merger financing loan it had taken out two years ago, according to a source. Caixa said it made extra provisions related to J&F, but did not elaborate as to why.

Banco Bradesco Launches New Digital Banking Platform

Brazil's Banco Bradesco has launched a new digital banking platform called Next, which targeted at millennials. The Brazilian bank worked with global consultancy Capco in order to launch the platform, Capco said in a June 7 statement. "Capco and Bradesco have a shared

vision of rapidly delivering personalized digital capabilities to new customer segments," said Ranjit Palkar, a global technology delivery partner at Capco. The Next platform is a part of Bradesco's digital strategy to serve younger customers. The application allows custom-



Palkar // File Photo: Capco.

ers to open bank accounts from their iOS or Android phones without having to visit a bank branch. The app also allows users to send money to and split payments with other users and also track spending, in addition to offering other money management. Bradesco also plans to improve Next by offering additional features in the future. "Our collaboration is an important milestone whereby our global experience and the bank's commitment to being at the forefront of digitization has resulted in a truly differentiated banking experience for the digital millennials," said Lynn Hughes, a global technology delivery partner at Capco.

INSURANCE NEWS

W.R. Berkley Establishing Units in Mexico

Commercial property and casualty insurance holding company W.R. Berkley in the next few weeks is establishing Berkley International Fianzas México and Berkley International Seguros México, which will offer coverage to clients in Mexico, Business Insurance reported June 12. Mexico's Comisión Nacional de Seguros y Fianzas has granted both subsidiaries authorization to begin operations, Greenwich, Conn.-based Berkley said in a statement.

NEWS BRIEFS

Brazil Corruption Scandal Poses No Risk to Banks: Industry Group

The corruption scandal in Brazil that involves J&F Investimentos, the holding company that controls meat producer JBS, poses no risk to the country's banks, industry group Febraban said June 6, Reuters reported. Members of the Batista family, which controls J&F, last month accused President Michel Temer of obstructing a graft investigation, an allegation he denies. Febraban said the scandal, which has hit the Batista family's investment holdings, does not pose a serious risk for banks in Brazil.

Bancolombia Reduces Rates on Mortgage Loans

Bancolombia has reduced its interest rates on mortgages by as much as 150 basis points, with rates now starting at 9.6 percent on an annual basis, Finance Colombia reported June 9. Bancolombia added that the lower rates apply to the financing of both new and previously occupied homes. The bank so far this year has approved \$480 million in mortgages. Bancolombia also said that it lowered its interest rates on credit cards and also on vehicle loans under its Sufi brand.

Payments Company bridge21 Adds New Banks to Network

Cross-border bitcoin payments company bridge21 has added 38 additional banks to its network, bringing the total number of banks and credit unions that offer its service to 56, the company said June 1. Among the new financial institutions working with bridge21 are Bank of America, Citibank and Navy Federal Credit Union. Senders in the United States use the service to convert dollars to bitcoin, which are then converted to pesos when recipients receive the payments in Mexico.

"Mexico is a vibrant market with relatively low insurance penetration that provides significant opportunities," said the company's president and chief executive officer, W. Robert Berkley Jr. The company has named Guillermo Espinosa Barragan the general director of Berkley International Fianzas México and Javier Garcia Ortiz de Zarate the general director of Berkley International Seguros México. Espinosa has had nearly 25 years of experience in the property/casualty insurance industry, mainly focused in the surety segment. Garcia has worked in property/casualty insurance for more than 15 years and has mainly focused on underwriting in Mexico and Argentina.

Intercorp Agrees to Acquire up to 100% of Insurers' Shares

Intercorp Financial Services, a subsidiary of Intercorp Peru, announced that it has agreed to acquire up to 100 percent of the shares of Peru-based Suguros Sura and Hipotecaria Sura Empresa Administradora Hipotecaria, Peruvian state-run news agency Andina reported June 8. "The transaction is credit positive for IFS and Intercorp because it will strengthen the holding group's position in the annuities and individual life insurance market, consolidating its standing as one of Peru's leading financial services companies," Moody's Investors Service said in a statement. The purchase will also boost the revenue diversification of Intercorp Financial Services and increase the share of the revenue the company receives from insurance, the ratings agency added. The businesses that Intercorp Financial Services is acquiring mainly focus on retirement annuities and individual life insurance, Agencia Andina reported. The transaction is subject to approval by Peru's Superintendency of Banking, Insurance and Private Pension Funds, which the company expects within four months. The acquisition has an initial base price of \$268 million and is likely to be financed by senior debt issued by Intercorp Financial Services in the international market.

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studies have established that use of positive data reduces the extension of credit to debtors who are either unwilling or unable to pay, helps prevent over-indebtedness, and increases lending to borrowers with little previous credit history. Brazil is one of several countries in Latin America considering new data privacy legislation that will also allow for productive and responsible use of personal data. When carefully crafted and fully enforced, both specific legislation on credit reporting and broader data privacy legislation safeguard personal information while allowing individuals to benefit from it. Managed by a high-standard credit information industry, positive data allows small businesses to finance growth more easily and consumers to enjoy goods and services that might otherwise be inaccessible."

A **lone Amorim, economist at the Brazilian Institute of Consumer Defense (IDEC):** "The Brazilian Positive Data bill ('Lei do Cadastro Positivo') is aimed at reducing interest rates in credit offered to consumers with good credit scores. Approved in 2014, this initiative was unsuccessful, however. Last December, the Brazilian government announced several measures to boost the national economy. Among the changes was the compulsory adhesion to the positive and non-optional database as it stands today. This measure makes consumers extremely vulnerable to financial institutions that may exploit them with credit offers. On this matter, data management companies have developed credit score models regardless of consumer consent and without the transparency this evaluation requires. In addition, it is uncertain how the data is collected and how those credit scores have influenced financial institutions in credit supply. The likelihood that inclusion of a positive database in Brazil will reduce interest rates is remote. There is neither regulation for data collection nor legal limits to access this personal

and private information and, subsequently, how those procedures will be calculated and result in better credit scores and low interest rates. In brief, the inclusion disrespects the right to privacy and basic consumer rights."

A **Robert Stoll, director for Latin America Financial Institutions at Fitch Ratings:** "Consumer credit reporting services in Brazil have traditionally focused on nonperforming borrowers rather than a combination of both negative and positive performance. This was, in part, due to consumer privacy regulations in cases of good performance, and the fact that lenders traditionally preferred to maintain their own internal lists on their lower-risk borrowers shielded from competitors. Brazil's deep recession brought along with it heavy credit costs, and this has motivated lenders to increase their willingness to share information with their competitors with the goal of improving asset quality in the industry. The belief is that the expected reduction in credit risk is well worth any increased competition for the lower-risk borrower pool as there is enough demand for all to benefit. As progress toward a public sector positive credit bureau was slow, in early 2016, five of Brazil's largest banks announced a nonbinding agreement to jumpstart the effort by combining forces to form a credit intelligence bureau, which had the blessing of Febraban. This new bureau will use the technical know-how of Lexis-Nexus. Unfortunately, this expanded credit bureau will take two years to activate due to the complexity of the process of building such an accessible database. A sticking point preventing an earlier launch in the past was that performing borrowers would have to authorize the inclusion of their repayment history per existing regulation. However, this is no longer the case due to a change in regulation that now allows the inclusion of their repayment histories—unless the borrower chooses to opt out. While this may dilute the privacy of

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POLITICAL NEWS

Panama Cuts Ties With Taiwan in Favor of Recognizing China

Panama on June 13 severed diplomatic relations with Taiwan in favor of establishing them with China, a move that further alienated Taiwan from the rest of the world, The Washington Post reported. Panamanian President Juan Carlos Varela announced the decision in a televised address, saying the new foreign policy was the “correct path” for the country. Panama and China released a joint statement announcing the change in diplomatic relations, saying they now recognize each other and were establishing ambassadorial-level relations the same day. “The Government of the Republic of Panama recognizes that there is but one China in the world, that the Government of the People’s Republic of China is the sole legal government representing the whole of China, and that Taiwan is an inalienable part of China’s territory,” the statement said. Taiwanese President Tsai Ing-wen called the move a betrayal and vowed the continue to maintain the island’s sovereignty. “Oppression and threats are not going to help in cross-strait relations. It will on the contrary increase the discrepancy between the people” of Taiwan and China, he said. Panama was one of the largest countries in the world to recognize Taiwan, which now has only 20 formal diplomatic partners. Out of all of its diplomatic partners, 11 are in Latin America and the Caribbean.

Venezuelan Court Rejects Bid to Halt Constitution Change

Venezuela’s Supreme Court on June 12 rejected a motion by the country’s chief prosecutor, Luisa Ortega, to halt President Nicolás Maduro’s efforts to rewrite the country’s Constitution, the Associated Press reported. Just days before the ruling, Ortega stood on the steps of

the high court, grasping a copy of the Constitution, and saying the country’s democracy was at stake. Maduro has pushed to form a “constituent assembly” in order to rewrite the Constitution, which was put in place in 1999, soon after Maduro’s late predecessor and mentor, Hugo Chávez, took power. However, the Supreme Court declared Ortega’s request inadmissible. Ortega said June 12 in a radio interview that her family members have been threatened since she split from Maduro’s government. “They harass them. They follow them [in] patrol cars that look like SEBIN,” Ortega said, referring to the government’s intelligence service. The court’s action came as anti-government protesters and journalists clashed with armed pro-government groups known as “colectivos” near the Supreme Court, the AP reported. National guardsmen wearing helmets and bulletproof vests stood in the street, using

plastic shields in order to stop protesters from reaching the court. More than two months of violent protests have left at least 68 people dead in Venezuela. On June 12, public transit in Caracas was virtually shut down as transport workers went on strike. The work stoppage affected about 90 percent of the capital, union leaders told the AP. Striking transit workers said they were protesting unsafe working conditions and were demanding the release of a bus driver who was detained and charged with terrorism after transporting a group of anti-government protesters. However, local media reports said protesters had forced the bus driver to give them a ride. On the same day, Venezuela’s interior ministry took control of the police force in Miranda state, where opposition leader Henrique Capriles is the governor, BBC News reported. Miranda has seen some of the largest anti-government protests of the last

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A Conversation With the President of Panama

Featuring

JUAN CARLOS VARELA
President of Panama

Wednesday, June 21
8:30 - 10:30 a.m.

Inter-American Dialogue
1155 15th St. NW
Suite 800
Washington, D.C.

RSVP to meetings@thedialogue.org
or click [here](#).

NEWS BRIEFS

Former Panamanian President Martinelli Detained in Florida

Former Panamanian President Ricardo Martinelli, who is wanted in Panama, was detained in Florida on June 12 by U.S. Marshals officials, an official familiar with the matter said, The Wall Street Journal reported. The former president and billionaire supermarket mogul is wanted in Panama as part of investigations into corruption and illegal wiretapping of political opponents that allegedly took place while he was in office. The Panamanian Supreme Court issued a warrant for Martinelli's arrest in December 2015 after he failed to appear in court.

Colombian Central Bank Chief Expecting Further Rate Cuts This Year

Colombian Central Bank Governor Juan José Echavarría on June 12 said the bank may cut its overnight interest rate by 100 basis points this year in order to spur growth, predicting inflation would hit the bank's 3 percent target by late next year, Reuters reported Monday. Policymakers reduced rates by a quarter point in May and by 50 basis points in April.

Colombia's FARC Has Handed Over 30% of its Weapons to U.N.

Colombia's Revolutionary Armed Forces of Colombia, or FARC, rebel group on June 7 said 30 percent of its weapons had been handed over to United Nations officials, as part of the terms of the rebels' peace agreement with the Colombian government, Agence France-Presse reported. "This is the beginning of the end of our demobilizing," FARC leader Rodrigo Londoño, known as Timochenko, said in a speech. The next 30 percent are expected to have been handed over and stored by June 14, with the last 40 percent stored by June 20.

two months. Capriles said the takeover of the state's police force amounted to a political attack. "It's clear they'll try to use the police against the people," he said, referring to the interior ministry.

Brazilian Electoral Court Clears Temer

Brazil's top electoral court on June 9 acquitted President Michel Temer of charges that he had received illegal campaign funding in a trial that could have led to his ouster, The Wall Street Journal reported. The judges acquitted Temer in a 4-3 vote, and also cleared former President Dilma Rousseff of charges that the two used



Mendes // File Photo: Brazilian Government.

proceeds connected to the massive "Operation Car Wash" corruption scandal, linked to construction conglomerate Odebrecht and state-run oil company Petrobras, to fund their 2014 bid for the vice presidency and presidency, respectively. Temer became president last year after Rousseff was ousted on charges of breaking budget laws by attempting to obscure the country's mounting debt in order to make the country's economic situation appear more stable ahead of the election. Leading up to Friday's vote, the Superior Electoral Court, or TSE, took into account the country's stability. "Combating corruption is something I also want ... but you can't just go substituting the president of the Republic all the time," said Gilmar Mendes, the head of the TSE. The decision to clear Temer led some opposition politicians to accuse the TSE of political bias, because more than one judge in the top electoral court refused to permit new evidence from plea-bargain testimony from the Odebrecht corruption scandal in the trial.

ECONOMIC NEWS

Mexico's Industrial Production Level Falls in April

Mexico's National Statistics Institute announced June 9 that the country's industrial production fell more than expected in April, The Wall Street Journal reported. The country saw gains in manufacturing, though they were outweighed by declines in oil, mining and construction. The Easter holiday falling this year in April also gave the month fewer working days than it had last year. Industrial output declined a seasonally adjusted 0.3 percent as compared to March and fell 4.4 percent as compared to April 2016, according to the statistics institute. Economists in a Wall Street Journal survey had expected production to decline a median 2.2 percent year-on-year. Manufacturing led the sectors that increased output in April, with an increase of 0.6 percent as compared to March and 5.1 percent as compared to April of last year. Mexico's oil production was steady in April as compared to March, but was below levels from a year ago.

Peru Relaxes Air Quality Standards to Aid Mining

Peru's government on June 7 agreed to adopt more flexible air quality standards after facing criticism from the mining sector and President Pedro Pablo Kuczynski that the standards were too strict, Reuters reported. The maximum amount of sulfur dioxide, a byproduct of smelting copper and other base metals, was raised to 250 micrograms per cubic meter per 24 hours, up from a previous 20 micrograms per cubic meter. Peru is the world's second-largest copper producer, and mining companies had previously complained that air quality standards were too strict. Mining companies have also said the technology required to meet the standards did not exist.

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certain consumers, the potential benefits are expected to outweigh such concerns. Fitch views the launching of this or another positive credit bureau by another provider as beneficial to all parties given the expected lower credit costs for lenders and potential lower interest costs for the borrowers and perhaps higher sales for many industries. Borrowers who currently appear only on the negative lists should benefit by the new disclosures that show that they also have made timely debt payments, allowing them to repair their negative credit histories.”

A **Natan Rodeguero, regional head for Latin America at M-Brain in São Paulo:** “Positive data consumer credit reporting—as the name suggests—aims to better qualify the good payers, separating them from those payers who, for one reason or another, tend not to pay their bills and honor other financial responsibilities when they are due. In theory, the good payers could (and should) benefit from lower interest rates, but currently, Brazilian lenders apply a compensatory, average rate, so the good payers end up penalized, while bad payers benefit, when they should be paying higher interest rates. While noble in its objective, ‘positive data’ faces one major issue: it depends on a (very) large volume of consumer adhesions—which are voluntary—to allow for an adequate amount of historical data to be analyzed, helping financial institutions change their credit offer; but because Brazil already has a list of ‘bad payers,’ anyone not in that list is already considered a ‘good payer’ and will not be eager to join the ‘positive data’ list. And banks, not wishing to offer lower interest rates, will do little to ask their clients to join the list. Regarding consumers’ privacy, although credit companies and banks will naturally do everything to protect the data from illicit access, the existence of such database in itself—and the fact that the information can be accessed by virtually

any company—already poses a major privacy concern for consumers. In sum, it is questionable whether the positive data will have important effects on industries that sell big ticket items—or small, for that matter.”

A **Wesley Mendes-Da-Silva, professor of finance at the Fundação Getulio Vargas business school in São Paulo:** “A typical Brazilian citizen has a hard time understanding how much it costs to borrow. So last year, the government and the central bank announced decisions to reduce the cost of bank credit, which is approximately 400 percent per year. These decisions form a reform agenda, which includes labor and social security changes, and also the improvement of the ‘Cadastro Positivo,’ a database of information on people with good credit histories. However, the Cadastro Positivo is currently unfeasible because it requires the authorization of each person included in the system. Under the new regulation, dependent on congressional approval, people’s inclusion would be automatic, with the option of excluding those who do not accept. The effective adoption of the Cadastro Positivo could reduce interest rates charged in credit operations, including financing of real estate, vehicles and household appliances, because today the financing agent can only seek to determine if the consumer has debts due at the time of purchase. With the Cadastro Positivo, the credit rating could be more informative, allowing the measurement of the credit risk. Concomitantly, the consumer could be motivated to maintain a more responsible attitude in credit use, since this information would be used in future credit applications. Together with the Cadastro Positivo, the government has tried to adopt reforms that may bring better conditions for the provision of financial services. Of course, the gains for customers will be enhanced if the agenda includes measures to increase competition in the banking system.”

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