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FEATURED Q&A

Why Are Brazilians Sending More Money to the U.S.?



Brazil's shaky politics, including the corruption allegations surrounding President Michel Temer, have been among the reasons for the increase in money transfers from Brazil to the United States, Simone Guthrie says below. // File Photo: Brazilian Government.

Q The amount of money sent from Brazil to the United States increased 227 percent, to \$408 million, in the first half of this year as compared to the same period last year, according to Brazil's central bank. What are the reasons behind the increase in money transfers? How are companies in the money-transfer business in Brazil being affected? What does the increase say about the characteristics of financial services customers in Brazil, and to what extent should banks adjust how they serve those customers?

A Natan Rodeguero, regional head for Latin America at M-Brain in São Paulo: "Brazilians have been sending more money in recent years to the United States (and to the United Kingdom, Germany and Portugal, for that matter) than in the past decade, and this increase can be almost fully credited to Brazil's deteriorated political and economic situation. For more than three years now, Operation Car Wash, the ongoing criminal investigation being carried out by Brazil's federal police, has been causing uncertainty and turmoil, changing the political and economic scenario on a nearly weekly basis. Add to this Brazil's high unemployment rates, the negative forecast in GDP growth and the huge and growing public deficit; and many Brazilians have become tired of waiting for a better future and are moving, in many cases permanently, to the United States. One of the largest local companies in the asset management and money-transfer business reported that the headcount of its foreign trade area 'nearly doubled' in the past six months, with more than 50 percent growth in the number of clients, and more than 60 percent in traded volumes. Money-transfer companies have

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Uruguayan Banks Refuse Business With Pharmacies

Some banks in the South American nation are refusing to do business with pharmacies that sell legal marijuana over concerns of running afoul of international laws.

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JN Money Services Expands Service to Honduras

A partnership with U.S.-based Transfast has allowed the Jamaican money-transfer company to expand its remittance network.

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FINANCIAL SERVICES

Brazil's Antitrust Agency OKs Itaú's Purchase of Citi Assets in Brazil

Brazilian antitrust agency Cade, led by Alexandre Barreto de Souza, gave conditional approval to Itaú Unibanco's purchase of Citigroup's retail banking and insurance assets in Brazil.

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Barreto de Souza // File Photo: Cade.

FINANCIAL SERVICES NEWS

Antitrust Agency OKs Itaú's Acquisition of Citigroup Assets

Cade, Brazil's antitrust agency, announced Aug. 16 that it had approved Itaú Unibanco Holding's acquisition of the retail banking and insurance assets of Citigroup in Brazil, Reuters reported. The agency said it approved the acquisition as long as the Brazilian bank signed an agreement to limit mergers, the wire service reported. The deal with Cade would ban Itaú from acquiring other assets for a period of 30 months, Cade's board said in a public session. The agency also said that the ban would not apply to the planned purchase by Itaú of a stake in the XP Investimentos brokerage, which Cade is already evaluating. In May, Itaú announced that it had agreed to buy a 499 percent stake in the brokerage for \$2 billion. Itaú agreed last October to purchase the Citi assets for \$220 million.

Banks in Uruguay Refusing Business With Pharmacies

Some banks in Uruguay are refusing to do business with pharmacies that are selling marijuana, following the government's legalization of the drug, the Associated Press reported Aug. 18. Uruguayan banks that do business with pharmacies in the South American nation risk violating international financial laws that bar them from receiving money linked to marijuana, an unnamed government official told the wire service. Legal marijuana sales began in July at 16 pharmacies under a 2013 law that made Uruguay the world's first nation to legalize the drug from its planting to purchase. However, one pharmacy in Montevideo has opted not to sell marijuana after the local branch of Spain's Banco Santander issued a warning to the pharmacy. Uruguay's largest bank, state-owned Banco República, has told pharmacies that sell marijuana that they must close their

accounts. The secretary-general of Uruguay's National Drugs Council, Diego Olivera, has said that authorities are meeting with pharmacies in order to determine how many of them have received warnings from banks. Officials are examining potential solutions, said Olivera,

Legal marijuana sales began in July at 16 pharmacies in Uruguay.

who did not elaborate. "Without doubt, in these processes of changing paradigms, they run up against moments of difficulty," said Olivera, the AP reported. "We are working on alternatives." Former President José Mujica, who is now a senator, has said there will be "gridlock" in the country's legislature if lawmakers do not resolve the problem.

REMITTANCES NEWS

JN Money Services Expands Remittance Service to Honduras

A partnership with U.S.-based Transfast has allowed Jamaica-based JN Money Services to expand its remittance network to Honduras and India, South Florida Caribbean News reported Aug. 15. Transfast, which has been in business for 25 years, is an international money transfer company that has offices in New York, the United Arab Emirates and the Philippines. "As a brand, we are no longer operating in locations where only Jamaicans live," said Horace Hines, acting general manager of JN Money Services. "Consequently, our customer base now includes persons from many countries; therefore, this partnership will allow us to enter new markets." The agreement allows customers of JN Money to send money to recipients in Honduras, India, the Philippines and Ghana, as well as from its more-established markets of the United States, Canada, Britain and the Cayman Islands.

NEWS BRIEFS

Colombia Closes 12 Businesses Accused of Money Laundering

Colombian authorities on Aug. 16 said they closed down 12 businesses that have been accused of laundering \$27 million a year of drug trafficking revenue for neo-paramilitary group the Gaitanista Self-Defense Forces of Colombia, or AGC, according to Colombia Reports. The businesses, which were allegedly acting as a front for the money-laundering network, were operating in Bogotá, Córdoba, and six municipalities within Antioquia province, including the capital city of Medellín.

Venezuela's Banco Mercantil Sells New York Office for \$30 Million

Venezuela-based Banco Mercantil has sold its landmark office building in New York for \$30 million, the New York Post reported Aug. 14. There were no indications that the sale of the building, next to the country's consulate on East 51st Street, was related to Venezuela's political and economic crises. Mercantil is moving its New York office two blocks away.

Scotiabank's Schoen Leaves for Biotech Firm

Michael Schoen, the head of Latin America debt capital markets for Scotiabank, has left the bank to work for Chinese biotech firm BeiGene, International Financing Review reported Aug. 17. Schoen joined Scotiabank in 2012 after a 12-year tenure at Credit Suisse, where he held a position similar to the one at Scotiabank. He previously worked for DLJ, JPMorgan and Lehman Brothers, IFR reported. At BeiGene, Schoen is now chief of staff to the CEO. The biopharmaceutical company had an initial public offering in the United States last year and in early August completed a \$175 million follow-on.

PENSIONS NEWS

Brazil's Meirelles Eyes Pension Reform Approval by Year End

Brazilian Finance Minister Henrique Meirelles said he expects a controversial pension reform to be passed by the end of this year, despite the political turmoil and corruption scandals surrounding the government, the Financial Times reported Aug. 10. "We expect that group of reforms, particularly the social security reform, to be concluded by this year-end," Meirelles said. "Which means [not only] social security, the most important one, but also tax reform, which is beginning to now be formulated." A reform to the country's pension system, which allows Brazilians to retire in their mid-50s, is a key component of President Michel Temer's plan to boost the struggling economy and narrow the budget deficit. Temer



Meirelles // File Photo: Brazilian Government.

was on track to pass the reform until an audio recording was released in May in which Temer is allegedly heard discussing bribes with businessman Joesley Batista, igniting a corruption scandal and causing some to call for Temer to stand trial for the allegations. Last week, the president successfully avoided standing trial after securing enough votes in the lower house of Congress to keep him out of court. "After the vote for the rejection of the accusation from [Chief Prosecutor Rodrigo] Janot, the number was very good from the government's perspective in terms of being able to build a foundation from there again," said Brasília-based political consultant Thiago de Aragão. Meirelles said he now expects the government to resume efforts

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also been very active in promoting their services, with many new remittance apps and companies appearing in the local market. With the increased risk in the local market, banks were quick to start offering products that invest in foreign assets (or better said, to increase the visibility of such products, since they have existed for a long time), as a means of diversification for their Brazilian customers. Such products seem to have gained the acceptance of local investors."

A Bernard Higgins, São Paulo-based business consultant and coach: "It would seem that the self-proclaimed Brazilian title of 'Country of the Future' has hibernated, if not been put to rest. After a period of unsustainable prosperity surfing world demand for high-priced commodities in which a populist leadership overspent, Brazil woke up to a disrupted economy with severe unemployment, rampant crime and corruption, and political unrest. In a country that harbors, according to Forbes, 22 of the world's 50 most violent cities, and unemployment is at 13.3 percent of the population, people are questioning the future. A 2016 publication by McKinsey & Co. showed optimism in Brazil to be the lowest out of the 26 countries studied at 8 percent, with 72 percent worried that someone in their household would lose their job. Brazil's consumer confidence is at its lowest level since April of last year. This general disbelief in the future and a search for a better quality of life has made Brazilians look beyond their border. The number of young Brazilians studying abroad has risen, and according to the internal revenue agency, the amount of people formally leaving the country permanently jumped by 81 percent in the last three years. Thus, there has been a real need for families to remit funds to finance international education as well as lay the foundations for relocation. To better serve these needs, both simplified online processes to cover short-term expenses as well as personalized investment advice

for those starting a new life abroad and unaware of local options and returns would be of great help."

A Roberto Teixeira da Costa, board member of the Financial Services Advisor and of SuAmérica in São Paulo: "Due to the intensification in political uncertainties, the Brazilian Congress will likely delay voting on a pension reform. Doubts regarding the approval of reforms increases uncertainties about the outlook for public-debt stabilization. Without reforms, the adjustment in public accounts in the long run would

“The amount of money sent from Brazil to the United States has increased ... for risk diversification.”

— Roberto Teixeira da Costa

materialize in the form of higher inflation or alternative measures with a negative impact on the economy. But up to now, markets have not pushed the alarm button, and they are operating without higher volatility. Meanwhile, the external environment has been favorable to emerging-market currencies, opening a window of opportunity for individuals in Brazil to seek less risky investments abroad. The amount of money sent from Brazil to the United States has increased, not because individuals are looking for better services, but rather for risk diversification. There is no lack of financial services offered by local financial institutions. In the last three years, there has been more flexibility in regulation, allowing individuals to make investments in international assets through local financial institutions. Politics will continue to play a significant role in the days and months ahead."

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to pass the pension reform, and congressional leaders have indicated they may put the reform up for a vote next month.

POLITICAL NEWS

Colombia Offers Asylum to Venezuela's Ortega

Colombia's government on Aug. 21 offered asylum to Venezuela's former attorney general, Luisa Ortega Díaz, who broke with President Nicolás Maduro's government over his government's creation of the country's new powerful constituent assembly, Agence France-Presse reported. "Luisa Ortega is under the protection of the Colombian government. If she asks for asylum, we will grant it to her," said Colombian President Juan Manuel Santos. The constituent assembly fired Ortega earlier this month and replaced her with a government loyalist. Ortega and her husband, National Assembly lawmaker Germán Ferrer, arrived in Colombia on Friday on a private flight from Aruba. Ortega was facing prosecution in Venezuela for alleged misconduct, and Ferrer was facing an arrest warrant issued by the Maduro-allied Supreme Court on corruption charges. Ortega has said the charges against her amount to "political persecution."

Ecuador's Top Prosecutor to Present Graft Case Against VP

Ecuador's top prosecutor, Carlos Baca, on Aug. 21 said he would present a corruption case against Vice President Jorge Glas, Reuters reported. President Lenín Moreno stripped Glas of his authority earlier this month over corruption allegations related to the scandal involving Brazilian construction conglomerate Odebrecht. Baca said his office has evidence of "illicit association" against the embattled vice president. "We will request the National

Court of Justice set a hearing date against Jorge Glas, the vice president," Baca read from a statement to reporters. At least 92 of the 137 sitting members of Ecuador's Congress must vote to allow an investigation of a sitting vice president and to allow prosecutors to present evidence to the court. Glas denies wrongdoing. "I have never allowed corruption or been a part of it," he said after Baca's statement. Brazil's Odebrecht is at the center of a massive

ADVISOR Q&A

How Should International Actors Respond to Venezuela's Crisis?

Q Foreign ministers from across the Western Hemisphere met Aug. 8 in Lima and called on Venezuela to close its newly installed constituent assembly, saying the powerful body represents a break in Venezuela's democratic order. Other international actors, including the White House, the OAS secretary general and the Vatican have also taken stances against the new assembly. What actions should other countries and international organizations take in response to the developments in Venezuela? What will be the effect of U.S. sanctions on President Nicolás Maduro and other top Venezuelan officials? Are the sanctions merely symbolic, or do they have the power to effect change? Should other countries and organizations provide aid to Venezuela's opposition, and if so, how?

A Gustavo Roosen, president of IESA in Caracas: "Many countries' rejection of the constituent assembly will aggravate Venezuela's disastrous economic situation. By the end of 2017, Venezuela will have lost 30 percent of its GDP. In addition, the country is entering a stage of hyperinflation, its oil production has fallen by 300,000 barrels per day in the last 18 months due to lack of investment and maintenance, and it faces debt

repayments close to \$8 billion in capital and interest before the end of the year. To date, Venezuela has managed to meet its external payments by sacrificing Venezuelans who are suffering from a humanitarian crisis of a lack of food and medicine. No bank or multinational company domiciled in the countries that have rejected the constituent assembly will negotiate any contracts or refinance Venezuelan national debt that would require the approval of the legitimate legislature. Their approval by the National Constituent Assembly makes them unconstitutional. All this will trigger a default, coupled with a political crisis that could lead to the beginning of a transition for the country. The specific sanctions against individuals must have disturbed the regime's top officials, their families and others who serve as front men. These sanctions must surely be provoking reactions from the international banks in defense of their interests. The international community is well-oriented in the process of unmasking the perpetrators of this dictatorial nightmare."

EDITOR'S NOTE: More commentary on this topic appears in the Aug. 18 issue of the *Latin America Advisor*.

corruption scandal in which the company paid politicians bribes across Latin America and in other countries around the world in exchange for securing lucrative contracts. The company has already paid \$3.5 billion in settlements in the United States, Brazil and Switzerland, and plea bargain testimony from Odebrecht employees has embroiled politicians throughout Latin America in the scandal. [Editor's note: See related [Q&A](#) in the July 14 Advisor.]

NEWS BRIEFS

Peruvian Court Convicts Two Former Military Officers

A Peruvian court on Aug. 18 convicted two of the seven former military officers who had been accused of torturing and murdering civilians in 1983, at the start of the country's two-decade conflict between government forces and insurgents, Reuters reported. Judge Ricardo Brousset said the Peruvian government was partially responsible for the crimes committed by the men, and that the state must pay reparations because the soldiers had acted on orders to "disappear" suspected members the Shining Path rebel group. The ruling was the first conviction in a case over state-sponsored human rights violations in Peru. The case had gone on for more than a decade.

Mexican Authorities Rescue 115 Migrants From Truck in Veracruz State

Mexican authorities have rescued 115 migrants, 41 of whom were minors, from a truck in Veracruz State where they had been traveling in "deplorable conditions," a state official said Aug. 20, Reuters reported. The two people driving the truck were arrested, the official said. In July, eight migrants were found dead in a tractor trailer in a Wal-Mart parking lot in San Antonio, Tex. At least 100 migrants had been traveling in the trailer, and two more died later.

U.S. to Resume Pork Exports to Argentina for First Time Since 1992

The White House announced Aug. 17 that the United States would resume pork exports to Argentina for the first time in 25 years. Argentina banned U.S. pork exports in 1992 over animal health concerns, the Associated Press reported. Argentine officials will examine the U.S. meat inspection system during site visits in the United States before exports resume.

ECONOMIC NEWS

U.S., Mexico, Canada Begin NAFTA Renegotiation Talks

The renegotiation of the North American Free Trade Agreement, or NAFTA, began on Aug. 16 in Washington with representatives from U.S. President Donald Trump's administration delivering criticism to their Canadian and Mexican counterparts, saying the agreement has disadvantaged the United States, The New York Times reported. Behind closed doors, Trump administration negotiators sought concessions



Lighthizer // File Photo: White House.

from the other two member states. "We feel that NAFTA has fundamentally failed many, many Americans and needs major improvement," said U.S. Trade Representative Robert Lighthizer. The representatives from Canada and Mexico publicly emphasized their commitment to North American trade and touted the benefits of the agreement, but denied that the current agreement was targeted at disadvantaging the United States. The three countries have planned for a new round of negotiations every three weeks, with the goal of finishing changes to the deal by the end of the year. The United States and Mexico have national elections scheduled for next year, and it is not clear how the ruling parties of either country will fare in their respective national votes. During the opening news conference, Lighthizer said trade deficits would be of primary importance to the United States. Last year, the United States had a \$55.6 billion trade deficit with Mexico, which the Trump administration has said is evidence that Mexico is taking advantage of the United

States in the trade deal. Lighthizer added that while trade has been more balanced with Canada, the United States has run a trade deficit with Canada too. Such deficits "can't continue," Lighthizer said.

Peruvian Finance Minister Lowers Growth Forecast

Peruvian Finance Minister Fernando Zavala on Aug. 14 revised down his growth expectations for 2018, saying the country's economy is likely to grow between only 3.8 and 4 percent next year, down from his April estimate of 4.5 percent, due to effects from flooding earlier this year as well as the fallout from a graft scandal, Reuters reported. He added that the government will make "all possible efforts" to ensure that the country's economy sees 2.8 percent growth by the end of this year. He projected that private investment would grow by 3.5 percent this year. In June, the economy likely grew by 3.6 percent, Zavala said. June's growth likely helped GDP increase by 2.4 percent in the second quarter of this year, he added, Peruvian state news agency Andina reported. Peru's

Peru's lagging economy has taken a toll on President Pedro Pablo Kuczynski's approval ratings.

primary sector GDP increased by 8.6 percent in June, whereas non-primary activities increased by 2 percent. Zavala attributed the GDP growth to greater business and consumer confidence. He added that if metal prices increase in the near future as projected, mining exploration and investment would likely increase, as a result. Peruvian President Pedro Pablo Kuczynski saw his approval rating fall by five points to a record low in August as the economy continues to lag and as labor strikes break out across the country, Reuters reported. Kuczynski's approval rating fell to 29 percent in August from 34 percent in July.

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A **Alvaro Lima, director of research at Boston Planning and Development Agency:** “Brazil is living through an economic and political crisis. Corruption at high levels of government as well as in the private sector has thrown the country into an unprecedented crisis. Urban violence, drug trafficking

“**Brazil is living through an economic and political crisis.**”

— Alvaro Lima

and poverty are also rising at a rate that is unparalleled in Brazil’s history. All this is fueling an outflow of migrants and money. Money-transfer companies are starting to adjust their operations to serve this market. Their experience, however, has been in money transfers in the other direction, from the United States to Brazil. This reverse flow has different characteristics, as there is now an investment component via EB visas

and more direct investment mechanisms, in addition to the traditional money-transfer services. Banks should adjust to these new flows by creating products that will add value for these customers.”

A **Simone Guthrie, finance manager at Pontual Money Transfer:** “The reason behind the increase in money transfers from Brazil to the United States is the political instability caused by Dilma Rousseff’s impeachment and the corruption allegations against current President Michel Temer, combined with the financial crisis. This situation has caused people in the upper middle class and the wealthy to transfer assets to the United States, with the intention of establishing residency there. Financial services customers in Brazil are mostly well-educated and wealthy people who are closely following events and technologies. With that said, the increase in e-wallet services and Brazil’s virtual currency users are forcing banks to update their technologies and services to accommodate this new era.”

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