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FEATURED Q&A

Which Factors Most Affect Rates of Credit Card Fraud?



Chile has among the region's lowest rates of credit card fraud, while fraud rates are relatively high in Mexico and the Dominican Republic. // File Photo: Sean MacEntee via Creative Commons.

Q The rate of credit card fraud in Chile is low as compared to other countries of the region, the country's banking association, known as ABIF, said in an Aug. 25 report. Chile's rate of such fraud is lower than both the global and Latin American averages, as well as that of the United States, ABIF added. To what can Chile attribute its relatively low rates of credit card fraud? What factors are to blame for the higher rates of credit card fraud in countries such as Mexico and the Dominican Republic, which exceed the world and Latin America averages? What safeguards exist in Chile that could be replicated elsewhere?

A Chad S. Purdie, partner, and Javier Coronado, Bogotá-based attorney, at Diaz Reus & Targ LLP: "Chile has lower rates of credit card fraud due to its emphasis on risk-management and its current legal regime. The country is less exposed to circumstances where this type of fraud would frequently occur. For example, the tourism industries of the other countries mentioned regularly attract card-not-present fraud. Additionally, until this year, Chile had only one company (Transbank) in charge of administering the network for all credit card transactions. From a risk-management perspective, Chile avoided the challenge of preventing fraud on different networks at the same time. Turning to the legal regime, Chile has a specific statute—Act No. 20.009—to deter credit card fraud. The act creates incentives to both the holder and the issuer of the card to report fraud to the enforcement authorities, which helps to prevent an unrecorded crime rate (a rather large challenge for other countries in the region). The act also defines the

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Argentina's Sancor Seguros Buys Banco del Sol

Argentina's largest insurer has acquired 70 percent of the share capital of Banco del Sol, which specializes in personal loans.

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Insurers Won't See Big Losses From Mexico Quake: Fitch Ratings

The ratings agency said Mexican insurance companies have relatively low penetration in the states that were hard hit by the powerful Sept. 7 earthquake.

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INSURANCE

Opposition Decries Infighting at Jamaican Insurance Fund

Fenton Ferguson of Jamaica's opposition People's National Party called on the country's labor and social security minister to resolve what he called a "leadership squabble" at Jamaica's National Insurance Fund.

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Ferguson // File Photo: Jamaican Government.

FINANCIAL SERVICES NEWS

Argentina's Sancor Seguros Buys Banco del Sol

Argentina's Sancor Seguros, the country's largest insurer, has acquired 70 percent of the share capital of Banco del Sol, local daily newspaper La Nación reported Sept. 7. The insurer is acquiring Banco del Sol, which specializes in personal loans, for approximately \$90 million, the newspaper reported, citing unnamed sources. The bank's current shareholders, the Micheli, Taylor, Prado and Maitsch families, will retain control of 30 percent of the bank.

INSURANCE NEWS

Insurers Unlikely to See Big Losses From Mexico Quake: Fitch

Mexican insurance companies are not likely to see major effects from the powerful earthquake that struck the southern part of the country this month, Fitch Ratings said Sept. 15, Business Insurance reported. "Based on preliminary information and on the conservative approach to catastrophe reserves and reinsurance, it should not have a significant impact on the results of the insurance sector," Fitch said in a note. At least 98 people have been confirmed dead after the Sept. 7 earthquake. Mexican President Enrique Peña Nieto called the quake, which the U.S. Geological Survey measured at a magnitude of 8.1, the strongest to hit Mexico in more than a century. Property losses from the earthquake were mainly concentrated in the states of Chiapas, Oaxaca and Tabasco, which have relatively low levels of insurance penetration, Business Insurance reported. The reported losses are mainly for infrastructure, homes and commercial buildings, and to a lesser extent, automobiles. Insurance providers that are exposed to catastrophe risk

hold sufficient reserves and have capitalization levels that reflect the risks, Fitch said. Catastrophe reserves in Mexico's insurance sector amount to \$1.9 billion, which represents 36 percent of the total equity of the sector, the ratings agency added.

Jamaican Opposition Decries Infighting at Insurance Fund

The spokesman on labor and social security for Jamaica's opposition People's National Party called on the government's labor and social security minister to resolve what he called a "leadership squabble" at the country's National Insurance Fund, or NIF, the Jamaica Observer reported Sept. 16. The spokesman, Fenton Ferguson, said he wanted an explanation for the transfer of the insurance fund's chief technical director for investment. "It is understood that the transfer has not been properly effected, causing unease and disquiet among the leadership of the NIF because the position to which the chief technical director is being transferred is still occupied by another staffer," said Ferguson. "This bungling has created an untenable situation in the ministry and the NIF is left without leadership." Ferguson added that the NIF is "too important a fund to be without stable leadership."

New Regulations May Boost Mexico Insurance: A.M. Best

New Solvency II-type regulations in Mexico could boost the country's insurance sector by allowing for more efficient use of capital, as well as new innovations and expansion of distribution channels, insurance rating agency A.M. Best said in a Sept. 7 report. The insurance market in Mexico is well-positioned to exploit distribution channels including banks, retail stores and telecommunication service which, in conjunction with the country's economic growth and improved distribution of

NEWS BRIEFS

Jamaica Bank Deposit Insurance Fund Grows to Nearly \$130 Million

The Jamaican Deposit Insurance Corporation, which manages the Caribbean country's deposit insurance fund, said the fund has grown to nearly 17 billion Jamaican dollars (\$129.9 million), the Jamaica Gleaner reported Sept. 7. The average bank account in the country holds 198,200 Jamaican dollars, the agency said.

Insurance Spending on the Rise in Costa Rica

The annual average expenditure per capita on insurance in Costa Rica rose to \$246 last year, up from \$140 in 2009, Q Costa Rica reported Sept. 14, citing the Association of Insurance Supervisors of Latin America. The rise was attributed to an increase in the supply of insurance products following the end of the country's insurance market monopoly in 2008. It also was attributed to the regulation of a "gray market" for insurance, in which policies, mainly concentrated in the health care sector, were sold illegally during the monopoly, Q Costa Rica reported.

Ebanx Provides Merchants in Colombia With Credit Card Acceptance

Payment processor Ebanx, which provides services in several countries in Latin America, has added credit cards issued in Colombia to its portfolio of payment methods, the company said Sept. 11. As part of the expansion, Colombian consumers will be able to purchase goods with their Visa, Mastercard, American Express and Diners cards on foreign e-commerce Web sites that use Ebanx. The company already offers two other Colombian payment methods for its merchants, Pagos Seguros en Línea, which allows buyers to buy products through direct debits from their bank accounts, and Baloto, a widely used cash payment method.

income, could mean greater insurance penetration, according to the report, titled "Performance of Mexico's Insurance Market in 2016, Following Implementation of Solvency II." Penetration in the sector increased to 2.34 percent in 2016 as compared to 2.21 percent in 2015. Mexico's premium volume amounted to 447.6 billion pesos (\$23.9 billion) last year, according to the country's insurance sector regulator. Mexico is Latin America's second-largest insurance market after Brazil and had a 6.7 percent growth rate last year. Last year, Mexico's insurance sector saw an increase in net income of more than 80 percent year-over-year to 38.7 billion pesos (\$2.1 billion). A.M. Best, which is headquartered in Oldwick, N.J., said it views Mexico's insurance sector as stable. "Operating performance among Mexico insurers has benefited from the new regulations, as annualization of life premiums and the reduced need to create reserves has resulted in better financial ratios," the ratings agency added.

PENSIONS NEWS

Brazilian Officials Eye Vote on Pension Overhaul in October

The government of Brazilian President Michel Temer is expecting approval of its pension overhaul in the lower house of Congress in October, the country's finance minister and planning minister said Sept. 11, Reuters reported. The pension reform, which the government sees as needed to avoid a debt crisis, has been stalled in Congress since May when the owners of meatpacking company JBS accused Temer of corruption. However, government officials said they will prioritize the pension reform ahead of tax reforms in order to win its approval before next year's elections. The government would turn its attention toward the tax reform after winning approval for the pension overhaul, said Finance Minister Henrique Meirelles. Temer's administration has reopened talks about proposed changes to the pension system in order to clear the way for it to receive

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crime of 'fraudulent use of credit or debit card,' and clearly punishes practices like stolen cards, card-not-present purchases, account takeover, skimming and phishing. Meanwhile, other countries in Latin America use traditional theft-related crimes to prosecute credit card fraud and frequently face legal gaps in doing so. The Chilean prosecuting authorities have been enforcing the act since 2005, which gives them more than 10 years of experience determining how best to use the law to prevent and punish fraud."

A Kai Schmitz, leader of FinTech Investment for Latin America at the IFC Global FinTech Investment Group: "IFC has invested in several payment service processors and alternative payment methods in the region, including Brazil, Colombia, Mexico and Peru. Fraud remains a big challenge in many countries, including in the United States, and may be increasing, given the amount of card cloning and data theft carried out by organized crime. However, we see fraud as only one of the issues with efficient card payments, in particular online, and believe that fraud rates alone are not necessarily a suitable measure to evaluate how well a national credit card payment system works and is protected. Card penetration, nominal numbers of card users, acceptance rates and transactions falsely declined (false fraud positives), for example, should also be considered when assessing the security of national card payment systems. Irrespective of the country, the efficiency of credit card payment infrastructure and confidence in card transactions in Latin America is comparatively low, creating a barrier to increasing the number of electronic transactions and expanding e-commerce, which would both bring substantial macroeconomic benefits. While fraud is getting more sophisticated, new technology to prevent fraud and make card transactions safer and more effective is also becoming available. Machine learning and big data are offering tools to make fraud

screening more effective and combat even sophisticated fraud. Alternative payment methods, such as transfers from accounts

“Machine learning and big data are offering tools to make fraud screening more effective and combat even sophisticated fraud.”

— Kai Schmitz

and instant point-of-sale credit, will also help to provide safe alternatives. Across the region, entrepreneurs have already started to offer innovative solutions to make payments safer, more effective and more convenient for consumers in Latin America. We are actively looking to support such efforts.”

A Jan Smith, partner at KoreFusion in Mexico City: "Chile has low levels of card fraud, but this is not because Chile is doing something better, nor an indication that other countries are in trouble. Indeed, reports of card fraud according to the Ministerio Público, rose 2.6 percent over the fourth quarter of 2016, and are up 50 percent since 2015. Most claims and fraud take place in card-not-present transactions. Maybe more Chileans are filing claims with authorities, but it is more likely that the country's historically low levels of e-commerce are the reason card fraud remains low. Our firm recently measured the Chilean e-commerce market and found that 45 percent of e-commerce is related to travel and entertainment. This industry is a capable veteran when it comes to dealing with card fraud, and it has a disproportionate weight in the total number of card-not-present transactions. Furthermore, most retail e-commerce is concentrated in 30 merchants, many of which are also financial institutions that are

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a vote next month, Meirelles said on Twitter. A broad-based tax reform might be difficult to achieve politically, however, Planning Minister Dyogo Oliveira said at an event. Temer's government has not yet formally presented its tax reform proposal.

POLITICAL NEWS

Hurricane Maria Pounds Dominica as Category 5 Storm

Hurricane Maria made landfall the night of Sept. 18 in Dominica as a powerful Category 5 storm, leaving destruction in its wake, and then continued barreling westward in the Caribbean, NBC News reported. The storm, packing maximum sustained winds of 160 miles an hour, then lashed Guadeloupe early the morning of Sept. 19. The storm is then expected to strike the Virgin Islands and Puerto Rico the afternoon and evening of Sept. 19 into the following day, according to the U.S. National Hurricane Center. The storm could be "potentially catastrophic," the hurricane center said. Maria may become even more destructive than Hurricane Irma, which left at least 70 people dead in the Caribbean and the southeastern United States, since it formed in late August. In Dominica, Prime Minister Roosevelt Skerrit wrote on Facebook that Hurricane Maria had torn the roof off of his residence and flooded his home, adding that he was "at the complete mercy of the hurricane." A few minutes later, Skerrit wrote that he had been rescued. In a later post, Skerrit said the hurricane had caused serious damage across the island, which is home to some 73,000 people. "Initial reports are of widespread devastation," Skerrit said in the post. "So far we have lost all what money can buy and replace. So far the winds have swept away the roofs of almost every person I have spoken to or otherwise made contact with. The roof to my own official residence was among the first to go and this apparently triggered an avalanche of torn-away roofs in the city and the countryside." The prime minister added that air-

ports and seaports would be closed for days. "My focus now is in rescuing the trapped and securing medical assistance for the injured," he added. "We will need help, my friend, we will need help of all kinds." The governor of the

U.S. Virgin Islands, Kenneth Mapp, suspended recovery efforts that were underway following Hurricane Irma in order to prepare for Maria. U.S. President Donald Trump declared states of emergency on Sept. 18 for the U.S. Virgin Is-

Subscriber Notice

The Challenges for Sustainable Economic Growth in Chile and the Region

A Conversation With

SEBASTIÁN PIÑERA

Former Chilean President
and Current Presidential Candidate

Welcoming Remarks by

JANE HARMAN

Director, President and CEO,
Wilson Center

With Moderators

ERIC L. OLSON

Deputy Director, Latin American Program,
Wilson Center

and

MICHAEL SHIFTER

President,
Inter-American Dialogue

Friday, September 22

3:30-5 p.m.

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

NEWS BRIEFS

U.S. Ready to Take Further Action Against Venezuelan Government: Trump

U.S. President Donald Trump on Sept. 19 said the “growing crisis” in Venezuela is unacceptable, and that the United States is ready to take further action against President Nicolás Maduro’s administration in order to ensure that democracy is restored to the country, Politico reported. At a dinner with South American leaders on the sidelines of the U.N. General Assembly in New York, Trump said “the country is collapsing, their democratic institutions are being destroyed,” and blamed the government for the crisis.

Ecuador’s Moreno Accuses Predecessor of Planting Hidden Camera in Office

Ecuadorian President Lenín Moreno on Sept. 15 said his predecessor, Rafael Correa, had planted a hidden video camera in the presidential office before leaving office so that he could spy on his successor from afar, the Associated Press reported. Moreno said in a post on Twitter that he was “shocked and furious” to have discovered the device, which he said violated his privacy. Moreno did not present evidence for the allegations. Correa later took to Twitter to mock Moreno’s accusations.

Topolansky Becomes Uruguay’s Vice President

Uruguayan Senator Lucía Topolansky, the wife of former President José Mujica, assumed the office of vice president on Sept. 13, El País reported. Topolansky fills the role vacated by Raúl Sendic, who resigned on Sept. 9 over allegations of inappropriate credit card purchases and lying to cover them up. A former guerrilla fighter, Topolansky was named to the post because she had won the most votes in the latest election, second to her husband, who was not eligible for the job

lands and Puerto Rico. The governor of Puerto Rico, Ricardo Rosselló, warned residents that Maria could dump even more rain on the island than did Irma. “Seek refuge with a family member, friend or move to a state shelter, because rescuers will not go out and risk their lives once winds reach 50 miles per hour,” said Rosselló, NBC News reported. As of 8 a.m. Eastern Time on Sept. 19, Maria was located about 170 miles southeast of St. Croix, and moving west-northwest at 9 miles an hour, according to the National Hurricane Center.

New Brazilian Chief Prosecutor Sworn in

Brazil’s new prosecutor general, Raquel Dodge, was sworn in Sept. 18 and vowed to continue her predecessor’s anti-corruption campaign, Reuters reported. Dodge succeeded Rodrigo Janot, during whose time in office investigators unearthed massive amounts of corruption involving billions of dollars worth of kickbacks at entities including state oil company Petrobras. “The people maintain their hope for a better nation, they are interested in the nation’s destiny,” Dodge said at the prosecutor general’s office in Brasília. “They are following the investigations and trials, they will not tolerate corruption and do not just wait on results, but demand them.” All of Brazil’s federal prosecutors cast ballots to select Janot’s replacement as his term came to an end. Dodge came in second in the vote, but Temer had final say on selecting Janot’s replacement and selected Dodge for the role. Dodge had received the backing of a core group of prosecutors who have uncovered some of the country’s worst instances of graft.

ECONOMIC NEWS

Argentina Expects 3.5% Economic Growth in 2018

Argentine President Mauricio Macri’s government on Sept. 15 presented its 2018 budget

to Congress, saying that it expects economic growth of 3.5 percent next year and inflation of 15.7 percent, The Wall Street Journal reported. The government is also expecting the peso to depreciate to 19.3 per dollar on average and investment to rise 12 percent. This year, the peso



Macri // File Photo: Argentine Government.

is expected to average 16.7 per dollar, with investment rising 10 percent from last year. “The economy is already running on all cylinders, and the same thing will happen in 2018,” the Treasury Ministry said in a statement.

Brazilian Retail Sales Remain Flat in July Yet Beat Expectations

Retail sales in Brazil flattened out in July after three consecutive months of expansion, the Brazilian Institute of Geography and Statistics said Sept. 12, Dow Jones reported. Despite practically no sales growth in July, Brazilians spent more than analysts had expected. “The outlook for private consumption and retail sales has been improving, supported by the very significant decline in food prices and overall inflation,” Goldman Sachs analyst Alberto Ramos wrote in a research note. Activity in July was driven by sales of food and beverages, office and communications equipment and clothing and footwear. In annual terms, core retail sales, which exclude autos and building materials, rose by 3.1 percent, while broad retail sales advanced 5.7 percent. Gross domestic product will grow by at least 3 percent year-on-year at the start of 2018, said Finance Minister Henrique Meirelles. [Editor’s note: See [Q&A](#) on Brazil’s retail sector in the Sept. 14 issue of the Dialogue’s daily Latin America Advisor.]

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experienced and have the resources to keep fraud levels controlled. Chile also has lower unemployment, higher economic growth, and less presence of organized crime than other Latin American markets, but as e-commerce expands into smaller merchants, and as smaller financial institutions begin to make inroads in credit and debit cards, fraud levels will likely rise. This reflects a known cycle in card fraud: e-commerce grows, fraud expands. Then banks, retailers, and acquirers improve controls and lower fraud. Fraudsters then get smarter and a new cycle begins. Other countries are simply at a different point in the cycle, and Chile is starting a new one. Either way, card fraud is generally well understood, and the region's financial system is doing a good job keeping it in control."

A lone Amorim, economist at the Brazilian Institute of Consumer Defense (IDEC): "Credit card cloning remains an issue for Brazilian consumers. However, there is a frightening increase in Internet fraud attempts, especially in the case of personal data theft through smartphone and tablet applications. In addition to information theft in e-commerce operations, many instances of fraud attempts occur through phone calls.

Victims often receive calls from people who allegedly work at the bank's security department or receive text messages with specific requests, such as registration updates, passwords and security keys. Needless to say, this kind of fraud, undoubtedly related to information leakage, affects vulnerable consumers who struggle to understand the nature of the requests and end up providing their data, believing they are speaking with the bank's security department. In this sense, IDEC has received several complaints regarding information theft and electronic frauds. In one particular case, it was possible to identify that the consumer did not have a credit card, which shows that the unlawful use of personal data did not occur through e-commerce. Consumers are unfamiliar with security procedures and often do not pay attention to financial transactions, presenting a risk behavior. The information theft related to the financial sector occurs through access to passwords and other pieces of security information. In most cases, consumers only perceive the possibility of fraud when operations are already in progress."

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

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Advisor Video

A Conversation with Andrés Manuel López Obrador

The Mexican presidential candidate discusses his policy proposals and his view on the domestic and foreign challenges facing Mexico in a Sept. 5 event sponsored by the Inter-American Dialogue and the Wilson Center.



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