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FEATURED Q&A

How Will New Regulations Affect Fintech in Mexico?



Mexico has the second-highest number of fintech companies in Latin America, after only Brazil, the Financial Times reported earlier this year. // File Photo: Pixabay.com.

Q Mexican President Enrique Peña Nieto's administration is proposing new legislation to regulate the country's fast-growing financial technology sector in an effort to strengthen financial stability and also prevent money laundering and the financing of criminal activities. What types of regulation are needed in Mexico's fintech sector? How would new regulations affect the industry's evolution and ability to innovate? To what can the recent strong growth of Mexico's fintech sector be attributed?

A José Bolaños, partner at VARIV Capital: "By any measure, Mexico is underserved by the banking industry; around 70 percent of the population is unbanked or underbanked, and only around 25 percent own credit cards. The lack of financial services in the country has provided opportunities on a silver platter for fintech entrepreneurs to produce a massive impact. As a response to the rapid expansion of fintech in Mexico, the current administration has proposed the first fintech law. The new law will address a variety of regulatory issues fintech companies face; for example, the judicial recognition of digital signatures for financial documents. Without the necessity for clients to sign paper documents, fintech companies can efficiently manage solely online customer journeys. While Mexico's proposed fintech law contains a number of positive sections, the following regulatory motions are also critical to ensure that Mexico's fintech sector can thrive in an orderly way. A regulatory sandbox, a system that has allowed fintech companies to prosper in the United Kingdom and Singapore, is the most crucial need for Mexico's sector. This institution would encourage a safe

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Argentina's securities regulator approved a measure to allow licensed advisors to invest citizens' money in overseas assets.

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Remittances to Mexico in dollars grew in August, but the peso's appreciation eroded purchasing power.

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FINANCIAL SERVICES

Colombia Boosts Supervision of Financial Conglomerates

Colombian President Juan Manuel Santos signed a law to strengthen supervision of financial conglomerates. Among other provisions, it requires the maintenance of sufficient levels of capital in accordance with risk.

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Santos // File Photo: Colombian Government.

FINANCIAL SERVICES NEWS

Colombia Toughens Rules for Financial Conglomerates

Colombian President Juan Manuel Santos has signed a new law to strengthen supervision of financial conglomerates and other financial groups, Colombian newspaper La República reported Sept. 27. The law requires that “all conglomerates or financial groups manage a sufficient level of capital to support the risks of their activity,” said Finance Minister Mauricio Cárdenas. “Additionally, it provides the monitoring and empowers the regulatory entity to reorganize these conglomerates, authorize their investments and even revoke operating licenses,” he added. The law is in line with recommendations from international groups, including the World Bank, International Monetary Fund and the Organization for Economic Co-operation and Development, said Cárdenas.

Argentina Allowing Advisors to Invest Money Overseas

Argentina’s securities regulator, the National Securities Commission, or CNV, on Sept. 27 said it had approved a rule that allows licensed advisors to invest citizens’ money in overseas assets, in a bid to encourage private banks to establish outposts in the country, Reuters reported. The CNV said in a statement that it would create a licensed “Global Investment Advisor” role, and the individual would be authorized to make decisions on behalf of the client both domestically and internationally. The new rule would give legal assurance to private banks that usually manage the investments of wealthy individuals. The rule was made unilaterally by the CNV, but similar legislation proposed by President Mauricio Macri has stalled in the opposition-controlled Congress. During the presidency of Cristina Fernández de Kirchner, many private banks left the country

and provided service to their Argentine clients from abroad. “This role, which exists in various countries in the region, will favor the competitiveness of local actors,” the CNV said. Even before Fernández’s presidency, licensed investment advisors were prohibited from investing clients’ assets overseas, though many private



Macri // File Photo: Argentine Government.

banks did so anyway, but without licenses. In 2011, a financial crimes law made doing so a criminal offense that was punishable by up to four years in prison, so in response, private banks set up offices in Uruguay, Chile or Florida to serve their Argentine clients. The new rule comes after Argentines declared more than \$100 billion in previously hidden wealth in a tax amnesty program this year, creating a large pool of assets that can now be invested.

CREDIT CARD NEWS

Argentina Splits Up Prisma Credit Card, Processing Network

Argentina’s government is splitting up the country’s Prisma credit card and processing network, saying it wants to boost competition in the financial sector, Reuters reported Sept. 27, citing Production Minister Francisco Cabrera. Visa International and 14 banks that have operations in Argentina own Prisma, and its breakup is seen as part of President Mauricio Macri’s efforts to open the region’s third-largest economy. “This is an important step toward strengthening the defense of competition in Argentina,” Cabrera said in a statement late Tuesday. Prisma has “accepted the commit-

NEWS BRIEFS

Citi Taps Marangon as President of Brazil Unit

Marcelo Marangon has been named the new president of Citi’s unit in Brazil, Valor Econômico reported Sept. 25. Marangon will replace Hélio Magalhães, who announced his retirement in June. Marangon, who holds a degree in business management, has been with Citi since 1993 and currently is a vice president at the bank. “Marcelo has stood out as a business leader with significant global banking experience,” said Jane Fraser, Citigroup’s president for Latin America.

Jamaica’s Jackson Vows to Continue Fight Against Bank Fees

Jamaican Parliament member Fitz Jackson said he will continue pushing for an amendment to the country’s Banking Services Act, the Jamaica Observer reported Oct. 1. Jackson said he’ll continue advocating legislation to eliminate some fees that banks charge customers. Jackson added that he plans to file a lawsuit against financial institutions that charge fees on dormant accounts. Jackson said he will continue to fight against banking fees even though he has taken on new responsibilities as a member of the Shadow Cabinet of the opposition People’s National Party as spokesman for national security.

Bancolombia Wins Award for Digital Banking Services

Bancolombia has received an award for its digital banking services from the local chapter of the eCommerce Institute, Finance Colombia reported Sept. 29. The bank, based in Medellín, said its digital transactions have increased 26 percent so far this year. Bancolombia has recently introduced digital banking initiatives including a chatbot that gives financial advice through text messages.

ment to divest," though the details have not yet been finalized, the Production Ministry said in a statement. "The measure will allow the entry



Cabrera // File Photo: Argentine Government.

of new companies to the credit card market, which will benefit businesses, consumers and the economy in general," the statement added.

REMITTANCES NEWS

Transfers to Mexico Grow, But Purchasing Power Falls

Remittances in dollars to Mexico grew 8.8 year-on-year in August, but the peso's appreciation against the dollar eroded the transfers' purchasing power, Goldman Sachs said in an Oct. 2 note, citing Mexican central bank data. When measured in pesos, remittances grew 4.9 percent in August as compared to the same month last year. For the first eight months of this year, remittances grew a "robust" 6.7 percent in dollar terms, or 11.5 percent in pesos, said the note by Alberto Ramos, Goldman Sachs' head of Latin America economic research. In the second quarter of this year, remittances grew 4.9 percent year-on-year, a decline from 7 percent year-on-year in the first quarter in dollar terms. Remittances are likely to perform well going forward, with growth stabilizing at about 5 percent year-on-year in dollar terms, Ramos said in the note. "We highlight that solid workers' remittances flows have been adding support to the current account and to private consumption, particularly for low-income families, who have a high propensity to consume and are the overwhelming recipients of such

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space for fintech innovation, while enabling Mexican regulators to understand the risks associated with the technologies continuously. Another key step regulators must take to promote fintech sector growth is standardizing financial institution identification. While there are currently multiple ways to identify oneself in Mexico (CURP, NSS, IFE), regulators must implement a single number to decrease fraud and to ensure consistent credit decision making. With these reforms, among many others, the Mexican fintech sector will continue to thrive at an accelerated rate."

A Lindsay Lehr, senior director at Americas Market Intelligence: "While many have a positive view of the fintech legislation currently under review in Mexico, some members of the fintech community fear it represents a thinly veiled attempt to suppress fintech growth and competition to banks. The fintech law specifically aims to regulate three types of entities that directly threaten banks: non-banks enabling electronic payments, companies providing crowd-funding loans, and virtual currencies, such as bitcoin. While most agree that regulation is needed to ensure consumer protections and prevent illegal activity, others fear the law will create additional barriers to a sector that already faces immense cost and financing hurdles. Banks have a vested interest in supporting a law that will slow fintech growth. In fact, Mexico's fintech boom owes to banks' failure to effectively serve swaths of the Mexican population, including young people, those working in the informal economy and low-income Mexicans. Banks are coming under competitive threat as a result. By some estimates, fintech payment aggregators are now signing up more merchants to accept credit cards than traditional banks, threatening a core part of banks' business. Online lenders are forcing banks to reconceptualize their loan products and adjust risk

configurations in order to stay competitive. The fintech law undoubtedly has some good and valid intentions; however, its potential ulterior motives and downside for the fintech sector are rarely discussed."

A Fabian Saide, CEO, and Monica Velasco, vice president of global development, both at Paykii: "The implementation of a general fintech regulatory framework will reach sectors uncovered by the current banking laws, regulating institutions such as electronic payments, crowd sourcing and asset management. This will strengthen anti-money laundering initiatives and provide legal certainty. Secondary regulations would

“ The implementation of a general fintech regulatory framework will reach sectors uncovered by the current banking laws...”

— Fabian Saide & Monica Velasco

further be required in specific sectors to determine limitations and scope accordingly. Even though the proposed new regulations favor financial institutions, the new regulations do create an atmosphere for startups to be certified by relevant authorities. The proposal should be accessible for all companies and would need to be adjusted depending on size and scope. For example, Colombia developed a regulatory framework that provides fintech startups a smoother process for obtaining operating authorization, giving them the opportunity to perform in the financial sector. The willingness of financial institutions to share a better collective future has supported entrepreneurs to work hand-in-hand as partners innovating and creating new products that challenge the status quo of the financial services

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transfers,” the note added. The appreciation of the peso and high inflation are eroding remittances’ purchasing power. “This, allied with the ongoing consumer credit deceleration and negative real wage growth should contribute to the expected moderation of private consumption growth in the quarters ahead,” the note added.

POLITICAL NEWS

Ecuador’s VP Jailed Amid Corruption Investigation

Ecuadorean Vice President Jorge Glas was jailed on Oct. 2 after the country’s Supreme Court ordered his arrest, following a request earlier in the day from Ecuador’s prosecutor’s office, the Associated Press reported. The prosecutor’s office sought Glas’ pre-trial



Glas // File Photo: Ecuadorean Government

detention as part of an investigation into corruption allegations stemming from a larger scandal at Brazilian construction conglomerate Odebrecht. Glas is accused of taking bribes and leading a network of politicians and government officials, who took some \$33 million in bribes from Odebrecht in exchange for contracts when Glas served as vice president during the administration of former President Rafael Correa. Minutes before he turned himself in, Glas posted a video online, saying that he would abide by the arrest under protest, and he said the case against him was based on lies, false testimony and procedural errors. In August, President Lenín Moreno suspended Glas from his vice-presidential duties, citing

ADVISOR Q&A

What Can Brazil Expect of its New Chief Prosecutor?

Q Brazil’s new chief prosecutor, Raquel Dodge, was sworn in Sept. 18, replacing Rodrigo Janot. Janot doggedly pursued corruption investigations against scores of politicians, including President Michel Temer, garnering widespread acclaim but also scorn from his targets. Is Dodge the right person for the job? Will she conduct graft investigations as aggressively as did Janot? What changes can be expected during Dodge’s tenure as Brazil’s chief prosecutor?

A Brian Winter, editor-in-chief of Americas Quarterly and vice president of the Americas Society/Council of the Americas: “Dodge’s appointment comes amid an overall ‘scaling down’ of the Car Wash investigation that is likely to occur in the coming months. The probe will not end—indeed, criminal cases involving politicians before the Supreme Court will last for years. New allegations and charges will continue to be filed. But even many within the judicial sector believe that the most shocking, revelatory phase of Brazil’s most successful corruption investigation ever has passed. This is for various reasons, including that many of the

key perpetrators have already been jailed and the key leads involving Petrobras (for which Judge Sérgio Moro and his team in Curitiba are responsible) have almost been pursued as far as is feasible. But also, support from the Brazilian public for anti-corruption efforts—which prosecutors openly recognize is critical to preventing politicians from meddling with the probe—has grown less intense this year. Meanwhile, scrutiny of the use of plea bargains has intensified, thanks in part to what many argue are Janot’s tactical errors, making future deals more difficult. Dodge is a respected jurist who most doubt will take concrete steps to weaken prosecutors or other investigative bodies like the Federal Police. But she is also subject—as almost anyone in her job would be—to the political and circumstantial realities she finds upon taking the job. Under her watch, Brazil’s anti-corruption drive will continue, but probably not with the same degree of ‘shock and awe’ as before.”

EDITOR’S NOTE: More commentary on this topic appears in the Oct. 2 issue of the Latin America Advisor.

the corruption allegations. [Editor’s note: See related [Q&A](#) in the July 14 issue of the Latin America Advisor.]

Schools in Puerto Rico May Remain Closed for Weeks

Some public schools in Puerto Rico may remain closed until Oct. 16 because of damage caused by Hurricane Maria, which raked the

U.S. territory and other parts of the Caribbean nearly two weeks ago, Puerto Rico’s education secretary said Oct. 1, CNN reported. Officials also said that only 5 percent of Puerto Rico has electricity. Power had been knocked out across the entire island when the powerful storm made landfall in Puerto Rico on Sept. 20. The territory has 1,113 public schools, but only 400 have been assessed for damage, said Education Secretary Julia Kelleher. U.S. President Donald Trump, who arrived in Puerto Rico for a visit on Oct. 3, criticized the mayor of San Juan and the “leadership ability” of those who

NEWS BRIEFS

Lula Leads Polls Ahead of Next Year's Presidential Election in Brazil

Former Brazilian President Luiz Inácio Lula da Silva is still leading in the polls ahead of next year's presidential election, despite a corruption conviction that could bar him from running, Reuters reported, citing a poll by Datafolha published in *Folha de S.Paulo* on Sept. 30. The poll showed Lula with 35 percent support in the first-round vote, up from 30 percent in a June poll. His top competitors, former Environment Minister Marina Silva and right-wing Congressman Jair Bolsonaro, trailed in the poll with 13 percent and 17 percent support, respectively.

Chile's Bachelet Announces 3.9% Hike in Government Spending

Chilean President Michelle Bachelet on Oct. 1 announced a 3.9 percent increase in government spending in next year's proposed budget, Reuters reported. She said the country's economy could grow twice as fast as it did this year, though she added that the country "must face this new scenario with the same responsibility as always." Bachelet said next year's spending would prioritize investments in infrastructure and education

World Bank Approves \$150 Mn in Disaster Financing for DR

The World Bank on Sept. 28 approved a \$150 million fund for disaster financing for the Dominican Republic, in order to help the country better prepare for future natural disasters in the wake of two major hurricanes, Reuters reported. The fund is the first contingency line of credit approved by the World Bank for a Caribbean country under the Catastrophe Deferred Drawdown Option.

"want everything to be done for them when it should be a community effort." San Juan Mayor Carmen Yulín Cruz had called on the U.S. government to do more and said the government's distribution of aid to the island was insufficient. The U.S. Federal Emergency Management Agency, or FEMA, said Sunday that it had expanded its distribution of food and water to the island, though officials have said many in Puerto Rico still lack essential goods.

ECONOMIC NEWS

U.S. Demands Stoking Concerns at NAFTA Talks

U.S. negotiators for the North American Free Trade Agreement, or NAFTA, are making proposals during the negotiations that their Mexican and Canadian counterparts would never agree to, stoking concerns about whether the three countries will be able to reach their goal of agreeing on changes to NAFTA before



Trump // File Photo: White House.

the end of the year, Bloomberg News reported Sept. 29, citing officials familiar with the talks. Proposals from the United States on changes to NAFTA regulations on government procurement, textiles and fresh produce are seen by Mexico and Canada as red-line issues that are unlikely to be agreed upon, the officials said. The latest round of talks that ended on Sept. 27 in Ottawa had a more negative tone than previous rounds of discussions, the officials said. Mexican and Canadian officials expect the United States to present controversial proposals on automotive rules of origin and on an

overall U.S.-specific content requirement during the next round of talks, scheduled to take place in Washington from Oct. 11-15. U.S. President Donald Trump has made cutting the trade deficit with Mexico a top priority of the NAFTA negotiations, and the auto industry is the main source of the United States' \$64 billion gap with Mexico. The U.S. Trade Representative's office did not respond to Bloomberg's requests for comment. [Editor's note: See [Q&A](#) on the NAFTA talks in the Sept. 1 issue of the *Latin America Advisor*.]

Damage From Mexico Quakes May Exceed \$2 Billion

Damage from the two powerful earthquakes that struck Mexico this month could exceed \$2 billion, President Enrique Peña Nieto said Sept. 27, the Associated Press reported. Peña Nieto said the figure was a preliminary estimate and that officials were still assessing damage, especially in Mexico City, where the Sept. 19 earthquake caused the collapse of at least 38 buildings. Rebuilding just schools will cost some 13.6 billion pesos (\$750 million), the president said. Rebuilding and repairing homes will cost approximately \$550 million, while damage to cultural sites amounted to \$440 million, Peña Nieto added. The government is also making \$356 million in direct transfers to victims of the Sept. 7 earthquake and aftershocks in Chiapas and Oaxaca States to help them rebuild their homes. "I hope that in the new year we will be able to have also a new Mexico, rebuilt and in normal conditions," said Peña Nieto. The Sept. 7 earthquake, which had a magnitude of 8.1 and struck off the coast of Chiapas, killed nearly 100 people. The Sept. 19 quake, which had a magnitude of 7.1 and was centered 34 miles south of Puebla in central Mexico, killed at least 338 people, authorities said Wednesday. The dead included 199 in Mexico City, National Civil Defense chief Luis Felipe Puente said on Twitter. Seventy-four others were killed in Morelos State, 45 in Puebla State, 13 in the State of Mexico, six in Guerrero State and one in Oaxaca State.

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industry. BanRegio Labs and OpenTalent from BBVA have integrated 'intrapreneurship,' enhancing experiences and services. Fintech entrepreneurial innovation in Mexico has taken off, due to an emphasis on new product offerings that are focused on solving key pain points in the daily financial lives of Mexican citizens and positioning Mexico as a fintech leader in Latin America. The growth of Mexico's fintech sector can be attributed to the creation of an entrepreneurial culture that previously did not exist, increased smartphone adoption, the rise of venture capitalists, the encouragement of healthy competition and the empowerment of under-served communities and segments bringing more people to more diversified products."

A **Álvaro Rodríguez Arregui, co-founder and managing partner of IGNIA Partners:** "Any fintech operation needs to integrate with the traditional financial sector. Without a legal framework, regulated financial institutions are reluctant to work with fintechs. Therefore, the passing of a new fintech law is fundamental for the evolution of new financial services that are facilitated by technology. Mexico's proposed fintech law sets a relatively high bar for fintechs, as it introduces a 'sandbox' for the initial stages of startups. The high bar is necessary to secure the funds of consumers. The recent growth in the fintech sector is motivated by the fact that current traditional financial services in Mexico are bad, slow and expensive. If traditional financial institutions provided good, fast and affordable services, there would be no space for the entrance of new players into the financial services industry. This reality has been met by three trends. First, financial-sector regulators with a more liberal and practical perspective permit the existence of new operators offering services

that in the recent past could only be offered by regulated financial institutions. Second is the tremendous reduction in the costs of technology. Many of the financial services that customers demand required multimillion-dollar investments until recently; this is no longer the case. In addition, any innova-

“**The recent growth in the fintech sector is motivated by the fact that current traditional financial services in Mexico are bad, slow and expensive.**”

— **Álvaro Rodríguez Arregui**

tion requires trial and error; if each of those iterations cost millions of dollars, it is unaffordable to innovate. Thanks to the reduction in the costs of technology, such iterations are now affordable. Third, the population in general feels more comfortable than before to transact on their smartphones. All transactions done on a smartphone could have been done on a feature phone years ago. However, individuals did not feel comfortable with, for example, entering their credit card information on a phone. Smartphones have become an extension of our bodies, and therefore, customers feel significantly more secure while transacting on their phones. The growing penetration of smartphones has enabled for services provided by fintechs to be mass market. The confluence of these three trends, plus the bad services provided by existing players, have fueled the growth of fintechs."

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