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FEATURED Q&A

Is Ecuador's Digital Currency System Functioning Well?



Ecuador's digital money system kicked off in December 2014 under then-President Rafael Correa. // File Photo: Ecuadorean Government.

Q Ecuador is reforming its digital currency system, launched three years ago, in part by removing the country's central bank from the process. Since its rollout, has the digital currency achieved its expected outcomes, such as helping the poor and creating efficiencies? What has been the impact of Ecuador's digital currency on the economy and on the country's banking system? How are banks in Ecuador and elsewhere adapting to the presence of digital currencies? How does Ecuador's digital currency compare to Bitcoin, which is used in Ecuador despite a ban signed by former President Rafael Correa?

A Oscar Bazoberry, CEO of World Network of Cooperatives, a World Data Affiliate: "Ecuador's digital currency experiment has gone through three phases so far: great idea, poor implementation and a new beginning. It is a great idea for a country to have a well-implemented digital currency, and I think it is the way of the future. Ecuador's initial digital currency platform was launched in December 2014 by its central bank. Initially the central bank was the only authorized entity to create and operate the digital accounts, as well as to control the value of its digital currency (in theory pegged 100 percent to the dollar). The platform supports a USSD mobile end-user interface. This implementation has not prospered, due to the private financial sector's lack of confidence in the government and the great limitations of its platform and model. The newly elected Ecuadorean government has decentralized the use of digital currency, where now private banks and credit unions may have their own platforms to operate alongside with the

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TOP NEWS

FINANCIAL SERVICES

Latin America Units Help Boost Citi's Profits in Q3

Citigroup reported a slight gain in profits for the third quarter, due in part to improvement in the bank's Mexico division, as well as other units in Latin America.

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FINANCIAL SERVICES

Brandão Stepping Down as Chair of Banco Bradesco

At age 91, Lázaro de Mello Brandão is the world's oldest bank chairman. A former CEO of Bradesco, Brandão is stepping down after a career stretching for more than 70 years at the Brazilian bank.

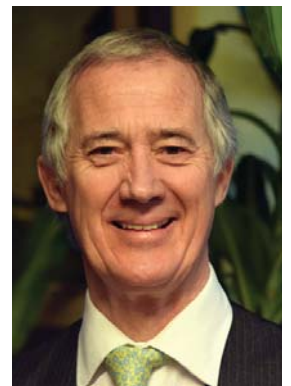
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INSURANCE

Astelarra Resigns as Argentine Association of Insurers Head

Francisco Astelarra will step down in December as the president and CEO of the Argentine Association of Insurance Companies, after 15 years as the organization's head.

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Astelarra // File Photo: Argentine Association of Insurance Companies.

FINANCIAL SERVICES NEWS

Latin American Units Help Citi to Post Profit Gain for Q3

The fourth-largest U.S. bank by assets, Citigroup, on Oct. 12 reported a slight gain in quarterly profits, due in part to improvement at its Mexico division, where the bank is investing heavily, the Financial Times reported. The bank's overall net income for the third quarter rose from \$3.84 billion to \$4.13 billion year-over-year, though Citi's sale of its fixed income analytics business to the London Stock Exchange inflated the figure by allowing the bank to have a \$355 million pre-tax gain. Citi's business showed particular strength in Latin America, where the bank is investing in equities trading, a business it is trying to expand in the region. A strong showing in Latin America and especially in its Mexico division helped offset weakness in Citi's bond trading and provisions for non-accrual loans. Group-wide revenues grew by 2 percent year-over-year to \$18.2 billion. Operating expenses were at \$10.2 billion, \$233 million lower than during the same period last year. Earnings per share were \$1.42, higher than analysts' forecasts of \$1.32. Citi's trends were similar to those posted by rival JPMorgan Chase, showing a mixed outlook that indicates that the expected boost to the sector from the election of U.S. President Donald Trump may have not yet materialized.

Brandão Stepping Down as Bradesco's Chairman at Age 91

Lázaro de Mello Brandão is stepping down as chairman of Brazil's Banco Bradesco, the role he has occupied for more than 25 years, Bloomberg News reported Oct. 11. At age 91, Brandão is the world's oldest bank chairman, and his departure from the chairmanship is expected to trigger a succession race. The bank's chief executive officer, Luiz Carlos

Trabuco Cappi, will replace Brandão on an interim basis, serving in both capacities until March, when the bank plans to name a new CEO. Brandão began working for the bank in 1943 as a 16-year-old clerk. He eventually rose at the lender to become one of the only two chairmen the bank has ever had and one of



Brandão // File Photo: Banco Bradesco.

its four CEOs, a position he held from 1981 to 1999. Last May, Brandão became the world's oldest bank chairman when 94-year-old Robert E. Bull retired from First Keystone Community Bank in Berwick, Pa., according to information compiled by Bloomberg. "There's a need to renew the bank's board to ensure its continuity," Brandão told reporters, adding that the decision to step down was his own. Brandão added that he will remain in charge of some of the bank's holding companies. As chairman, Brandão has promoted a culture that favors promoting executives from within the company rather than seeking new talent from outside. Bradesco is expected to continue that tradition in selecting the bank's next chief executive by choosing a new CEO from the ranks of its seven top executives, sources with knowledge of the matter told Bloomberg News. "The new CEO choice will respect Bradesco's own pool of talent," Trabuco said Wednesday. Among the possible successors to Trabuco are Mauricio Machado de Minas, who is responsible for Bradesco's information technology department; Alexandre da Silva Gluher, the bank's chief risk officer; Domingos Figueiredo Abreu, who is responsible for Bradesco's lending and treasury departments; and Josué Augusto Pancini, who heads the bank's branch network and high-income unit. Brandão said he has no regrets during his time at the company. "When I told my family I was leaving, their reaction was: It's about time," he said.

NEWS BRIEFS

Astelarra Stepping Down as Head of Argentina's Association of Insurers

The Argentine Association of Insurance Companies (AACS) announced earlier this month that its president and chief executive officer, Francisco Astelarra, will step down in December after 15 years with the association. For some time, Astelarra has planned to relocate to Santiago, Chile, the association said Oct. 2. "We'll miss Pancho and we will always consider him part of this organization. We are sure that the entire market will feel his absence," the association said in a statement. At its next meeting, AACS plans to nominate Roberto Sollitto as its next president, the association said in a statement.

Banco Colpatría Taps AxiomSL to Help Ensure Compliance in Colombia

Colombia's Banco Colpatría has selected New York-based AxiomSL, which provides the financial sector with risk management, regulatory solutions and data analysis, to oversee the implementation of its analysis and reporting platform to ensure regulatory compliance in the South American country, Finance Colombia reported Oct. 9. Scotiabank has controlled Colpatría, which is headquartered in Bogotá, since 2012. Colpatría also plans to use AxiomSL's technology to ensure it meets minimum capital requirements under the Basel III framework.

Bitcoin Conference to Be Held in Colombia

Colombia's second conference this year on Bitcoin and related technologies is taking place on Oct. 17, Bitcoin News reported. The organizers of Colombia's first conference on the cryptocurrencies had expected about 300 attendees, and more than double that number attended. The conference is to be held at the Pontificia Universidad Javeriana in Bogotá.

Scotiabank Eyes New Fintechs Through Ties With Accelerator

Bank of Nova Scotia, or Scotiabank, on Oct. 13 announced a new partnership between Canada and Latin American startup accelerator NXT Labs, which the Canada-based bank said will help it to “access the most promising fintechs in Mexico, Colombia, Chile and Peru, and leverage these countries’ innovative start-up ecosystems.” Scotiabank’s group head for international banking and digital transformation, Nacho Deschamps, said the partnership will boost Scotiabank’s competitive advantage and accelerate innovation in order to improve its technology offerings to customers. The partnership was announced at the Fintech Conference 2017 in Bogotá.

ANTI-MONEY LAUNDERING NEWS

Consulting Firm Protiviti Expands Services to Colombia

Global consulting firm Protiviti has expanded its member firm network into Colombia and plans to offer services, including anti-money laundering compliance, technology consulting and data management, the company said Oct. 10. “Protiviti’s expansion of the member firm network into Colombia, South America’s second-largest country by population, reflects the rapidly improving economy of that country,” Joseph Tarantino, Protiviti’s president and chief executive officer. “We are pleased to be able to provide this additional support to new and existing clients looking to pursue market opportunities in Colombia and Latin America with the expertise in local regulatory and compliance matters that Protiviti is known for worldwide.” Protiviti, based in Menlo Park, Calif., will offer its services through an agreement with Creinpro Colombia, a business consulting

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central bank one. This is an exciting move by the government, but there are a few key recommendations to ensure long-term success: 1) mandate interoperability among financial institutions and financial networks; 2) ensure the participation of existing networks in a fair manner; 3) empower existing networks serving community-based organizations to grow and to innovate; and 4) move expediently to have an efficient and dynamic regulatory framework with clear rules. In summary, for the Ecuadorean government to succeed, it needs to commit at all levels to fostering the use of digital currency as a strategy for growth across all industries. The Ecuadorean digital currency strategy needs to evolve over time from solving the ‘scarcity of dollars problem’ to one that will consider an ‘all-encompassing development’ from the ground up, based on the new revolution of digital ledger technology and associated smart contracts technology.”

A **Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress, and central bank president:** “Digital currency is not money; it is not a measure of wealth or a savings instrument. It is a numeraire for transactions or, in common parlance these days, ‘an electronic wallet.’ Former President Rafael Correa, however, had an ulterior motive for its adoption as a central bank-only issue: he wanted to do away with dollarization. In a likely scenario, digital bookings would have been swapped for bank deposits and obligations to institute exchange controls, impounding dollars from exports and doling them out for imports, thus effectively terminating dollarization. The experiment failed miserably. Ecuadoreans have a very strong preference for the greenback. The government platform never took off, and digital transactions represented an inframarginal portion of all payments. Although there is substantial penetration of mobile phones, the network is not redundant

enough or safe enough to clear this type of transaction. Finally, the central bank does not have sufficient liquid assets to back any type of currency, whether material or digital. The wallet works in the same manner as a debit card. Now that the Moreno administration has given the task of setting up digital payment mechanisms to the banks and cooperatives, the financial system should be able to respond and begin the use of the mechanism. The key to the eventual spread of digital currency lies in the fact that debits are charged against existing assets in account holder checkbooks. This new option has nothing to do with Bitcoin, which people do use to speculate on the, hitherto, volatile value of the cryptocurrency.”

A **Pablo Arosemena, president of the Chamber of Commerce of Guayaquil:** “Ecuador’s government-backed digital currency, in principle, was meant to include people historically excluded from the financial sector. However, the project had aspects that made it unreliable. Most notably, the fact that the central bank would manage it opened the door to inorganic monetary emissions—especially since the central bank lost independence from the government through the ‘Monetary and Financial’ law the same year. It immediately started acquiring government bonds, and the newly created monetary authority ‘compelled’ private banks to purchase them too. A direct contagion mechanism between the fiscal and financial sector was established. With oil prices at rock-bottom, the deficit widened, thwarting trust in the digital currency. At the end of 2014, almost 57 percent of the population had bank accounts, whereas in September 2017, only 55 percent did. Similarly, the population increased its preference for cash as a consequence of the use of international reserves by the government. With those numbers in mind, the Moreno administration realized that the digital currency project could only achieve its objectives under a pri-

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services firm that has offices in Bogotá. Protiviti's member firm network also has offices in Venezuela, Brazil, Chile, Argentina, Peru and Mexico. Managing Director Gamal Pérez, who has served with Protiviti's Venezuela member firm since 2006, will head the office in Bogotá, the company said.

POLITICAL NEWS

U.S. Condemns Venezuela Vote as Neither Free Nor Fair

The U.S. government on Oct. 16 condemned Venezuela's regional elections the previous day as neither free nor fair, Reuters reported. The South American country's National Electoral Council said after the vote on Oct. 15 that supporters of President Nicolás Maduro had won at least 17 of the 23 governor's offices that were up for grabs. However, the U.S. State Department said the Maduro government

“The voice of the Venezuelan people was not heard.”

— Heather Nauert

engaged in a series of maneuvers, such as manipulating ballot papers and moving polling stations in order to manipulate the vote. “We condemn the lack of free and fair elections yesterday in Venezuela,” State Department spokeswoman Heather Nauert said Oct. 16. “The voice of the Venezuelan people was not heard.” Nauert added that “our previously stated concerns were unfortunately realized,” saying that the election was marked by a “lack of independent, credible international observers; lack of technical audit for the National Electoral Council's tabulation; last-minute

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NEWS BRIEFS

Shootouts Leave at Least 11 Dead in Mexico's Tamaulipas State

A series of shootouts have left at least 11 people dead in Mexico's northern Tamaulipas State, authorities said Oct. 16, the Associated Press reported. The gun battles took place in the border city of Reynosa and the nearby town of Rio Bravo and started late on Oct. 15. After the shootouts, police found 13 improvised armored vehicles, which are typically used by drug gangs in Tamaulipas. In the past, Reynosa has been the scene of turf battles between factions of the Gulf cartel.

Peru's Kuczynski Sees Eight-Point Rise in Approval Rating

Peruvian President Pedro Pablo Kuczynski saw his approval rating rise eight points to 30 percent this month after tensions with the opposition-led Congress subsided and the country's soccer team tied Colombia and managed to hold on to the hope of qualifying for the World Cup for the first time since 1982, Reuters reported Oct. 15. Kuczynski's approval rating had dropped to a low of 22 percent in an Ipsos poll last month, after Congress gave a vote of no-confidence to his cabinet, forcing the president to name new cabinet officials.

IMF Expects 2,300% Inflation Rate in Venezuela Next Year

The International Monetary Fund said Venezuela's annual inflation rate may jump to more than 2,300 percent next year, the highest estimate for any country tracked by the IMF, according to the organization's latest World Economic Outlook report, which was published Oct. 10, Bloomberg News reported. GDP is expected to contract another 6 percent next year after shrinking an estimated 12 percent this year.

changes to polling station locations without public notice; manipulation of ballot layouts; and limited availability of voting machines in opposition neighborhoods." Nauert added that the United States would "bring the full weight of American economic and diplomatic power to bear in support of the Venezuelan people as they seek to restore their democracy." Venezuela's opposition Democratic Unity Roundtable coalition has also refused to recognize the results, but Maduro's United Socialist Party has denied there was fraud in the election.

Mexico's Attorney General Resigns

Mexican Attorney General Raúl Cervantes resigned on Oct. 16 in a move that may pave the way to an overhaul of the country's judicial system, The Wall Street Journal reported. Cervantes has been under fire since his appointment as attorney general last year due to his close ties to President Enrique Peña Nieto and his longtime membership in the ruling PRI



Cervantes // File Photo: Mexican Government.

political party. Cervantes made the surprise announcement during a hearing in the Senate. "This is not about names. This is about building better institutions," he said. His resignation could clear the path to naming an independent prosecutor who would have a nine-year term and who cannot be fired by the president. The naming of a new independent prosecutor is seen as key to overhauling the country's judicial system, where a mere 3 percent of crimes are investigated, and the justice system is seen as being highly politicized. A spokesman for Peña Nieto declined to comment on Cervantes' resignation. Though the position of independent prosecutor has been in place since 2014,

the enabling legislation to name that prosecutor has not been passed, and no prosecutor has been named to the position. It is not immediately clear whether Peña Nieto will name a new attorney general in the coming days. The head of legal and international affairs at the attorney general's office will serve as interim attorney general, a government official said.

ECONOMIC NEWS

NAFTA Can Help Raise Wages in Mexico: Trudeau

The renegotiation of the North American Free Trade Agreement, or NAFTA, offers an opportunity to raise wages for Mexican workers, Canadian Prime Minister Justin Trudeau said Oct. 13 during a visit to Mexico City, the Associated Press reported. In a speech to the Mexican Senate, Trudeau said support for NAFTA "depends on the fruits of this trade being fairly shared." He added, "So we must pursue trade agreements that are win, win, win, helping workers across North America achieve better standards, wages and working conditions." Wages for Mexican workers are a key issue in the NAFTA talks. Auto workers in Mexico, for example, are paid only \$2 per hour compared with \$30 or more per hour for their counterparts in the United States and Canada. Wages are low in Mexico due in part to antiquated labor laws and also to pro-government unions that will often sign contracts without workers' consent, the AP reported. "Mexico doesn't want to be competitive based on low wages," Mexican President Enrique Peña Nieto said. "Mexico wants to compete on the basis of skilled labor." However, Peña Nieto's administration has not moved to get rid of pro-company contracts that prevent worker-led unions from organizing, and the leaders of labor federations that appear to benefit the company over the worker are often members of the ruling PRI political party, the wire service reported. Trudeau argued that improving standards for workers may be the only way to preserve NAFTA.

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vate-sector administration, so the transference was informally agreed upon last June. However, there is still uncertainty surrounding the details, as it would imply alterations to the 'Monetary and Financial' law of 2014 that have not been enacted. Additionally, there is still no legislation in Ecuador to permit the usage of other digital currencies, so it is not a priority for the financial system. In fact, the case of e-money in Ecuador is effectively an e-wallet used to make virtual payments and reduce the use of cash. On a more general note, the broader financial sector is showing healthy signs of growth. Deposits and credits are above the pre-2014 to 2016 crisis level, and the delinquency rate shows a downward trend. The last GDP figures show a strong 3.3 percent year-over-year growth up to last June, and we expect that a more dynamic and efficient financial sector will be able to support the expansion cycle of the economy."

A **Vicente Albornoz, dean of business and economics at the Universidad de Las Américas in Quito:** "The electronic currency created by Ecuador's central bank was not a real currency. It was just an electronic platform that made it possible to transfer small amounts of money via text-messages (that is, with no need for smartphones). The danger with this 'electronic money' was

that it allowed for the inorganic creation of money in a dollarized economy, precisely because it was managed by the central bank. Now the whole system is being transferred from the central bank to the private banks,

“The danger with this 'electronic money' was that it allowed inorganic creation of money in a dollarized economy...”

— Vicente Albornoz

which lessens the danger of monetary creation, almost to being nonexistent. This Ecuadorean version of 'digital money' was not, in any way, related to a 'digital currency,' precisely because it was managed by a central bank and because it lacks a decentralized ledger like the blockchain used by bitcoin. The disappearance of electronic money managed by the central bank and its transfer to private banks is good news for the monetary system, because it averts any monetary creation in a dollarized economy."

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

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