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FEATURED Q&A

What Is Driving Remittances to the Region?

Money transfers to Latin America and the Caribbean are expected to rise this year, with moderate growth expected for next year. // File Photo: Pixabay.

Q Remittances to Latin America and the Caribbean are expected to rise by 6.9 percent this year to $79 billion, the World Bank said Oct. 3. Remittances to the region will likely still grow, but moderately in 2018, to $82 billion. What are the most important factors driving remittances to the region? How likely is it that the United States will impose a new tax on remittances to pay for President Donald Trump's proposed wall along the Mexican border? Which countries in the region are most dependent on remittances, and which industries' fortunes are most tied to the transfers?

A Manuel Orozco, member of the Financial Services Advisor board and director of the Migration, Remittances and Development Program at the Inter-American Dialogue: "Growth in remittances to Latin America and the Caribbean this year will be comparable to or higher than last year, up 8 percent from 2016. This increase represents a rate that is beyond moderate and far greater than the IMF's forecasted 1.2 percent economic growth for the region. The key drivers of growth come from Haiti, the Dominican Republic, Central America and Colombia, which together represent 45 percent of flows. In fact, for Central America and the Caribbean, the projected economic growth for these countries is due largely to the 15 percent increase in remittances. Within that context, a tax on remittances would hurt these economies. A recent survey by the Inter-American Dialogue showed that a new tax would lead 64 percent to change their sending behavior, 41 percent to use informal services and 26 percent to send less money. In practical terms, migrants would decelerate the current growth pattern of the past five

Continued on page 3

TOP NEWS

FINANCIAL SERVICES

Itaú's Argentine Unit Spending $30 Mn on Digital Banking

The Brazilian bank's Argentine unit is making the investment over the next three years as part of its efforts to attract more millennial clients.

Page 2

BANKING

Costa Rica's Guevara Seeks Merger of State-Run Banks

Presidential candidate Otto Guevara wants to merge the Bank of Costa Rica with Banco Nacional.

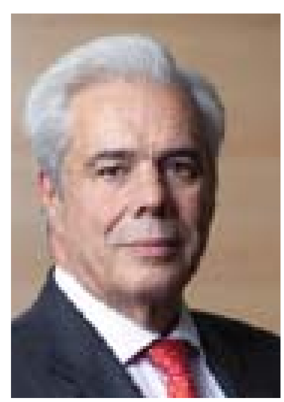
Page 2

INSURANCE

Chile Sees Doubling of Written Premiums in Last Decade

Chile's insurance market has seen its written premiums double in the past decade, according to Jorge Claude, the executive vice president of the Chilean Association of Insurers.

Page 3



Claude // File Photo: Chilean Association of Insurers.

FINANCIAL SERVICES NEWS

Itaú's Argentina Unit Spending $30 Million on Digital Banking

The Argentine subsidiary of Brazil's Banco Itaú is making a $30 million investment over the next three years in enhanced digital banking services aimed at the millennial generation, daily newspaper Clarín reported Nov. 7. The new service, called Bankennials, involves the launch of an Itaú Argentina app and an associated marketing campaign. The bank's media spending around the campaign will consume more than 35 percent of the total annual marketing budget, TotalMedios reported, with 28 percent of that amount designated for digital media and social networks. The theme of the service is that users can enter the bank without going into the branch. Around 10 million Argentines access banks digitally, according to comScore data, with nearly four million of those using a mobile platform to do so. While Itaú is one of the largest banks operating in Latin America, Argentina's banking sector is highly fragmented, with 78 banks and financial companies operating there, and only two banks with a loan market share of more than 10 percent, Santiago Gallo, director for Latin American Financial Institutions at Fitch Ratings, told the Advisor. [Editor's note: See **Q&A** on Argentina's banking sector in the June 15-28 edition of the Financial Services Advisor.].

HSBC's Canada Unit Head Concerned About NAFTA Talks

The head of HSBC's Canadian unit on Nov. 7 said she is concerned about the NAFTA renegotiations and is preparing for how the bank will deal with the possible outcomes of the talks, Reuters reported Nov. 7. "The discussions around the free-trade agreement I would say right now are concerning," HSBC Canada Chief Executive Sandra Stuart told Reuters. "We've done an analysis of our book. We know where we are sensitive in terms of the NAFTA agreement, and customers know their sensitivities as well." U.S. President Donald Trump has repeatedly threatened to withdraw from the free-trade agreement with Mexico and Canada if the three countries cannot strike a better deal

Stuart // File Photo: UBC Sauder School of Business.

for the United States. His negotiating team has made divisive proposals on red-line issues for Mexican and Canadian negotiators, including plans to establish rules of origin for NAFTA goods that would set minimum levels of U.S. content for vehicles and the termination of the so-called Chapter 19 dispute mechanism. Stuart said she still expected that a deal would be reached on NAFTA and was comfortable with the level of HSBC's exposure to businesses that could be affected by the deal.

Brazilian Police Make Arrests Related to Caixa

Brazil's federal police force said Nov. 14 that it was carrying out arrests related to employees of state-controlled bank Caixa Econômica Federal, Reuters reported. The arrests were among 10 search and detention orders that were carried out in Brasília, the wire service reported. The accused individuals are alleged to have illegally skimmed money from approximately 385 million reais ($117 million) in information-technology contracts related to the bank. Reuters was unable to immediately reach any of the people arrested for comment. Also on Nov. 14, a judge in Brazil ordered the arrests of several top officials in Rio de Janeiro, the wire service reported. Among them was the presi-

NEWS BRIEFS

Argentina's Macri Sending Capital Markets Legislation to Lawmakers

Argentine President Mauricio Macri is sending a bill to the lower chamber of the country's Congress that is aimed at facilitating access to credit and other financial instruments in an effort to promote long-term investments, RTT News reported Nov. 13. Macri's administration sent lawmakers a similar measure last year, but the legislation failed to move ahead. Macri's administration now hopes the reformulated bill will win approval by the end of the year. Macri's government also wants to reinstate mortgage bonds as a new savings instrument, establish conditions to create closed investment funds and allow insurance companies to issue inflation-adjusted policies.

Costa Rica's Guevara Seeks Merger of State Banks

Costa Rican presidential candidate Otto Guevara is seeking to merge two state-run banks, the Bank of Costa Rica and Banco Nacional, Q Costa Rica reported Nov. 14. "It's always been my theory that the state should have a single bank and that it [exists] to support new small businesses and not big businessmen who require larger loans…we can leave them to private banks," said Guevara. Costa Rica's two-round presidential election is scheduled for next February.

Uruguay's Central Bank Announces Digital Peso

Uruguay's central bank on Nov. 3 announced that it is rolling out a digitization of the country's currency, which it stressed is "not a cryptocurrency" like Bitcoin. The currency will remain the responsibility of the central bank. The pilot program will last six months, the central bank added.

dent of the state assembly, prosecutors said. Judge Abel Gomes issued a bench warrant for Rio's state assembly president, Jorge Picciani, as well as two other state assemblymen and 10 others, including aides. The accused allegedly pocketed bribes from Rio de Janeiro State's transportation industry body in exchange for favorable legislation dating back to the gubernatorial term of Sérgio Cabral, who was in office from 2007 to 2014 and was arrested on corruption charges in 2016. The people detained were members of the PMDB party of Brazilian President Michel Temer. Those who were arrested could not be immediately reached for comment.

INSURANCE NEWS

Chile Sees Doubling of Written Premiums in Past Decade

Chile's insurance market has seen a doubling of its written premiums in the past decade, Intelligent Insurer reported Nov. 14, citing Jorge Claude, the executive vice president of the Chilean Association of Insurers. "There are 3.4 policies per capita and insurance density is the highest in South America, with $684 per capita," said Claude. "Nevertheless, there is still an important insurance gap to close." Chile's massive 2010 earthquake, which had a magnitude of 8.8, caused approximately $24 billion in economic damages, though only $6.3 billion were insured losses. After 2012, Chile's insurance market growth slowed to the single digits for written premiums, Intelligent Investor

> **"There is still an important insurance gap to close."**
>
> **— Jorge Claude**

FEATURED Q&A / Continued from page 1

years. However, under the current political environment, a tax on remittances is unlikely to occur within the budget request, as the building of the wall is not under negotiation. Moreover, a proposed law, the Border Wall Funding Act of 2017, provisioning a 2 percent tax on remittances, has not been welcomed or supported in Congress. However, a possible tax would affect even Mexico. With its remittance growth over 6 percent (and 3 percent of GDP), a decline would affect its currency and economic performance outside the country's energy and industry sectors."

A **Kai Schmitz, leader of FinTech Investment for Latin America at the IFC Global FinTech Investment Group:** "The growth of remittances to the region seems to be unstoppable. Except for a short dip as a result of the 2008 financial crisis, they have grown irrespective of the political landscape in the main sending country, the United States. Even after 2008, remittances recovered very quickly as migrants moved from crisis-hit areas in the United States to cities and regions with better employment prospects. However, remittance data is also hard to obtain and notoriously unreliable, as I experienced when trying to collect this data for the World Bank. Different approaches generate very different results, and it is likely that the official statistics still underrepresent the flows, in spite of marked improvements on data collection and methodology. Some of the increase reported over the past 10 years is likely due to better and broader collection of data. Migration otherwise seems to be the obvious main driver, along with employment levels and migrant laborers' salaries. Over the past few years, migration has reportedly slowed down, but as the economy has recovered, employment opportunities have improved. I expect that technology will fundamentally change the remittance industry. More and more remittances will be originated online or via mobile phones. In the longer run, the payment of remittances on the receiving side, which today is done mostly through the same physical distribution channels, irrespective of how they are originated, will change. Looking at China, the most advanced fintech country in the world, offers some clues. There, a large share of payments have moved to digital platforms that also offer an increasing amount of other financial services."

A **Alberto Laureano, CEO of Barri Financial Services and chairman of the Money Services Business Association:** "A mid-to-high single-digit increase in remittances from the United States to Latin America is reasonable and likely sustainable, as the main factors driving these flows remain fundamentally unchanged. Specifically, there continues to be a disparity in per capita incomes, coupled with significant differences in job opportunities, which causes a natural tendency to migrate north. Second, natural disasters in parts of the region continue to highlight precarious infrastructures that also promote migration. Third are the sustained threats of drug-related violence and gangs in some areas. Finally, the sustained strength of family unification is another migration pattern. Migration flows are counterbalanced with trends on the U.S. side, namely growing anti-immigrant sentiment, evidenced by a crackdown on sanctuary cities, revocation of temporary permits such as DACA or TPS and immigration raids. All in all, it seems like the market forces should prevail, and the fact that the U.S. economy is healthy, growing and close to full employment should result in continued opportunities for immigrants. This is particularly the case if we consider the meaningful rebuilding efforts required in Texas and Florida, post natural disasters. The possibility of a remittance tax should be low, simply because taxing this activity will make it more expensive for the users and will promote alternative methods of transfer, which will mean the black market, where flows cannot be traced. All countries in

Continued on page 6

reported. "Nevertheless, the insurance market is still profitable, and the number of insurance companies operating has increased year after year," said Claude. Chile's non-life insurance market grew 2.6 percent last year, while most business lines, except for vehicle insurance, surety and credit insurance, saw a decrease in premiums. For this year, Chile's insurance market is expected to see 1 percent growth for non-life insurance, with most lines growing, except fr property and engineering insurance.

ECONOMIC NEWS

S&P Declares Venezuela in Selective Default

S&P Global Ratings on Nov. 13 declared Venezuela in selective default following the South American country's failure to make payments on bonds following the expiration of a 30-day grace period, Reuters reported. Venezuela's government failed to make $200 million in coupon payments for global bonds due in 2019 and 2024 by Sunday's expiration of the grace period, S&P said in a statement. The ratings agency added that it had lowered Venezuela's long-term foreign currency rating to "SD" and also lowered its long- and short-term foreign currency sovereign credit ratings for the country to "SD/D" from "CC/C." "Our CreditWatch negative reflects our opinion that there is a one-in-two chance that Venezuela could default again within the next three months," S&P said. The ratings agency added that it would raise its long-term foreign currency sovereign issue credit and also boost its ratings for Venezuela to "CC" if the government solves its defaults on the overdue coupon payments and makes its debt payments on time before a planned restructuring, Reuters reported. President Nicolás Maduro announced debt restructuring plans earlier this month and on Nov. 13 summoned creditors to Caracas to discuss its intentions for the restructuring of some $60 billion in bonds. Investors who attended the meeting Nov. 13 at the presidential palace said they heard a half-hour speech from Vice President Tareck El Aissami, whom Maduro has put in charge of negotiations on restructuring the debt, The Wall Street Journal reported. The speech by El Aissami, who has been blacklisted by the United States for his alleged role in drug trafficking, focused on Venezuela's efforts to continue making its debt payments. After his talk concluded, investors at the meeting were given boxes of chocolates and escorted out of the building, the newspaper reported, citing two people who attended the meeting. "They didn't even allow questions," said one of the investors. "They gave no details on their plans and no future meeting dates." Maduro's government on the night of Nov. 13 called the meeting "highly promising" and said it was the beginning of the process of refinancing Venezuela's debt. The statement gave no details about how or when a refinancing would occur, but it said the government would continue servicing its debt.

LEGAL BRIEFS

Brazil's Merino Signs Up With Steptoe & Johnson

Steptoe & Johnson said Oct. 31 it is strengthening its Brazilian and Latin American practices with the addition of Fernando Quintana Merino, a Brazilian lawyer. Merino initially will be a consultant to the firm based in Brazil, but he is ultimately expected to relocate to Washington. In addition to practicing law, Merino has been acting as an independent board member at Eletropaulo Metropolitana Eletricidade de São Paulo, the largest energy distributor in Latin America, and Igua Ambiental, one the largest water and sewage companies in Brazil.

Lewis Baach Hires Levin to Bolster Latam Practice

New York-based Lewis Baach Kaufmann Middlemiss said in October that Erika Levin is joining the firm as a partner in its New York office. Born in Brazil, Levin has experience in arbitration and litigation in both the United States and Latin America, having practiced with Clifford Chance, Stone & Magnanini and other firms.

White & Case Names New Partners

White & Case in October named two new partners who work extensively with Latin America. Based in Miami, Maria Beguiristain concentrates on white collar matters, principally in Latin America, and complex commercial litigation and appellate matters. Jay Campbell has been named a partner in the firm's Global Trade Practice. Based in Washington, he focuses on trade remedy proceedings before the U.S. Department of Commerce and the U.S. International Trade Commission, and in related trade litigation before the U.S. Court of International Trade, NAFTA bi-national panels and WTO dispute settlement panels

Tauil & Chequer Hires Sancovski as Partner

Tauil & Chequer Advogados, a Brazilian law firm associated with Mayer Brown, in October announced that Michel Sancovski has joined the firm's São Paulo office. Sancovski joins as a partner in the firm's Anti-Corruption & Compliance practice group. He previously counseled state oil company Petrobras at competing firm Trench, Rossi and Watanabe Advogados.

NEWS BRIEFS

Peru's Kuczynski Sees Approval Rating Fall to 27 Percent

Peruvians' approval of President Pedro Pablo Kuczynski fell three percentage points to 27 percent this month following heightened tensions with the country's opposition-controlled Congress, according to an Ipsos poll published Nov. 12 in newspaper El Comercio. Kuczynski's approval rating had risen to 30 percent in October, following his government's emergence from a crisis after Congress ousted his cabinet. The survey of 1,254 Peruvians was conducted between Nov. 1 and Nov. 3 and had a 2.7-percentage point margin of error.

Thousands Protest in Rio After Committee Advances Total Abortion Ban

Thousands of women took to the streets of Rio de Janeiro on Nov. 13 in protest of a recent committee vote in Congress to make abortion illegal without exception in Brazil, the Associated Press reported. Abortion is currently legal in Brazil in some cases, including rape and pregnancy that threatens the life of the mother. A congressional committee last week adopted a measure that would remove those exceptions and make the procedure illegal in all cases.

Mexico's Congress Gives Final Approval to Budget

Mexico's Congress on Nov. 10 gave the final approval for next year's federal budget, which raises the assumed oil price and exchange rate in order to help increase funding for reconstruction after two earthquakes rocked the country, Reuters reported. Authorized spending is for $276.98 billion, or 5.28 trillion pesos, up 43.29 billion pesos from the original draft. Lawmakers raised the projected exchange rate from 18.1 pesos per dollar to 18.4, and they raised oil price assumptions from $46 to $48.50 per barrel.

Mexico Preparing for Possibility of NAFTA's End

The Mexican government is preparing a macroeconomic response in case President Donald Trump follows through on his threats to withdraw the United States from the North American Free Trade Agreement, Reuters reported Nov. 13. Mexican Foreign Minister Luis Videgaray said Monday that the government and the central bank were preparing a plan to address the fallout from a possible U.S. withdrawal from NAFTA, though he gave few additional details. Mexico's government has said it would look into ways to provide certainty to investors about their investments if the 24-year-old free trade agreement falls apart. Trade negotiators from Mexico, the United States and Canada will meet in Mexico City this week to continue talks on overhauling the agreement. Videgaray added that Mexico will continue to work on diversifying trade, protecting foreign investment, reviewing possible changes to tariff barriers and preparing a macro-economic response from the finance ministry and the central bank. "We have to be prepared for all the scenarios, and one of the scenarios is that the United States leaves the treaty, and as we have said, that is not the end of the world; the Mexican economy is much bigger than NAFTA." The free-trade agreement is the basis for some $1.3 trillion in annual trade among the three countries, and nearly 80 percent of Mexico's exports go to the United States.

Venezuelan Gov't Opposition Agree to New Round of Talks

Venezuela's government and opposition leaders said Nov. 9 they will resume efforts to hold dialogue, the Associated Press reported. Opposition leaders said that a new round of talks would be needed to help ensure free and fair presidential elections, which are currently scheduled for 2018. "We can facilitate the conditions for a presidential election," Julio Borges, president of the opposition-led National Assembly, told a news conference. Information Minister Jorge Rodriguez said via Twitter, "the dialogue continues on Nov. 15 in the Dominican Republic."

Sons of Panama's Martinelli Accused in Corruption Case

Panamanian prosecutors said Nov. 9 that two of former President Ricardo Martinelli's sons are suspected of receiving more than $50 million in "undue payments" from Brazilian construction firm Odebrecht, the Associated Press reported. Ricardo Alberto and Luis Enrique Martinelli have denied involvement.

Colombia Seizes Cocaine Worth $360 Million

Police in Colombia said Nov. 8 they had seized more than 12 tons of cocaine with a market value in the United States of more than $360 million, Reuters reported. President Juan Manuel Santos described the stash, found stored underground on four farms in northwest Antioquia province near Colombia's border with Panama, as "the largest seizure in history." Authorities linked the cocaine to the Gulf Clan, an organized crime cartel that has become more powerful since a peace deal was signed last year with the Revolutionary Armed Forces of Colombia, or FARC, guerrillas.

President Juan Manuel Santos called the bust "the largest seizure in history."

FEATURED Q&A / Continued from page 3

Latin America are dependent on remittances to different degrees, while the often-used metric of remittances as percent of GDP would place countries like Jamaica, Haiti or El Salvador at the top of the list, the reality is that there are other relevant metrics that paint the picture, such as the absolute number of recipients whose livelihoods depend on these flows."

A **Hugo Cuevas-Mohr, director of Mohr World Consulting and IMTC:** "The most important factor driving remittances in Latin America and the Caribbean is the U.S. labor demand, which will continue to grow despite efforts to tighten restrictions on immigration, border measures and deportations. A shortage of hand labor in the United States might drive payments to illegal workers upward, which will consequentially increase remittances. Internal migration in the region is also contributing to an increase in remittances from Argentina, Chile and Brazil to other countries in the region. At the same time, unrecorded flows of remittances will continue to increase—data that won't be reflected in the World Bank's charts—and these volumes are anyone's guess. With more ways to send money home, alternative settlement systems, like the ones operating for Venezuelan remittances, bill payments, value transfers like airtime top-ups and sending packages instead of money, it's clear the whole market is diversifying at rapid pace. While taxing remittances in sending countries is a continuing concern for migrants and the industry, it is less and less likely to happen; maybe another U.S. state might join Oklahoma and do it, but in this political climate, it seems unfeasible. For receiving countries, remittances are resilient, and volumes are not likely to change drastically at any moment. Online money-transfer companies continue to grow, not entirely driven by offline client adoption, but from bank costumers switching to cheaper and better channels; cash channels are also growing. If the MoneyGram-Ant Financial deal is not stopped by the United States, many more mergers and acquisitions will likely come forward, increasing competition and lowering prices."

A **David Landsman, executive director of the National Money Transmitters Association in Great Neck, N.Y.:** "Although remittances from Europe make up an important share of remittances to the Latin American and Caribbean (LAC) region, the lion's share of those remittances come from the United States. The most important factors driving the growth of remittances to the region are economic growth in the United States and improvement in the U.S. labor market. The World Bank's October brief states that remittances to developing countries worldwide are set to grow in 2017 and 2018, reversing their uncharacteristic decline in the previous two years. But remittances to the LAC region grew in 2015 and 2016, defying that worldwide trend. What makes that performance all the more impressive is that it took place despite so many countervailing factors that should have depressed the official numbers: the de-risking of money transmitters and correspondent banking in general, reverse migration, an inhospitable legal environment for immigrants in the United States and the (so-called) high cost of remittances. Those receiving countries whose GDP is most dependent on remittances will benefit the most. The Border Wall Funding Act has been stuck without movement in three House committees since March, and no corresponding bill has been introduced in the Senate. Rep. Mike Rogers (R-Ala.), the bill's author, said that he hoped President Trump would not push the bill until the end of October because he feared a hot-button issue like border wall funding would create a toxic environment that would impede the GOP passing some more important legislation. At this point, thankfully, the bill looks unlikely to pass."

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