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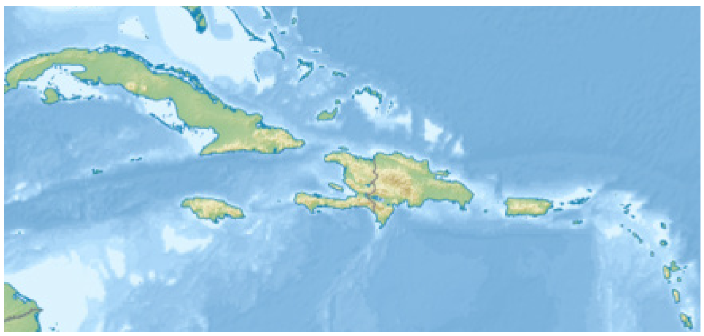
FEATURED Q&A

Will Caribbean Banks See More De-Risking in 2018?



International banks have severed correspondent banking relationships in Caribbean nations considered to be "high-risk" for compliance violations. // Image: Wikimedia Commons.

Q The trend of bank de-risking, or international banks' practice of terminating correspondent banking relationships in locations deemed to be "high-risk," for compliance violations, has been a top concern of bankers in the Caribbean this year. Strict rules on capital and liquidity following the global financial crisis have shifted large banks away from doing business with clients who provide comparatively little profit. What de-risking and compliance trends will banks in the Caribbean, where many correspondent relationships have been severed, see in 2018? To what extent will improving the oversight of Caribbean financial services providers translate to the re-establishment of correspondent relationships or to a decrease in terminations? How have consumers been affected by the de-risking trend, and what does the future hold for them?

A Anthony Wilson, head of the multimedia business unit at One Caribbean Media: "There is good cause for optimism that the uncertainty and trauma experienced by commercial banks in the Caribbean over their correspondent banking relationships (CBRs) could abate in 2018 after two years in which long-standing relationships were curtailed—sometimes abruptly and unilaterally. This optimism is based on the fact that Caribbean governments have recognized the threat to their economies that would result from the escalation of the termination of CBRs and, quite unusually, have been proactive in seeking to address the issue head-on. Not only has a Caricom Task Force on De-Risking been established, but the region has pushed the issue onto the agenda of the last two high-level forums that were co-hosted by the

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Mexican Senate OKs Bill to Regulate Fintech Firms

The legislation includes regulations for crowdfunding, cryptocurrency firms and other areas of fintech.

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Sagicor Bank Jamaica Taps Johnson as CEO

Chorvelle Johnson is to begin as the bank's chief executive officer in late January.

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FINANCIAL SERVICES

BBVA Accepts Scotiabank's Offer to Buy Chilean Unit

Spain's BBVA has agreed to sell its 68 percent stake in its Chilean unit to Bank of Nova Scotia for approximately $2.2 billion. Scotiabank's CEO, Brian Porter, said the lender is looking forward to working with the Said family, which owns about 32 percent of the unit.

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Porter // File Photo: Bank of Nova Scotia.

FINANCIAL SERVICES NEWS

BBVA Accepts Scotiabank's Offer to Buy Chilean Unit

Spain-based Banco Bilbao Vizcaya Argentaria has agreed to sell its 68 percent stake in BBVA Chile to Bank of Nova Scotia for 2.9 billion Canadian dollars (approximately $2.2 billion), the Canadian lender said Dec. 5 in a statement. Additionally, Scotiabank said the Said family, which owns about 32 percent of BBVA Chile, has waived its right of first refusal to buy BBVA's shares in the Chilean unit. The family has also indicated a willingness to remain in the business and, in that case, would invest as much as $500 million to own as much as 25 percent of the combined entity when Scotiabank Chile and BBVA Chile are merged, Scotiabank said. "This transaction is in line with Scotiabank's strategy to increase scale within the Chilean banking sector and the Pacific Alliance countries," the Toronto-based bank said in a statement. "It will double Scotiabank's market share in Chile to approximately 14 percent, and make Scotiabank the third-largest private sector bank in the country." Scotiabank's chief executive officer, Brian Porter, said the lender is looking forward to working with the Said family. "We are pleased to have reached an agreement with BBVA to acquire their shares of BBVA Chile. We look forward to a partnership with the Said family and to build a better bank in Chile," said Porter. The deal is subject to regulatory approvals.

NAFTA Uncertainty May Harm Buying: Banamex CEO

Uncertainty surrounding the renegotiation of the North American Free Trade Agreement, or NAFTA, may affect Mexicans' consumption and consumer confidence, said the chief executive officer of Grupo Financiero Banamex, Riviera Maya News reported Dec. 10. "It is important because it can change the feelings of people when making economic decisions," said Ernesto Torres Cantú. "And if that changes, it can affect consumption in the domestic market, independently of the damages that insecurity causes itself." The uncertainty surrounding

Torres Cantú // File Photo: Citigroup.

the NAFTA talks may cause volatility in the first half of next year, said Torres Cantú. "The central scenario is to renegotiate," he said. The other risk is related to public safety, "Which is very important since it can affect the perception and feelings of people," he told reporters. Despite first-half volatility, Banamex is expecting stronger growth next year in Mexico than the country has seen this year. The candidates running for president in next year's election in Mexico must commit to macroeconomic stability, he added.

Banco Santander Selling TotalBank to Chile's BCI

Banco Santander on Dec. 1 announced that it had agreed to sell its U.S. unit, TotalBank, to Chile-based BCI for $528 million, Reuters reported. Santander's sale of the unit is part of its efforts to shed non-core assets that it inherited when it acquired Spain-based Banco Popular for a nominal sum of one euro on June 7, after authorities in Europe intervened to avert the lender's collapse following a run on the bank. Santander has since carried out a capital increase of 7 billion euros to bolster Popular's balance sheet. BCI, which owns City National Bank of Florida, had been in talks with Banco Popular before Santander acquired it, sources told Reuters. Last month, Santander CEO José

NEWS BRIEFS

Santander, JPMorgan Asset Management Units to Partner in Brazil

The asset management units of Spain's Banco Santander and U.S.-based JPMorgan Chase & Co. have agreed to form a new partnership in Brazil, Reuters reported Dec. 5. Under the deal, JPMorgan Asset Management will transfer the management of its investment funds in Brazil to Santander, while Santander Asset Management will distribute some of JPMorgan's global funds to its clients in Brazil.

Sagicor Bank Jamaica Taps Johnson as New CEO

Sagicor Bank Jamaica's board of directors has named Chorvelle Johnson as the bank's next chief executive officer, the Jamaica Observer reported Dec. 4. Johnson, who is to begin in the position on Jan. 29, has had top management positions in companies including First Global and most recently at Proven Wealth and Proven Fund Managers. As Sagicor Bank Jamaica's CEO, Johnson will also be named to the bank's board as a nonindependent director, the Observer reported.

Moody's Boosts Outlook for Bolivia's Banking System to Stable

Moody's Investors Service has revised its outlook for Bolivia's banking system to stable from negative, the ratings agency said Dec 11. The country's operating environment has stabilized, despite the "expected continued deterioration of banking system fundamentals" in Bolivia, Moody's said in a statement. "Although we expect asset quality, profitability, capital, funding and liquidity will all continue to weaken slightly in 2018, the deterioration will be modest and is not likely to affect bank ratings," said Marcelo De Gruttola, an assistant vice president at the ratings agency.

Antonio Álvarez said his bank was in the process of selling TotalBank. Santander has said it incorporated the value of TotalBank into its valuation of Popular at the time it acquired the rival. Santander added that the deal is subject

> **"This is a great fit for both organizations."**
> **— Jorge Rossell**

to regulatory approvals and other conditions. TotalBank has more than $3 billion in assets and 18 branches. It employs approximately 300 people. TotalBank has been in operation for more than 40 years, the Miami Herald reported. City National Bank said the deal would benefit its clients. "This is a great fit for both organizations," said CEO Jorge Rossell.

FINANCIAL TECHNOLOGY NEWS

Mexican Senate OKs Bill to Regulate Fintech Firms

Mexico's Senate on Dec. 5 approved legislation to regulate its financial technology sector, which has seen fast growth, Reuters reported. The bill includes regulations for crowdfunding, cryptocurrency firms and other areas of fintech. The measure now goes to the lower chamber of Congress, which is expected to approve it by Dec. 15, three sources familiar with the matter told the wire service. Supporters say the legislation is aimed at promoting financial stability and also at preventing money laundering and the financing of extremists. If the measure becomes law, its details would be worked out in so-called secondary legislation. More than half of Mexico's 120 million citizens lack bank accounts, and fintech firms have seen big potential in the country. The legislation seeks to establish clear rules and lower users' costs, as well as propose measures that regulate firms that use digital currencies such as bitcoin.

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IMF and the governments of Jamaica and Trinidad and Tobago in November 2017 and 2016. Out of those forums—as well meetings held among regional bankers, Caribbean government officials and representatives of some correspondent banks—there is greater dialogue between correspondent and respondent banks, resulting in more understanding of the challenges that both sides face. This understanding is providing a path ahead that differentiates between those banks in the region that are attempting to implement new and tougher compliance measures and other banks that are not so inclined or simply cannot afford them. This differentiation is likely to lead to significant consolidation among the region's indigenous commercial banks, especially driven by the increasingly confident and aggressive Jamaican financial institutions. The upshot is that there will likely be fewer banks in the region that are better capitalized, more tightly regulated and with stronger connections to Miami, New York and Toronto, including stock market listings and outright ownership of North American banks."

A **Vangie Bhagoo-Ramrattan, head of research at First Citizens Investment Services in Port-of-Spain, Trinidad and Tobago:** "From a broad perspective, the loss of CBRs can have significant implications for the Caribbean region, specifically because of our dependence on external trade (including tourism), remittances and offshore banking, as well as foreign investment flows. Therefore, disruptions in the ability to transact externally will have serious consequences for economic activity. The effects of de-risking have been relatively limited up to this point, though certain sectors have already been severely affected. Financial institutions have been able to compensate for the loss of CBRs through alternative arrangements. Despite this, the cost of banking with correspondent banks has climbed. An IMF study revealed that jurisdictions where there was an explicit increase in CBR fees generally saw increases in fees charged to bank customers for wire transfers and foreign currency drafts. A survey conducted by the Caribbean Association of Banks shows banks in 12 Caribbean countries have experienced a loss of correspondent banking, including the Bahamas, Belize, Guyana,

> **"Disruptions in the ability to transact externally will have serious consequences for economic activity."**
> **— Vangie Bhagoo-Ramrattan**

Jamaica, Suriname, Trinidad and Tobago and countries in the Eastern Caribbean Currency Union. The loss of these relationships will have damaging effects for the region, in terms of reduced remittances, FDI flows and international trade flows, and the loss will increase the cost of doing business. Since the potential loss associated with de-risking is so high, the Caribbean financial sector must hasten to comply with international financial regulation, including international AML/CFT and tax transparency standards. Better use of financial technology to aid in information sharing and cross-border dialogue should also be high on the agenda in addressing the issue of de-risking going forward."

A **Georges Hatcherian, assistant vice-president in the Financial Institutions Group at Moody's Investors Service:** "Since the global financial crisis, major global banks have been terminating or limiting their correspondent banking relationships (CBRs) with banks in emerging markets around the world, including the Caribbean, Central America and Africa. The withdrawal of CBRs

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Mexico's central bank would be in charge of overseeing the measures. Felipe Vallejo, the director of public and regulatory policy at Bitso, a cryptocurrency exchange platform, told Reuters the legislation helps bring Mexico's fintech sector regulation in line with those of other countries that have passed similar regulations.

POLITICAL NEWS

Opposition Will Resist Election Ban: Venezuelan Politician

Venezuela's opposition parties will resist President Nicolás Maduro's vow to ban them from participating in next year's presidential election, a top anti-government politician said Dec. 11, the Associated Press reported. "This party does not kneel," said Juan Andrés Mejía, a leader of the Voluntad Popular party. "This party does not back down and does not give up on its principles." Mejía's comments came a day after Maduro's United Socialist Party of

Mejía // File Photo: Facebook site of Juan Andrés Mejía.

Venezuela swept mayoral elections in a vote that some opposition parties boycotted amid allegations of fraud in last October's gubernatorial elections. Three of the country's four largest opposition parties refused to take part in the Dec. 10 balloting. Maduro told supporters and reporters that opposition parties that did not participate in the mayoral vote would be banned from participating in the future. Julio Borges, the president of the opposition-controlled National Assembly, the day after the election took the opposition's case to the Vatican, meeting with Vatican Secretary of State Cardinal Pietro Parolin. In a posting on Twitter, Borges said he and Parolin discussed the possibility of a new humanitarian channel in Venezuela as well as ongoing talks with Maduro's government. Pope Francis is monitoring developments in Venezuela, said Borges. "We agree that humanitarian cooperation and a free vote are the priorities at this moment," said Borges. In a statement, the U.S. State Department blasted Maduro's vow to ban opposition parties from fielding presidential candidates next year. "The United States condemns President Maduro's threat to ban opposition parties from participating in next year's presidential elections," said State Department spokeswoman Heather Nauert. "A presidential election cannot be legitimate if candidates and parties cannot freely participate."

LEGAL BRIEFS

Rusoro Wins $1.3 Bn Judgment Against Venezuela

Canada-based gold miner Rusoro obtained a $1.3 billion judgment against Venezuela from the Ontario Superior Court of Justice in Canada over an ongoing dispute surrounding the seizure of the company's gold mining properties in the South American country, the company said in a statement Dec. 6. The judgment was issued on default after Venezuela failed to appear before the court. The Canadian judgment, which confirmed an arbitration award in Rusoro's favor, was issued in April. Venezuela did not appeal or seek to vacate the judgment, and the period of time during which it could have done so has expired, the company said. The company also announced on Dec. 6 that it had filed a lawsuit with the Supreme Court of the State of New York to seek recognition of the Canadian judgment, in addition to an action the company filed in the U.S. District Court for the District of Columbia. A favorable ruling from either court will allow Rusoro to use all legal procedures that U.S. law provides to judgment creditors.

ICSID Orders Peru to Pay Bear Creek $23.9 Million

The International Centre for the Settlement of Investment Disputes, or ICSID, has ordered the Peruvian government to pay Canada's Bear Creek Mining $23.9 million after the tribunal found the government to be in breach of the Canada-Peru Free Trade Agreement when it expropriated the company's Santa Ana silver project in 2011, Mining Weekly reported Dec. 2. The award will include interest and arbitration costs, including attorneys' fees. Bear Creek launched the arbitration against the Peruvian government in 2014.

DAC Beachcroft Partners With Argentine Firm

London-based law firm DAC Beachcroft is expanding its Latin America presence through a new association with Buenos Aires-based law firm López Saavedra & Villarroel Abogados, bringing the number of jurisdictions DAC has in Latin America to 11, Legal Week reported Dec. 4. The Argentine firm focuses on insurance and reinsurance law. The two firms already share common clients and are looking to develop a referral process as part of the new association. "Argentina is rapidly becoming an emerging insurance market of real interest to our clients," said DAC managing partner David Pollitt. DAC, which signed deals for associations with Central American firm BLP and Peruvian firm Torres Carpio Portocarrero & Richter in 2016, has offices in Chile and Colombia, and has an association with Brazilian firm Demarest.

NEWS BRIEFS

Standard & Poor's Lowers Colombia's Credit Rating Amid Fiscal Woes

Standard & Poor's on Dec. 11 lowered its long-term foreign currency sovereign rating for Colombia one notch to BBB- from BBB, according to Colombia Reports. The ratings cut was due to ongoing fiscal problems caused by low commodity prices. The ratings agency said it expected the South American country's government debt to increase to 38 percent in 2020 from its current level of 35 percent. S&P had warned of a possible downgrade since February 2016 when it changed its outlook for Colombia to negative.

PAN Chief Quits to Run for Mexico's Presidency in Left-Right Alliance

Mexican opposition leader Ricardo Anaya stepped down as head of the conservative National Action Party, or PAN, and said he would run for president in a left-right alliance, Reuters reported Dec. 10. Anaya resigned from his position leading the PAN after joining with the center-left Party of the Democratic Revolution, or PRD, and the Citizens Movement party in the "For Mexico in Front" coalition. The left-right coalition has yet to select its leader, but Anaya is considered the front-runner.

Peru's Kuczynski Acknowledges Links to Odebrecht

Peruvian President Pedro Pablo Kuczynski on Dec. 9 acknowledged he had worked as a financial advisor for a project owned by Brazilian construction conglomerate Odebrecht, which has been at the center of a massive international corruption scandal and has admitted to paying $30 million in bribes in Peru alone to secure government contracts, Reuters reported.

Judge Seeks Arrest of Former Argentine President Fernández

An Argentine federal judge on Dec. 7 indicted former President Cristina Fernández de Kirchner on treason charges and asked the country's Senate to strip her of her immunity and allow her arrest, The New York Times reported. Fernández, who was president from 2007 to 2015, is accused of covering up Iran's possible role in the 1994 bombing of a Jewish community center in Buenos Aires, which killed 85 people. On Dec. 10, Fernández began her term as a senator, through which she has immunity from detention but not prosecution. A Senate committee will have 60 days to decide whether to strip her of her immunity from arrest, and the full Senate would have as long as 180 days to vote on it. Judge Claudio Bonadio's request that Fernández be arrested would then have to be approved by two-thirds of the senators present. Bonadio, who in addition to treason, indicted the former president on charges of aggravated concealment and obstruction of justice, argued that if she remained free, she could "hinder judicial actions as well as the discovery of the truth." The allegations that Fernández covered up Iran's possible involvement in the Jewish center bombing received international attention in January 2015 when the prosecutor who initially made the allegations, Alberto Nisman, was found dead of bullet wounds in the bathroom of his apartment in Buenos Aires. Authorities classified his death as a suicide, but an official who has investigated the case said it appeared to be a homicide, Reuters reported. Nisman's body was found just hours before he was scheduled to brief members of Congress on the case of the Jewish center bombing. A year ago, an Argentine appeals court ordered the reopening of the investigation surrounding Nisman's death. After her indictment on the treason, concealment and obstruction charges, Fernández denied wrongdoing. "It is an invented case about facts that did not exist," she said.

Fernández // File Photo: Argentine Government.

ECONOMIC NEWS

Venezuela's Inflation Rate Reaches Quadruple Digits

Venezuela's inflation rate has reached four digits, with consumer prices rising 1,369 percent between January and November, Reuters reported Dec. 7, citing the opposition-led National Assembly. The legislature started releasing its own inflation figures this year after President Nicolás Maduro's government stopped releasing them, and said prices rose 56.7 percent in November. The legislature estimated that inflation would soar past 2,000 percent next year. "More hunger and misery is on the way for our already beaten-down population," said opposition lawmaker Ángel Alvarado. Economists generally consider hyperinflation to occur when the monthly inflation rate exceeds 50 percent for three months or annual rates stay above three digits for three years. Venezuela's central bank reported 180 percent inflation in 2015 and 240 percent inflation in 2016.

The National Assembly began releasing its own inflation figures this year.

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has been driven by a reassessment of risk appetite by global banks amid increased regulatory compliance costs, and the threat of heavy fines by U.S. and E.U. regulators. As a result, the risk-adjusted profitability for the correspondent banking business for global lenders has diminished. In 2018, Caribbean banks will continue to experience tightening CBRs as international lenders face increasing compliance and operational costs from regulators, while the region's anti-money laundering/combating the financing of terrorism regulations are still evolving. Further losses of CBRs would increase the risks that Caribbean banks would be unable to process international payments, including remittances and external obligations, as well as to refinance credit lines from global lenders. Refinancing risk is especially high for small financial institutions, where access to domestic customer deposits is weaker than for larger banks. The implications of tighter CBRs go beyond the banking sector. Corporations that rely on cross-border transactions (money transfer services, tourism-oriented businesses, exporters) could be affected by restricted, or more costly, access to financial services. Costs of cross-border transactions may rise if rising compliance costs are increasingly passed on to customers, or if there is less competition among service providers."

> **"Costs of cross-border transactions may rise if rising compliance costs are increasingly passed on to customers..."**
> — Georges Hatcherian

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

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