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## FEATURED Q&amp;A

# Has Mexico Passed a Good Law for the Fintech Sector?



Mexico has enacted a useful fintech law that represents the first of its kind for Latin America, Lindsay Lehr writes below. // File Photo: Mikemx via Creative Commons.

**Q** Mexican President Enrique Peña Nieto this month signed into law a new measure to regulate the country's financial technology sector. The new law seeks to establish stability and prevent money laundering across a host of emerging technologies in the financial services sector such as crowdfunding, cryptocurrencies and new payment methods. The law also permits open banking, or the sharing of user information by financial institutions through public application programming interfaces, or APIs. How important are is Mexico's new fintech measures, and will they benefit the country? What were the biggest areas of debate and controversy as the legislation was being drafted over past months? Which interests stand to gain or lose the most from its passage?

**A** Richard Fogarty and Tony Moroney, managing directors at Berkeley Research Group: "Mexico is one of the largest consumer markets in the world, with an emerging middle class, rapid growth in Internet usage and mobile phone penetration. These measures are positive and are to be welcomed as the traditional boundaries between financial service providers continue to blur. They will also underpin and support further growth in Mexico's already thriving fintech sector; in excess of 150 firms are operating across areas including payments, remittances, lending and crowdfunding. By providing regulatory certainty to industry participants, Mexico will generate additional investment in fintech and the digital transformation of financial services. Regulatory authorities around the world are attempting to balance pro-consumer innovation with the need to maintain stability

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The Anglo-South African company is selling three businesses in Latin America to Singapore-based holding company Minsheng Investment Group International for around \$300 million.

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Brazil's Banco Bradesco may close as many as 200 branches this year, a smaller figure than the approximately 550 branches the bank shuttered in 2017.

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## European Union Blacklists More Caribbean Islands

Finance ministers of European Union countries have added the Bahamas, the U.S. Virgin Islands and Saint Kitts and Nevis to a blacklist of tax havens. The Bahamas' Finance Minister, K. Peter Turnquest, said he was "blindsided" by the move.

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Turnquest // File Photo: @KPTurnquest via Twitter.

## COMPLIANCE NEWS

## European Union Adds Caribbean Islands to Black List

Finance ministers of European Union countries on March 13 added the Bahamas, the U.S. Virgin Islands and Saint Kitts and Nevis to an E.U. blacklist of tax havens, Reuters reported. Days ahead of the move, officials in the Bahamas said they were “blindsided” when they heard recently of the pending decision. Finance Minister K. Peter Turnquest complained that Europe’s decision came despite the country signing on to the inclusive framework for the implementation of the Base Erosion Profit Shifting initiative with the Organization for Economic Co-operation and Development, the Bahamas Tribune reported. Ryan Pinder, a former Bahamas minister for financial services, told the Tribune that the blacklisting has “come out of left field” and could harm correspondent banking and custodial relationships. The blacklist, set up to discourage the use of shell structures abroad, currently includes nine jurisdictions. The other six are American Samoa, Guam, Namibia, Palau, Samoa and Trinidad and Tobago. In their meeting, the ministers also decided to add Anguilla, the British Virgin Islands, Dominica and Antigua and Barbuda to a so-called grey list of jurisdictions which do not respect EU anti-tax avoidance standards but have committed to change their practices. The ministers removed Bahrain, the Marshall Islands and Saint Lucia from the list.

## Firm at Center of Panama Papers Leak to Close

Mossack-Fonseca, the law firm based in Panama that suffered a data breach two years ago of 11 million leaked documents which shed light on how the world’s wealthy exploit financial secrecy laws to hide assets, says it is closing at the end of March, the Associated

Press reported. The so-called Panama Papers scandal brought down government officials and embarrassed public figures around the world. At its peak, the firm employed 600 people in 40 countries, according to the report. The International Consortium of Investigative Journalists shared the 2017 Pulitzer Prize for explanatory reporting with McClatchy and the Miami Herald for their work on the Panama Papers.

## INSURANCE NEWS

## Old Mutual Sells Latin America Assets for \$300 Million

Financial services group Old Mutual is selling three businesses in Latin America to Singapore-based holding company Minsheng Investment Group International for around \$300 million, CNBC reported March 15, citing a source familiar with the matter. The Anglo-South African company is shedding assets in Colombia and Mexico, as well as Montevideo-based investment adviser Aiva, which has \$2 billion in assets under management with 30,000 clients in Latin America and the Caribbean. Old Mutual has been in the process of breaking itself up into four parts and is narrowing the focus of its emerging markets business to Africa, according to the report. The company also plans to sell its assets in China.

## Telefónica, BIMA to Sell Microinsurance in Latin America

Phone service provider Telefónica and Sweden-based insurance technology firm BIMA announced this month an agreement to expand microinsurance offerings in Latin America targeting underserved customers. The companies launched the program, which provides mobile-delivered life insurance policies, in Nicaragua on March 5. The deal marks Telefónica’s first foray into microinsurance, according

## NEWS BRIEFS

## Bank of China Gets Nod to Operate in Chile

Chile’s banking regulator, SBIF, on March 13 announced that it had approved Bank of China Limited to operate in the South American country, Reuters reported. The approval will make Bank of China the second Chinese-owned bank to operate in Chile, after China Construction Bank. China accounts for more than 20 percent of Chile’s exports. The move is also expected to boost use of China’s yuan currency in Latin America, according to the report.

## Mortgages in Argentina Double in 12 Months

Mortgages in Argentina have nearly doubled in the 12 months through February, the country’s central bank said in data released this month, The Banker reported March 19. Higher confidence and lower inflation are helping to boost longer-term loans in the South American country, bankers say. However, mortgages represent only about 1 percent of Argentina’s GDP, much lower than in neighboring Chile, where the mortgage rate is more than 20 percent of GDP. Overall bank loans to Argentina’s private sector are growing as well. Those types of loans reached 16 percent of GDP last year.

## IDB Loans Colombia’s Davivienda \$200 Million for Housing Finance

IDB Invest, the private sector unit of the Washington-based Inter-American Development Bank, said March 15 it had signed a \$200 million loan to Banco Davivienda in Colombia. The financing will help provide mortgage loans for two government programs dedicated to social housing development. The loan to Banco Davivienda goes up to 5.5 years with a single payment at maturity. The IDB said that despite recent gains, Colombia still has a “significant” percentage of households that lack adequate housing finance.

to a company statement. Life insurance penetration in Nicaragua stands at 3.1 percent, while mobile phone penetration has surpassed 90 percent of the population. Seguros LAFISE, a leading insurance provider in Nicaragua, will underwrite the policies.

## BANKING NEWS

## Bradesco Slows Pace of Branch Closures

Brazil's Banco Bradesco may close as many as 200 branches this year, the bank's new chief executive officer, Octavio Lazari, told Reuters in an interview published March 13. That figure is smaller than the approximately 550 branches the bank shuttered last year. Bradesco spent \$5.2 billion acquiring HSBC's Brazil business in 2016, which included 800 branches in the country. Bradesco, with a network this year of nearly 4,750 branches, plans to employ new technologies to grow its retail banking business in lieu of brick-and-mortar locations. Lazari said he aims to raise the average number of products sold to each client to two by year end, from 1.6 currently. He added that the bank has been using advanced data analytics to identify which products should be offered to its 30 million clients. Brazil's economic recovery has helped boost loan growth as well. The amount of credit Bradesco has granted since the start of the year has expanded at a 5 percent annualized rate, Reuters reported. Bradesco was the largest private bank in Brazil until Banco Itaú and Unibanco merged in 2009.

## GraceKennedy to Focus on Clients Outside Formal Banking System

Jamaica's GraceKennedy Limited plans to increase its focus on customers who have not been actively using traditional bank services, chief executive Don Wehby told the Jamaica

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of the financial system. The traditional descriptors of firms are somewhat unhelpful as the focus should move to the type of service being provided and regulated accordingly. The other area that regulators are seeking to prevent is the use of fintech for money laundering and terrorism financing. Under the fintech regulatory framework, the authorities will supervise the authorized companies and their activities. Fintech and

“A further benefit should be greater financial inclusion, particularly in rural areas...”

— Richard Fogarty & Tony Moroney

the overall digital transformation of financial services will enhance and expand the range of products and services for personal consumers and businesses. New customer-focused business models should reduce costs, which in a more competitive market should benefit the majority of customers. A further benefit should be greater financial inclusion, particularly in rural areas, as new

Gleaner March 19. “We will continue the roll-out of agency banking as part of our strategy to reach customers who are currently underserved by the formal banking system,” he said. “This is also part of our financial inclusion strategy to create locations where customers can conduct a number of financial transactions including banking, insurance and money transfers,” Wehby added. The company also intends to expand options for mobile and digital technologies for money services businesses, he said. Earlier this month, GraceKennedy said its 2017 revenues grew more than 4.8 percent, surpassing 90 billion Jamaican dollars (\$707 million) for the first time. In related news, legislators in Jamaica have been debating measures that would seek to lower the fees that bank cus-

technology-enabled services are deployed to segments, economic sectors and geographical locations not previously served.”

**A Felipe Carvallo, member of the Financial Services Advisor board and vice president - analyst for Latin America banking**

**at Moody's Investors Service:** “The recently approved law that will regulate crowdfunding companies and tech-enabled payment platforms is positive for Mexican banks because it establishes a clear set of norms for up-and-coming financial technology companies and will help level the playing field with banks, while incentivizing innovation and investment in new technologies and business models. These companies will be regulated and supervised by Mexican authorities and subject to minimum requirements for capitalization and liquidity, as well as provisions related to investor and user protection, anti-money laundering and data management. As they invest in fintechs, banks will be able to improve customer service by enhancing payment platforms and smartphone applications, while reducing operating costs related to brick-and-mortar operations. Mexican banks' operating costs as a percentage of total assets of 3.6 percent are well above the

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tomers are charged. One amendment currently tabled seeks to have the Bank of Jamaica regulate the use of fees and charges by financial institutions and ensure greater protection for customers. Finance Minister Audley Shaw earlier this month said that instead of blanket regulations on fees, he supported measures that would give customers more control over their accounts, the Jamaica Observer reported. “If fees and charges are too high at one bank, then it should be easy to move your deposit accounts to the bank that is charging reasonable rates. However, more has to be done to make switching deposit accounts between banks easy and hassle-free,” Shaw said. Critics say regulating fees would result in banks shifting charges to other interest-bearing services,

such as loans, or removing certain services all together.

## POLITICAL NEWS

### Peruvian Prosecutors Open New Probe of Kuczynski, Toledo

Peru's prosecutor's office on March 14 initiated a preliminary investigation against President Pedro Pablo Kuczynski and former President Alejandro Toledo over a contract signed 14 years ago with the Camisea oil and gas consortium, Gestión reported. Kuczynski was Peru's finance minister at the time the contract with Hunt Oil Company was inked. The investigation, which centers on collusion in the Lot 56 contract, must be completed within eight months or dropped. A similar case was started six years ago, according to the report.

### Peace Deal Critics Pick Up Seats in Colombia Vote

Conservative party candidates performed well in legislative elections held March 11 in Colombia in a vote watched for signals ahead of the May presidential vote, the Associated Press reported. The election marked the first time that former members of the Revolutionary Armed Forces of Colombia, or FARC, were on the ballot as a political party after disarming under a historic 2016 peace deal. FARC candidates won less than 0.5 percent of the overall vote, getting only the 10 seats guaranteed to the party under the terms of the agreement. The biggest critic of the deal, the Democratic Center party, led by former President Álvaro Uribe, won enough races to become the largest bloc in Colombia's Senate, with 19 seats, or 16 percent, El Tiempo reported. Iván Duque, 41, the party's pick for the presidential race, won four million votes, ahead of fellow conservative and former defense minister Marta Lucía



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Cumplo

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& Head of Payments,  
Itau

**Luis Eduardo Diaz**  
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**Martin Barrios**  
Managing Director, Global  
Transactional Services Head,  
BAML

**Humberto Brid**  
Director of the Financial Analysis  
Unit (UAF) of Panama  
and President of GAFILAT

**Olga Cantillo**  
President, Latin Clear

**Roberto Belchior**  
Managing Director, Latin  
America Market Development,  
B3

**Alejandro Berney**  
Executive Director & CEO,  
Caja de Valores

To learn more about the conference  
and to register, click [here](#)

## NEWS BRIEFS

## Mexican Police Complicit in Dozens of Abductions, Killings: Rights Agency

Mexico's state-run National Human Rights Commission on March 19 said local police were complicit in at least 38 drug gang-related abductions and killings in 2011 in the town of Allende in northern Coahuila state, the Associated Press reported. The commission, which found after a years-long investigation that the Zetas drug cartel carried out the killings "with the authorization, support or acquiescence" of local police, called on authorities to take action within six months that would make amends to the victims' families.

## Argentina, Germany Tout Free Trade Ahead of G20 Gathering

Argentine Treasury Minister Nicolas Dujovne and German Finance Minister Olaf Scholtz said March 18, on the eve of two-day gathering of G20 countries' finance ministers in Buenos Aires, that their countries are committed to free trade, Reuters reported. Their comments followed a move by U.S. President Donald Trump earlier this month to impose tariffs on imported steel and aluminum.

## World Court Hears Case Over Bolivia, Chile Border Dispute

Attorneys representing Bolivia on Monday called on the International Court of Justice, the United Nations' highest judicial body, to order Chile to enter talks over granting it access to the Pacific Ocean, the Associated Press reported. "It will remain a constant source of conflict until it is resolved," Payam Akhavan, a lawyer representing Bolivia, told the court in the Netherlands. Chile's lawyers are scheduled to present their case later this week. Rulings by the court are final and binding, although judges generally take months to decide cases.

Ramirez, who had 1.5 million. President Juan Manuel Santos' centrist coalition, the National Unity party, finished fifth overall, with 14 seats, or 12 percent of the Senate. Leftist candidate Gustavo Petro, a former mayor of Bogotá, won his primary, netting 2.8 million votes, fewer nationally than Duque, but enough to make him a top presidential contender, according to the Associated Press. "Our results were very positive," Petro told his followers. "The presidential campaign starts today." Eight candidates—six men and two women—are now officially running in the first round of Colombia's presidential vote on May 27.

## ECONOMIC NEWS

## Argentina Sees Stronger Economy Than Expected in Q1

A stronger-than-expected economic performance in this year's first quarter is helping contain the effects of a severe drought that is expected to crimp growth in Argentina this year, a Treasury Ministry official said March 14, Reuters reported. Luciano Cohan, the under-secretary for macroeconomic planning, told reporters that Argentina's economy will expand between 0.5 and 1 percent in the first quarter as compared with last quarter of 2017, and 3 percent year-over-year. The country's worst drought in 30 years has cut expectations for the soybean and corn harvests, slicing as much as 1 percentage point from this year's GDP. But recent data has shown stronger automobile output, as well as gains from the construction, steel, iron, dairy and beef sectors. "The first quarter is surprising us to the upside. We had expected a bit of a cooler first quarter, but now we think it will be between a half a point and one point of growth," he said. Argentina continues to struggle with inflation, however. The national consumer price index, which serves as the yardstick for the inflation-targeting framework, printed at 2.4 percent in February, up from 1.8 percent in January. Inflation rose to 25.4 percent in February, from 25 percent

in January and 24.8 percent in December. In a research note to clients, Goldman Sachs said that the acceleration of inflation in February was "expected by both markets and the monetary authority," given the large increases in regulated prices and the Argentine peso's depreciation since early December.

## Trump Bans U.S. Transactions With Venezuela's 'Petro'

U.S. President Donald Trump on March 19 issued an executive order banning any transactions within the United States involving Venezuela's new digital currency, the petro, CNBC reported. The order applies to U.S. citizens as well as anyone within the United States. Venezuelan President Nicolás Maduro lashed out at the declaration on state television, decrying Trump's proclamation as "imperialist." Venezuela launched its digital currency in February, claiming to have raised billions of dollars in cash through the natural resource-backed petro. The U.S. ban also applies to any transactions with state oil company PDVSA, the White House said in a statement. The sanctions came just two months before Maduro is scheduled to stand for re-election, although the main opposition coalition has boycotted the race. The United States is among the countries that have declared they will not recognize the results, The New York Times reported. Beyond the petro, local governments in Venezuela are seeking their own ways to work around the economic crisis. This month Elorza, a western town near the border with Colombia, began issuing its own currency in a bid to get around the effects of hyper-inflation and a shortage of paper bills, Reuters reported. The currency, called the "Elorza," is being sold by local officials to ensure that tourists and residents in the city of 26,000 inhabitants can make transactions, said mayor Solfredy Solorzano, a member of the ruling Socialist Party. The mayor's office receives bolívares by bank transfer or debit card payment and, after taking an 8 percent commission, gives "Elorzas" in exchange, which can be used locally for purchases.

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Latin American average of 3 percent. Financial innovation will be key to the continued growth of financial intermediation in Mexico, where the ratio of loans to GDP remains one of the lowest among large Latin American economies at 33 percent. Crowdfunding companies provide financing alternatives to millennials and under-banked sectors, many of which operate in the informal economy where there is limited transparency. Moreover, crowdfunders will be required to report credit information to credit bureaus, which will increase transparency. This will benefit traditional lenders as they will be better able to lend to these clients as well. Hence, fintechs will complement banks rather than compete with them. Traditional lenders will continue to dominate lending and payment services through digital channels, such as smartphones and the Internet, and will continue to stay out of the higher-risk market segments, which fintechs will focus on.”

**A** **Lindsay Lehr, senior director at Americas Market Intelligence:** “The fintech law is the first of its kind in Latin America and is thus a huge success for the fintech community. Fintech startups are confident that while the law will add operational costs associated with the need to meet compliance standards, it will greatly benefit the fintech community and Mexicans in general. A large barrier to the adoption of fintech products by consumers is a lack of trust in non-bank entities, and the law serves to provide the consumer protections necessary to foster trust and promote usage. Also, the open banking provisions in the law will go a long way toward making data more accessible and enable fintech startups to develop targeted products for underserved consumer niches. While banks are supportive of the fintech law in theory, open APIs and more access to data will make it easier for fintech companies to develop products that sidestep banks and card networks. This is desirable for the underbanked, since doing so will reduce

costs and make alternative financial services more affordable. Thus, banks are on edge. Finally, the law also introduces a level of certainty into the sector for investors, so more investment dollars should flow to fintech both domestically and from abroad.”

**A** **Fabian Saide, CEO, and Monica Velasco, vice president of global development at Paykii:** “The new fintech law has positioned Mexico in the spotlight, making it a role model within the fintech industry and encouraging other countries to follow its path. Other key aspects of this law are the creation of a financial innovation group as a consulting and coordination body for the private and public sectors. One of the biggest benefits of the law is that it will enable startups to have a clear and transparent process on a regulatory framework, encouraging more investment in Mexico and other countries, generating more jobs in fintech startups, with wider financial inclusion and innovation. One of the big surprises was the obligatory measure for financial institutions to open data through public application programming interfaces, or APIs, which will have repercussions for companies such as brokerage financial firms and insurers. One of the challenges of this mandatory measure will be drafting secondary provisions for APIs, which should establish cybersecurity parameters and personal data protection. On the cryptocurrency side, this was an important step helping ‘crypto-companies’ operate with a legal certainty endorsed by the Bank of Mexico, simplifying the processes to operate with financial institutions. However, we need to keep in mind that this is just the first step. This act provides for the issuance of a secondary regulation by the National Banking and Securities Commission within six to 24 months, on matters such as minimum capital, limit amounts for operations through technology platforms, corporate governance, information security, regulatory reports and other topics of interest.”

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