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FEATURED Q&A

What Will AMLO Mean for Mexico's Financial Sector?



Before his election as Mexico's president earlier this month, Andrés Manuel López Obrador told bankers at a convention in March that he would support banks and not confiscate assets through expropriations or nationalizations. // File Photo: Notimex.

Q Andrés Manuel López Obrador's agenda will be good for the country's banking sector as it will mean continuity and certainty, Marcos Martínez, president of the Mexican Association of Banks said July 5 after meeting with the country's president-elect. Will López Obrador indeed be good for Mexico's banking sector and other financial services companies in Mexico, and why? Which of his policies will most affect the financial services sector? What do López Obrador's statements and cabinet picks, such as his selection of Carlos Urzúa as finance minister, foretell about future policies affecting banks and other financial services providers?

A Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "What needs to be done to improve banking in Mexico? To answer that question, we need to understand what factors are impeding banking in Mexico. It has long been established that banking in Mexico falls short in most dimensions even when it is compared with other Latin American countries with the same level of economic conditions. Whether it is access to banking, the cost of banking or bank loans for businesses, Mexico lags. Most of Mexican banks' profits do not come from profitable investments in the banking sector, but rather from charges and fees that Mexican banks impose. As Santiago Levy noted in his recent book 'The Elusive Quest for Prosperity in Mexico,' the main problem stems from high concentration in banking sector, 'which allows banks to be profitable by restricting credit volumes and charging high fees and commissions.' This is largely a result

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TOP NEWS

MORTGAGES

Rising Number of Young Borrowers Getting Mortgages in Jamaica

The number of borrowers age 30 and younger who are taking out mortgages in Jamaica has risen over the past four years, according to the country's National Housing Trust.

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Sánchez Named New Latin America CEO at Coface

France-based credit insurer Coface has named Carimina Abad Sánchez, formerly of Swiss Re and MetLife, as its new chief executive officer for the Latin American region.

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BANKING

Popular Reports Rise in Profit for Second Quarter

Popular Inc., led by CEO Ignacio Álvarez, reported net income of \$279.8 million for the second quarter, an increase from \$183.6 million year-on-year.

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Álvarez // File Photo: Popular Inc.

BANKING NEWS

Popular Reports Rise in Profit for Second Quarter

Puerto Rico-based Popular Inc. on July 23 reported net income of \$279.8 million and adjusted net income of \$121.3 million for the second quarter. The figures rose from a net income of \$91.3 million in the first quarter and \$183.6 million for the second quarter of last

“These results were primarily driven by strong top line revenue growth in our Puerto Rico franchise...”

— Ignacio Álvarez

year. “These results were primarily driven by strong top line revenue growth in our Puerto Rico franchise, where the economy continues to recover from the impact of Hurricane Maria,” Popular’s president and chief executive officer, Ignacio Álvarez, said in a statement. “We look forward to closing the acquisition of Wells Fargo’s auto loan business in Puerto Rico in the third quarter, which will contribute favorably to our earnings in the second half of the year.” In reporting its earnings, Popular added that it had a net interest margin of 3.81 percent in the second quarter, as compared to 3.89 percent in the first quarter. The financial services company also said that its nonperforming loans held in-portfolio increased by \$36.4 million as compared to the first quarter. Popular’s provision expenses declined to \$60.1 million in the second quarter, as compared to \$69.3 million in the first. Popular also said that on May 22, its Puerto Rico banking subsidiary, Banco Popular de Puerto Rico, entered into a termination agreement with the Federal Deposit Insurance Corporation to terminate all of its shared-loss agreements connected to its acquisition of assets and its assumption of liabilities of West-

ernbank Puerto Rico, which occurred through a transaction in which the FDIC assisted in 2010. As a result of that agreement with the FDIC, assets covered under shared-loss agreements, including \$514.6 million worth of covered loans and approximately \$15.3 million in covered real estate owned assets, were reclassified as noncovered.

Brazilian Central Bank Expected to OK Itaú’s Buy of XP Stake

Brazil’s central bank is expected to approve the sale of a 49.9 percent stake in XP Investimentos to Itaú Unibanco, Latin America’s largest private bank, by the end of July, O Estado de S.Paulo reported July 13. The transaction would total 5.7 billion reais, or \$1.5 billion, Reuters reported. But the central bank will reportedly not accept Itaú’s proposal for a change in the control of the brokerage firm, which would give the bank the possibility to become a controlling shareholder with a 75 percent stake in XP by 2020 and 100 percent



Goldfajn // File Photo: Brazilian Government.

by 2024, if XP shareholders agree to it, the newspaper reported. Cade, Brazil’s antitrust regulator, already approved the minority stake sale in March, but two of its seven board members voted against the deal, citing concern with Itaú’s concentration of power and a potential monopoly in the financial services market. Increasing competition in the sector has been a key area of focus for Ilan Goldfajn, who heads the central bank, according to the newspaper. Even if the central bank did approve the change in control of XP, Cade would need to review it before it takes effect, Reuters reported.

NEWS BRIEFS

Rising Number of Young Borrowers Taking Out Mortgages in Jamaica

The number of borrowers age 30 and younger who are taking out mortgages in Jamaica has risen over the past four years, according to the National Housing Trust, the Jamaica Gleaner reported July 22. The trust also said that women are accounting for a larger percentage than men among mortgage borrowers in Jamaica. While just 13 Jamaicans between ages 18 and 25 secured mortgages in fiscal year 2015, that number grew to 183 in the 12-month period ending last March. In the 26-30 age group, there were 359 borrowers in fiscal year 2015 and 912 in the last fiscal year.

Colombia’s Duque Taps Carrasquilla as Finance Minister

Colombian President-elect Iván Duque on Wednesday announced Alberto Carrasquilla as his finance minister, Reuters reported. Carrasquilla previously served as finance minister in former President Álvaro Uribe’s administration, and has also worked at the Colombian central bank and the Inter-American Development Bank. He will be in charge of pushing Duque’s proposed tax cuts and a pension reform through a polarized Congress, while trying to boost weak economic growth and avoid a credit ratings downgrade, the wire service reported.

Itaú Unibanco Launching New Card Processor

Itaú Unibanco Holding, Brazil’s largest private bank, is launching a new card processor that is targeted at small businesses, Reuters reported July 17. The new processor, Credicard Pop, will have separate policies on pricing and payments from Redecard, Itaú’s other card processor. Credicard Pop also will not charge monthly fees, and it will submit payments to stores for credit card transactions within two days.

Workers' Party Would Hike Bank Taxes in Brazil: Haddad

Brazil's Workers' Party would increase taxes that banks must pay if it wins the presidency in this October's election, former São Paulo Mayor Fernando Haddad told Reuters on July 23. Haddad, the main economic advisor for the party, said the tax hike would be a method of forcing banks to lower their margins and also charge customers lower fees. He said banks that do not lower their margins would have to pay a higher tax rate. State-run banks, such as Caixa Econômica Federal and Banco do Brasil, would lead the banking sector in lowering credit margins, said Haddad. The Workers' Party has insisted that it will run former President Luiz Inácio Lula da Silva, who is currently imprisoned after his conviction on corruption charges, as its candidate. "The party is not evaluating any hypothesis other than Lula's candidacy," a Workers' Party spokesman told Reuters July 17. However, the wire service cited three unnamed party officials in reporting that the party is undergoing internal debate about other potential candidates and that Lula and his allies are getting closer to the idea of attempting to transfer support for him to another candidate.

INSURANCE NEWS

Coface Taps Sánchez as New CEO for Latin America

France-based credit insurer Coface has named Carmina Abad Sánchez as its new chief executive officer for the Latin America region, Reinsurance News reported July 17. Sánchez has more than three decades of experience in senior leadership positions in the reinsurance industry. Most recently, she was Swiss Re's chairman for Mexico and CEO of Swiss Re Cor-

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of having a regulatory body of banks (the CNBV) without any teeth to act when banks misbehave. Most often, the fines imposed on the banks are so small that banks simply pay the fine and keep doing the same things that they did before. If the incoming administration is serious about improving the banking sector, it has to get the regulation right. It is not a matter of getting more regulations, it is a matter of setting up clear and concise rules for all the banks with no favoritism to specific banks."

A **Veronica Chau and Theresa Paiz-Fredel, senior directors for financial institutions Fitch Ratings:**

"In Fitch's view, it remains uncertain as to how and to what extent the López Obrador administration will make policy changes that would be significant for financial institutions. In general, the president-elect indicated during his campaign that key economic anchors, including central bank autonomy and the flexible exchange rate and inflation-targeting monetary policy regimes, would remain in place, providing some comfort on continuity. Other campaign platform promises could point to regulatory changes that would affect some banks and non-bank financial institutions (NBFIs). Stated policy goals from his 'National Plan 2018-2024,' published during the campaign, include increasing financial inclusion and the authorization of new niche market participants (private and development banks) to boost SMEs and primary-sector lending. The current administration has also targeted this objective since its financial reform in 2014. The plan also includes the consolidation and improvement of the country's development institutions, which have been integral in providing credit to financial institutions. Proposals also included the modification of financial regulation and supervision for smaller banks and NBFIs, taking into consideration the size of the institutions and sectors to which they lend. The National

Plan states that regulatory changes will not be intended to relax the stability, integrity or efficiency of the financial system, anti-mon-

“ Stated policy goals ... include increasing financial inclusion and the authorization of new niche market participants.”

— Veronica Chau & Theresa Paiz-Fredel

ey laundering certifications or the protection of depositors. However, Fitch will monitor regulatory initiatives when announced to anticipate the effects on corporate governance, risk and capital management of regulated institutions. Capital requirements of banks are not expected to materially change, given Mexico's adoption of Basel III standards."

A **Georges Hatcherian, assistant vice president and analyst in the financial institutions group at Moody's de México:**

"A López Obrador presidency will mean more active public banks, but the probability of disruptive measures regarding private lenders is limited. Despite its growth during the Peña Nieto administration, financial intermediation remains low in Mexico, while banks are very profitable. However, rather than imposing lending quotas or interest caps on private banks, as other leftist governments in the region have done in the past, the new administration is more likely to seek to accelerate loan growth at public banks, especially to small and medium enterprises, in support of its economic development goals. But unless loan growth were to double, state-owned banks' capital and profitability would remain sufficient to absorb higher asset risks. Even in this scenario, development banks

Continued on page 6

porate Solutions Mexico. Before joining Swiss Re, Sánchez worked for 25 years at MetLife in Mexico, Spain and the United States. She eventually became MetLife's CEO for Mexico, a position she held for five years. In her new role at Coface, Sánchez will succeed Bart Pattyn, who is leaving the company after 17 years there.

ECONOMIC NEWS

IMF Expects Inflation to Hit One Million Percent in Venezuela

Inflation in Venezuela will reach one million percent by the end of the year, according to calculations by the International Monetary Fund. Alejandro Werner, director of the IMF's Western Hemisphere department, wrote in a blog post July 23 that the South American country's GDP will fall approximately 18 percent this year as a



We expect the government to continue to run wide fiscal deficits financed entirely by an expansion in base money..."

— Alejandro Werner

result of a significant decline in oil production, micro-level distortions and large macroeconomic imbalances. The country earns 96 percent of its national income through oil sales, but oil production has been stalling, reaching a 30-year low of 1.5 million barrels a day in June, according to OPEC data, Agence France-Press reported. This would be the third year in a row that Venezuela has experienced double-digit drops in GDP. "We expect the government to continue to run wide fiscal deficits financed entirely by an expansion in base money, which will continue to fuel an acceleration of inflation

ADVISOR Q&A

Has Caricom Set the Right Course for the Caribbean's Future?

Q **Heads of government from throughout the Caribbean gathered earlier this month in Jamaica for the 39th Regular Meeting of the Caribbean Community, or Caricom. The leaders discussed strategies for bolstering security and fighting crime, disaster management, climate change, immigration and economic development. What were the main accomplishments of the meeting? What resulted from the presence of non-Caricom heads of state Cuban President Miguel Díaz-Canel and Chilean President Sebastián Piñera at the meeting? What are the most critical issues currently facing the Caribbean, and do the region's leaders have the right plans to tackle them?**

A **Ronald Sanders, ambassador of Antigua and Barbuda to the United States and the Organization of American States:**

"The main achievement of the meeting was a renewed commitment to the Caribbean Single Market and Economy (CSME). The prime minister of Barbados, Mia Mottley, will hold monthly meetings with officials of the Caricom Secretariat, providing important oversight and allowing for political action to improve implementation, long a hindrance to the integration process. A special meeting of leaders will be held in November to focus exclusively on the CSME. There are many contentious issues to be faced. The willingness to dedicate a meeting to deal exclusively with the matter is a positive sign. Cuba and Caricom countries have had a strong cooperative relationship since 1972. The relations

as money demand continues to collapse," Werner wrote. An inflation rate of one million would mean Venezuela is in a similar situation to Germany in 1923 and Zimbabwe in the late 2000s, he added. Hyperinflation and a lack of

with Cuba were dominated by the leadership of the Castro brothers—Fidel and Raúl—over the 46 years that followed. It was important that Caricom leaders and Cuban President Miguel Díaz-Canel get the measure of each other and to understand whether there would be any divergence of policies. The meeting underscored the continuing solidarity of Cuba and Caricom, including Caricom's support for the lifting of the U.S. economic and financial embargo against Cuba. Caricom and Cuba also agreed to increase trade and deepen their economic relations. Chilean President Sebastián Piñera continued the interest that previous Chilean administrations have had in the Caribbean. Chile has shown willingness to deepen economic relations, including trade. The exchange with Piñera was important to Caricom and positions Chile as a voice for the Caribbean in Latin America. Critical issues for the Caribbean are unemployment, climate change, high debt and an international environment that is unhelpful to their plight. Many leaders have privately indicated that the July meeting was one of the best in the last five years for agreeing regional action. Rather than being sidetracked by narrow national interests, they seem to have moved—albeit not leapt—to including regional approaches to the issues confronting them."

EDITOR'S NOTE: More commentary on this topic appears in the July 23 issue of the Latin America Advisor.

foreign exchange have triggered the collapse of economic activity in Venezuela, which, in addition to shortages of food, electricity and water, have led thousands to migrate to other countries in the region, the AFP reported.

NEWS BRIEFS

Former FARC Rebels Take Seats in Colombian Congress

Former FARC rebels took their seats July 20 as lawmakers as a new session of the country's Congress was sworn in, Reuters reported. Under the terms of the guerrilla group's 2016 peace accord with the government, the FARC was awarded 10 seats in Congress through 2026. In his final address to Congress before leaving office Aug. 7, President Juan Manuel Santos called on Colombians to protect the peace deal.

Brazil Infrastructure Needs More Investment: COFCO Official

Brazil could boost its competitiveness in global agriculture markets by investing more in infrastructure and diversifying its transportation network, said Eduardo Gradiz Filho, head of grains and oilseeds at COFCO, the Chinese commodities trader, Reuters reported July 23. The South American country is too dependent on trucks to ship farm products, and transportation costs weigh on its competitive advantage, he added. COFCO said Brazil has the greatest potential to boost food production to meet the needs of a growing global population

Zeballos Takes Office as Peru's Justice Minister

Peru's new justice minister, Vicente Zeballos, took office July 21, Reuters reported. Zeballos replaced Salvador Heresi, whom President Martín Vizcarra fired after local media released audio recordings that appear to show Heresi discussing a legislative proposal with Judge César Hinostroza, who is accused of influence peddling. Heresi has denied wrongdoing. Zeballos left the ruling party last year over President Pedro Pablo Kuczynski's decision to pardon former President Alberto Fujimori.

Argentina's Macri Expects Growth to Resume in 2019

Argentine President Mauricio Macri told reporters July 18 that the South American country's economy will pick up in 2019, with inflation falling by more than 10 points, La Nación reported. "There will be a few months in which steps that we have taken have to mature, but we will return to growth next year," Macri said, Reuters reported. There will not be "a crisis like in the past," Macri added, referring to the country's 2002 economic collapse, La Nación reported. Argentina has been facing higher-than-expected inflation and faltering economic growth as a severe drought hit agricultural production and the peso weakened sharply against the U.S. dollar earlier this year, Reuters reported. The currency crisis, driven by a selloff in emerging markets and uncertainty around Argentina's ability to reduce inflation, prompted the Macri government to secure a \$50 billion financing deal with the International Monetary Fund in May, and agree to increase revenues and cut spending to reach fiscal deficit targets set by the international lender. The IMF expects Argentina's economy to contract in the second and third quarters of this year. Opposition groups in Argentina called the president's predictions "insensitive" and "unrealistic," and criticized Macri's "lack of concrete solutions," Clarín reported.

POLITICAL NEWS

Nicaragua's Ortega Rejects Call for Early Elections

In an interview broadcast July 23, Nicaraguan President Daniel Ortega rejected calls for an early presidential election in the Central American country, where more than 300 people have been killed in three months of violent clashes. "To move up the elections would create

instability, insecurity and make things worse," Ortega said in the interview on Fox News. In the interview, Ortega also denied that he is in control of paramilitary groups that have been blamed for the majority of the killings. Foreign interests and his political opponents control the paramilitaries, he said. That assertion is contrary to findings documented by international organizations and Nicaraguan human rights groups, the Associated Press reported. Last week, the Organization of American States approved a resolution condemning rights abuses committed by police and armed groups of pro-government civilians. Ortega added that he was open to his government continuing Catholic Church-mediated talks with the opposition.

Parties Begin Selecting Presidential Candidates in Brazil

Brazilian political parties on July 20 began officially selecting their candidates for this October's presidential election, including Ciro Gomes of the leftist Democratic Labor Party, O Estado de S.Paulo reported. Gomes was the first candidate to be confirmed in a party convention ahead of the Oct. 7 election, and 500 members of his party confirmed his candidacy in a voice vote, The Wall Street Journal reported. Gomes' stance on economic and business issues have rattled investors, however. Earlier in the week, Gomes, a former finance minister, sent aircraft manufacturer Boeing a letter asking it to scrap its recent deal with Embraer, citing national security concerns. Earlier this month, the companies announced a \$3.8 billion deal for Chicago-based Boeing to acquire the Brazilian aircraft manufacturer's commercial airplane and services business. President Michel Temer is expected to approve the deal later this year. Critics of Gomes also fear that he could reverse efforts to plug the government's budget deficit if elected. On July 22, far-right presidential hopeful Jair Bolsonaro officially launched his campaign. Bolsonaro leads in polls that exclude former President Luiz Inácio Lula da Silva, who was jailed in April following his conviction on corruption charges.

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would not represent a competitive threat to their private peers because their products and services are generally complementary, with the potential exception of residential mortgages. Further, private banks are well positioned should the operating environment worsen. López Obrador has not indicated plans to try to cap interest rates or induce private banks to lend more. Regardless, institutional constraints would prevent him from doing so. Capping rates would require the central bank's approval, which seems unlikely as the Morena party has pledged to respect its autonomy. While the president can propose replacements for Banxico's governor and the four deputies once their terms expire, only the Senate can remove them under very limited conditions. Consequently, López Obrador will be unable to control the board of governors until 2021 at earliest. Moreover, while Mexico's financial reform potentially gives the government the ability to induce banks to increase lending, this remains untested and we think it unlikely."

A **Alfredo Calvo, director and sector lead for financial institutions ratings at S&P Global Ratings:** "In our opinion, efforts by AMLO's incoming administration to shrink the informal economy, tackle corruption and strengthen the country's rule of law will boost credit expansion, incorporating new segments to the banking system. We believe the new administration will start to fulfill its mandate amid a sound financial system, but if AMLO's administration fails to make a dent in these problems, the operating conditions for commercial banks and insurers, and consequently their performance, could take a turn for the worse. AMLO argues that the currently limited banking penetration in Mexico is the result of excessive banking regulation and a lack of competition. In our view, the biggest stumbling blocks are the large informal labor workforce, inefficient rule of

law and large income disparities. Furthermore, we believe Mexico has a sound regulatory framework with a long track record of cautious supervision and the adoption of international regulatory standards. Relaxation of the banking regulatory framework or the introduction of market distortions (for instance, government involvement in setting

“**The biggest stumbling blocks are the large informal labor workforce, inefficient rule of law and large income disparities.**”
— Alfredo Calvo

lending interest rates and in directing lending) are not part of our base-case scenario. However, if the new administration decides to adopt such practices, our view of bank industry risk and its creditworthiness could change. Moreover, development banks could become a countercyclical tool in periods of low economic growth; however, we believe that as long as these entities' size and strategies don't create market distortions, it's a good way of fostering credit growth. It's worth mentioning that as part of AMLO's initiatives to make cutbacks on some other government expenses to offset new spending on social programs, such spending cuts include certain government insurance policies. However, we believe that if the new government's proposals are effective, that would benefit the insurance industry as other economic sectors in the country."

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