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FEATURED Q&A

What Can Brazilian Banks Expect Under Bolsonaro?



Banks may face a friendlier operating environment under Jair Bolsonaro, who takes office as Brazil's president on Jan. 1, Thomas Morante and Barbara Efraim say below. // File Photo: Bolsonaro Campaign.

Q HSBC is reportedly planning to re-establish its presence in Brazil and bolster its São Paulo-based investment banking business, while Citigroup is looking to step up hiring in Brazil and Itaú Unibanco is eyeing looser credit standards in the South American country. The reports come ahead of Jair Bolsonaro's inauguration as Brazil's president, which is scheduled for Jan. 1. What are the most important policies that Brazil's banks, insurance companies and other financial services providers can expect from the country's incoming president? What do Bolsonaro's cabinet picks and statements he has made since his election foretell about his policies for the financial services sector? What are the biggest risks such companies face in Brazil in the year ahead?

A Thomas Morante, member of the Financial Services Advisor board and partner, and Barbara Efraim, associate (pending bar admission), both at Holland and Knight: "A departure from current economic policies appears likely with the inauguration of Jair Bolsonaro in Brazil. Financial services companies anticipate a friendlier operating environment, especially given the new cabinet of advisors trained in the United States with banking experience and an agenda to balance the national budget. During the campaign, Mr. Bolsonaro promised to overhaul Brazil's economy, a message well received in the financial markets, and HSBC, for one, is planning a return to Brazil. These promises included privatizing state companies and fixing the country's insolvent pension system. Pension reform, austerity measures and privatization efforts should foster economic conditions favor-

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Global Bank formalized its acquisition of Banvivienda for \$245 million after receiving approval from Panama's banking oversight agency.

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Starr International Brasil to Offer Aviation Insurance

The Brazilian subsidiary of Starr Insurance Companies has been granted a local license to expand its offerings to aviation policies.

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FINANCIAL SERVICES

Cuscatlán Opening New Branches in 2019

El Salvador's Banco Cuscatlán will invest \$2 million to open three new branches in the Central American country next year. José Eduardo Luna, the bank's executive director, said that by next year, 90 percent of the country will be covered by a Banco Cuscatlán branch.

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Luna // File Photo: LinkedIn.

BANKING NEWS

Shootout Between Police, Bank Robbers Kills 14 in Brazil

Fourteen people were killed on Dec. 7 during a shootout between bank robbers and police in the city of Milagres, in the northeastern state of Ceará, according to Brazilian authorities, Globo 1 reported. Armed criminals attempted to rob two banks at around 2:30 a.m., blocking off a road with a truck and taking several hostages, the Associated Press

Gunmen attempted to rob two banks in Ceará State.

reported. A shootout broke out when police opened fire against attackers on the city's main street, leaving six of the hostages and six of the criminals dead. Two of the victims were children between 10 and 13 years old. Lielson Macedo Landim, the mayor of Milagres, told Globo 1 that the hostages were killed by the criminal group and not by police fire. The mayor's statement could not be immediately verified. Police did not respond to the AP's request for comment. Authorities arrested three of the suspects and seized three vehicles, several firearms and explosives. The city on Friday suspended public services and called on citizens to stay home as they searched for several other suspects who had fled the scene,

SUBSCRIBER NOTICE

The Financial Services Advisor will not be published the week of Dec. 24 in observance of the Christmas and new year's holidays. We wish our readers a happy holiday season and a prosperous new year.

the AP reported. Brazil's rampant insecurity was a leading factor in the country's presidential election last October. President-elect Jair Bolsonaro has vowed to restore law and order in the South American country. [Editor's note: See related [Q&A](#) in the Nov. 13 issue of the Dialogue's daily Latin America Advisor.]

Panama's Global Bank Formalizes Banvivienda Buy

Panama's Global Bank on Nov. 30 formalized the acquisition of Banvivienda for \$245 million after getting approval from the country's banking oversight agency, Sistema de Noticias Internacional de Panamá, or SNIP, reported. "Starting today, we begin a new era of strengthening ... reaffirming our vision to promote the country's economic development and implementing strategies that will allow for the growth of the local financial market," Jorge Vallarino Strunz, Global Bank's executive president, said in a statement, SNIP reported. "The fusion of both entities will allow [us] to capture



Vallarino Strunz // File Photo: Fondo Ahorro Panamá.

more clients, offer a better service, create new opportunities for growth and development for collaborators of both banking entities," he added. The sale brings more than \$1.8 billion in assets, more than 39,000 customers and a network of 11 banking units to Global Bank's business in the Central American country, according to the bank's statement, EFE reported. The 24-year-old bank currently has more than \$6.5 million in assets, more than 165,000 clients and 35 branches in Panama. Global Bank

NEWS BRIEFS

Police Raid Deutsche Bank's HQ in Connection With Panama Papers

Police raided Deutsche Bank's headquarters in Frankfurt, Germany, and other offices on Nov. 29 and Nov. 30 in a money laundering investigation linked to the so-called "Panama Papers," Reuters reported. After a review of the documents from Panamanian law firm Mossack Fonseca that were leaked to the media in 2016, two Deutsche Bank employees have been accused of helping clients open offshore firms to launder money, according to a spokeswoman for the Frankfurt prosecutor's office. On Nov. 29, the bank said it was cooperating with investigators.

Scotiabank Colpatria Launches App With Facial Recognition

Colombia's Scotiabank Colpatria has begun offering a new application with facial recognition capability for iPhones, the bank announced Nov. 29. The app has been downloaded 390,000 times, and the bank's clients can use the app to conduct money transfers, pay credit cards and execute other transactions. The app will help the bank to provide its customers "with cutting-edge products and services that allow us to offer an agile, practical and safe experience," said Marcelino Herrera Vegas, Scotiabank Colpatria's vice president for digital banking.

Starr International Brasil Cleared to Offer Aviation Insurance

The Brazilian unit of Starr Insurance Companies has been granted a local license to offer aviation insurance, the company announced Dec. 11. Fernanda Strachino, an aviation specialist underwriter, has joined Starr International Brasil Seguros to head the new division, the company said.

had announced the transaction in September. Although Banvivienda will become a subsidiary entirely under Global Bank's control, current Banvivienda customers will continue to use its banking network, online platforms and automated teller machines, the statement said.

Banco Cuscatlán to Invest \$2 Million in Three New Branches

El Salvador's Banco Cuscatlán will invest \$2 million to open three new offices in the Central American country next year, *El Diario de Hoy* reported Dec. 4. The financial institution will launch branches in Ahuachapán and Sensuntepeque in the first quarter of next year and in La Unión in the fourth quarter of 2019, bringing the bank's total number of branches in the country to 56. "2019 will be our culmination

“2019 will be our culmination year.”

— José Eduardo Luna

year. We expect to have 90 percent of the country covered by an agency that year,” Executive Director José Eduardo Luna said at the inauguration event of the most recent office in the southeast city of Usulután, *El Diario de Hoy* reported. The bank's branch in Usulután, which has \$3 million available to lend both individuals and businesses, cost approximately \$500,000, *El Metropolitano Digital* reported. Luna said the revamped Banco Cuscatlán in two years has grown its assets, with a loan portfolio exceeding \$1 billion and deposits totaling approximately \$1.1 billion, the local newspaper reported. “We have also grown our depositor base, the number of transactions and, in general, we have encouraging results in all of our businesses,” Luna said. The bank will also invest roughly \$25 million in developing a new digital strategy.

FEATURED Q&A / Continued from page 1

able to financial service providers. Initiatives to cut government programs, nevertheless, have been common campaign platforms of other elected leaders across Latin America in recent years, but often these reforms have proved unpopular, and thus not always successful. The unpopularity of privatization and other contemplated reforms could prove risky in the near term for Mr. Bolsonaro's economic agenda, as was the case in other Latin American countries. Regardless of the anticipated measures, however, Mr. Bolsonaro and his cabinet appear to have some inconsistent views, calling into question what changes the government will choose to promote, and a multi-party Congress will not make passing legislation easy. Still, serious pension reform would be a good first step toward getting Brazil's economy moving in the right direction. Nevertheless, the appetite for change is uncertain and could temper Mr. Bolsonaro's designs once he is in office.”

A Cynthia Cohen Freue, director and sector lead for financial institutions ratings at S&P Global in Buenos Aires:

“President-elect Jair Bolsonaro has been outspoken about his intentions to support privatizations, cut government spending and taxes, simplify the tax regime and reduce the participation of the government in the economy. We do not expect the privatization of major government-owned banks, since this would require the approval of Congress, which is highly fragmented in terms of political parties. However, we could see a reduction in their participation in the economy in terms of credit growth and a potential reduction in their investment in equity or subsidiaries. A low participation of government-owned banks could be positive for the banking system as it would reduce market distortions. However, the future finance minister, Paulo Guedes, is expected to promote market-oriented initiatives that could boost investment and economic activity, resulting in positive effects on banks’

operating performance. However, we believe challenges remain, as it will be difficult to achieve support from the highly fragmented Congress, as such reforms could erode the population's support. Lack of progress in this respect could disappoint investors, and

“A low participation of government-owned banks could be positive for the banking system...”

— Cynthia Cohen Freue

the current positive expectations for Brazil could turn sour, eroding economic activity. This in turn could result in asset-quality deterioration for the banking system. Banks' high profits during 2018 have been derived from lower provisioning needs due to improvements in asset-quality metrics. The potential for further reductions in provisions should decrease in the future. In this scenario, to maintain the positive trend on profitability, banks will have to boost lending. Continued growth of safer segments in an uncertain political scenario and highly competitive environment could be a challenge, as well as increasing the proportion of fees and commissions coming from non-lending activities, and at the same time maintaining their effort on expense controls.”

A Robert Stoll, director for Latin America financial institutions at Fitch Ratings: “Bolsonaro's statements and actions thus far appear to be market-friendly and favorable to financial institutions. His views were welcomed and momentarily had calmed down market uncertainties, which also helped to keep interest rates at a level that is lower than historical rates. The Brazilian financial institutions' capitalization, liquidity

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ECONOMIC NEWS

Mexico to Invest More Than \$30 Bn to Stem Migration

Mexico's government plans to invest more than \$30 billion to boost the economies of its southern states over the next five years as part of its efforts to curb migration, Foreign Minister Marcelo Ebrard said Dec. 10, Reuters reported. Speaking at a United Nations-backed conference in Marrakesh, Morocco, Ebrard said the investment was part of a broad policy shift under new President Andrés Manuel López Obrador to stem migration more effectively than "containment measures." Ebrard did not provide details about how the money would be used or which policies may change. "What happens to a migrant today in our nation is a disgrace," said Ebrard, seated alongside the foreign ministers of Guatemala, El Salvador and Honduras. "Mexico can't let this happen anymore." In October, caravans of thousands of migrants began trekking north from Central America in efforts to reach the United States. Some 6,000 eventually reached the U.S.-Mexico border, with many requesting asylum in the United States. López Obrador has been seeking support from the United States for fighting crime and poverty in Central America, which have led migrants to flee.

POLITICAL NEWS

Maduro's Party Wins Local Elections Amid Low Turnout

President Nicolás Maduro's United Socialist Party won the majority of seats up in the Dec. 9 elections for local councils, but the vote was marked by low turnout amid an opposition boycott of the vote and widespread mistrust in the process, Reuters reported. Many polling stations were empty, and Venezuelans told the

wire service that they preferred to use the day to attempt to find scarce food and medicines. "People have no motivation," said opposition legislator Francisco Betancourt in the city of Barinas. Venezuela's severe recession has cut the size of the country's economy in half over the past five years and led some three million people to flee to other countries amid Venezue-

ADVISOR Q&A

Will Mexico's New Plan for Regional Development Work?

Q **In one of his first acts as Mexico's president, Andrés Manuel López Obrador signed an agreement to work with Guatemala, El Salvador and Honduras on an initiative to curb Central American migration to Mexico and the United States. The plan is designed to address the causes of migration and includes a fund to create jobs in the region. What are the key components of López Obrador's development plan for the Central American countries? Will it succeed in reducing migration north? Will López Obrador be able to convince U.S. President Donald Trump to join and contribute to the initiative?**

A **Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States:**

"Despite President Trump's anti-Mexico tirades and his threats to shut down the border, the López Obrador government does well in seeking to underscore that the only way Mexico and the United States will be able to address common challenges is under the tenet of shared responsibility and by de facto acknowledging that Mexico does indeed need to play a role in working hand-in-hand with Washington to enhance security and operational control on both sides of our common border. And it has also correctly articulated that solely deterrence-driven strategies to confront transmi-

gration through Mexico will not work. A truly holistic and long-term strategy that seeks to strengthen institutional resilience and human security and enhance sustainable growth is indispensable to tackle the root causes of refugee and labor displacement in the Northern Triangle nations. But at the same time, it behooves Mexico to be clear-eyed as it enters into these negotiations with the Trump administration. Given the current political landscape in Washington, it is hard to envisage the U.S. government committing to a multi-year and multi-billion-dollar program in Central America. And any new resources earmarked for a southern Mexico and Central American program would most probably be, in a take-from-Peter-to-give-to-Paul dynamic, redirected from ongoing U.S. cooperation programs with Mexico and Central America and not from additional budgets appropriated for this purpose. More importantly, any Mexican cooperation on supporting a program along the lines of the 'remain in Mexico' proposal put forward by the United States needs to entail a quid pro quo for Mexico. One-sided concessions or bending backwards to avoid a confrontation with President Trump at all costs should not be on the table."

EDITOR'S NOTE: More commentary on this topic appears in the Dec. 11 issue of the Latin America Advisor.

la's hyperinflation and high crime rate. Election officials announced that the majority of about 2,500 council seats went to Maduro's party and that about 27 percent of the country's 20 million eligible voters cast ballots, the Voice of America reported. Maduro's government has banned the country's most popular opposition parties from participating, and some of the

NEWS BRIEFS

Russia Sends Nuclear-Capable Bombers to Venezuela

Russia sent two nuclear-capable strategic bombers to Venezuela on Dec. 10, according to the Russian Defense Ministry, the Associated Press reported. The Tu-160 bombers, which can carry conventional or nuclear-tipped missiles with a range of 3,410 miles, have previously been used by Russia in Syria. The ministry did not say whether the planes were carrying weapons nor how long they would remain in the South American country.

Father, Brother of Argentina's Macri to Testify in 'Notebooks' Case

The father and brother of Argentine President Mauricio Macri are scheduled to testify in a Buenos Aires court on Dec. 13 on their alleged involvement in the so-called "corruption notebooks" case, Agence France-Presse reported Dec. 10. Franco and Gianfranco Macri's construction company, Socma, allegedly paid bribes in exchange for government contracts to complete a state highway when former President Néstor Kirchner was in office from 2003 to 2007.

Ex-Colombian President Betancur Dies at 95

Former Colombian President Belisario Betancur died on Dec. 7 in Bogotá, The New York Times reported. Betancur, 95, led the country in the 1980s, when Colombia was plagued by drug trafficking and a guerrilla war. As president, he promoted peace initiatives in the region and introduced low-cost housing and education programs. Betancur was president when M-19 guerrillas stormed the Palace of Justice in November 1985, taking 300 hostages, including Supreme Court justices. He refused to negotiate, and more than 100 people were killed in a faceoff with military forces.

most prominent opposition politicians have either been jailed or have fled the country. After casting his ballot, Maduro appeared on state television, giving a speech in which he accused U.S. President Donald Trump of scheming to overthrow him. The local elections happened a month before Maduro is to begin his second six-year term, following his re-election last May in a vote that his political opponents, the United States, the European Union and most Latin American countries have deemed illegitimate.

Peruvians Approve Anti-Graft Measures in Referendum

Peruvian voters approved three out of four anti-corruption measures in a national referendum on Dec. 9, La República reported. President Martín Vizcarra pushed for the vote amid a rash of accusations that has led four former presidents to be investigated for ties to scandal-plagued Brazilian construction conglomerate Odebrecht, which has admitted to bribing politicians in several countries. With 91 percent of the ballots counted, voters approved measures for the public to choose members of a council that selects judges, to ban political parties from accepting money from unknown contributors or from donors with a criminal background, and to ban legislators' immediate re-election, Bloomberg News reported. The fourth question, which Vizcarra himself no longer supported, failed and asked voters whether Peru's unicameral Congress should be replaced by a two-chamber legislature. "This referendum does not change everything," said Vizcarra, the Associated Press reported. "But it is the beginning of a change that we are looking for in Peru." Some observers said Vizcarra faces the challenge of making sure the changes are fully implemented. "Peru's problems won't be solved with just a referendum," said José Ugaz, the attorney who led an investigation of former Peruvian President Alberto Fujimori's spy chief a decade ago. On Dec. 9, prosecutors in Peru reached a deal with Odebrecht that could lead to the release of new information on bribes that could send former

Peruvian presidents investigated in connection with the case to prison, Agence France-Presse reported. Odebrecht has been cooperating with Peruvian authorities for two years, but the new agreement stipulates that authorities will not use company officials' confessions of crimes to prosecute them or the company. [Editor's note: See related [Q&A](#) in the Aug. 16 issue of the daily Advisor.]

Colombia's Duque Seeks Ban on Cash in Political Campaigns

Colombian President Iván Duque on Dec. 5 said the country's electoral reforms must include a ban on financing political campaigns with cash, national news agency Colprensa reported. "It's important that in the reforms, we guarantee the end of cash management to finance campaigns," Duque said at an event



Duque // File Photo: Colombian Government.

commemorating the 70-year anniversary of the National Registry. "All contributions should be made through bank drafts and with electronic billing," Duque added that cash is sometimes donated "under the table" to cover the traceability of the payment. In recent weeks, a video surfaced showing current Senator and former presidential candidate Gustavo Petro receiving roughly \$6,300 in cash to reportedly finance his political activities 14 years ago, El Universal reported. Petro, who faced Duque in a runoff in June, has denied wrongdoing and said the payment was in cash because the contributor, Colombian architect Simón Vélez, "hates the financial system." In an interview with local radio station Caracol, Vélez denied having made any personal contributions to Petro.

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and profitability remain robust. Nevertheless, the government's difficulties in approving important structural reforms may lead to greater challenges for financial institutions to implement their strategies, getting good customers and managing existing ones. This may lead to some pressures on new revenue generation and increase the constitution of reserves, thereby limiting profitability. Potential new regulatory measures—for example, changes in compulsory deposits and in calculation of risk-weighted assets—may possibly increase banking penetration

“**Bolsonaro's statements and actions thus far appear to be market-friendly and favorable to financial institutions.**”

— Robert Stoll

and boost competition. We do not expect the new government to make strong usage of federal banks to boost credit into the economy. The biggest risk for financial institutions is the failure to make progress with needed reforms, which can bring more uncertainties, undermining GDP growth and consequently limiting recoveries of the country's employment rate. Effects on interest rate movements will also be monitored. Brazil's medium-term recovery will depend on how successful the Bolsonaro administration will be in tackling the fiscal challenges, among others. A social security reform along with several other spending measures will be important for making the spending cap viable. Opposition to the new government will be strong, occasionally translating into strikes, protests and investigations that could limit a robust economic recovery and bring one-off credit risks to financial institutions.”

A **John Price, managing director of Americas Market Intelligence in Miami:** “The world outside of Brazil, which misread Brazilian voter sympathies and broadly miscast Jair Bolsonaro, are only now coming to grips with the level of investor optimism inside Brazil. Confidence matters in a country like Brazil, whose moneyed class and corporate sector keep an estimated \$1.5 trillion to \$2 trillion of savings outside of the country. An election like the October surprise can reverse capital flight. Should 10 percent of Brazilian offshore savings return in 2019, it would represent an inflow of two to three times the size of annual foreign direct investment. Emerging-market portfolio funds which have disfavored Brazil in recent years have begun to recalibrate their mix, decreasing positions in Mexico and boosting them in Brazil. Adding to the momentum is the vastly improved balance sheets of Brazil's venerable corporate sector as well as the taming of household debt. In short, the market conditions for Brazil's banking sector are once again looking rosy. The naming of Paulo Guedes as minister of the soon-to-be amalgamated ministries of finance, planning and industry amplifies the influence of a true ‘Chicago boy’ neoliberal who promises pension reform, a shrinking of government, a simplifying of Brazil's complex tax code and an erosion of internal trade barriers, among other reforms. If half of these are achieved, his policies will provide rocket fuel to Brazil's economy because such reforms will attract capital to a country where its scarcity limits growth. If Bolsonaro's first 100 days in power continue to inspire investor confidence, Brazil's economy, already on the mend, will leap forward, providing ample opportunity for the financial sector.”

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gene.kuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org



Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
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