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FEATURED Q&A

Will Latin American Governments Toughen Credit Card Regulation?

Q In May, U.S. President Barack Obama signed a bill dubbed the "Credit Cardholders' Bill of Rights," which places new requirements on credit card issuers, including 45-day notice of a change in interest rates and a prohibition on charging penalty fees to customers who close their accounts. With the global economic slowdown limiting the ability of some credit cardholders in Latin America to keep up with their payments, are governments in the region likely to follow suit in strengthening regulation of credit cards? What impact would greater regulation of the credit card industry have on Latin America's economies and access to credit?

A Guillaume Corpart, associate managing director and John Price, managing director, both at Kroll Inc.: "In contrast to the United States, credit card ownership in Latin America is not seen as a right but a privilege. With the exception of Chile and Brazil, credit card penetration remains significantly less than in the U.S. This diminishes somewhat the vote-winning appeal to politicians who might consider taking on the credit card industry. In those markets, the emphasis is still placed on expanding access to credit rather than limiting its costs. However, if there is one market where such a regulatory battle might be waged, it is Brazil. Brazilians pay some of

the highest real interest rates in the world, in all their credit instruments, from mortgages to lines of credit to credit cards. In spite of an impressive drop in the official central bank interest rate to single digits, a sizeable portion of the more than 100 million credit cards in circulation in Brazil carry onerous annual percentage rates of 60 to 80 percent. Brazil is home to a highly profitable banking system, which is seen by many as a government-coddled industry. In the runup to 2010 elections, when Brazilian legislators try their best to flex their populist muscles, it might be consid-

Continued on page 4



Venezuela Cites Operational Problems in Bank Seizures

Venezuela's government on Nov. 20 seized four small banks, citing operational problems, said Finance Minister Ali Rodriguez. He added that the banks will continue operating. See story on page 2.

File Photo: Venezuelan Government.

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FINANCIAL SERVICES BRIEFS

Chilean Regulator Clears Consorcio to Acquire Monex

Chile's banking regulator has approved **Consorcio's** purchase of local bank **Monex**, allowing Consorcio to enter the local banking market, Reuters reported Nov. 19. Consorcio currently has offerings including credit cards and mortgages as well as \$570 million in assets and approximately 50,000 customers. Monex will be renamed Banco Consorcio. Chile's banking industry is dominated by the local unit of Spain's **Banco Santander** and **Banco de Chile**, which the Luksic family controls.

ViVotech Technology Chosen for MasterCard's PayPass in Brazil

U.S.-based **ViVotech's** contactless technology ViVOpay will be used in the rollout of **MasterCard's** PayPass technology in Brazil, the Santa Clara, Calif.-based company said Nov. 18. Merchants in Rio de Janeiro will be the first to use the technology. It will be used in locations including public transportation, parking lots, restaurants and convenience stores.

IDB Providing Brazil \$3 Billion Credit Line For Small Enterprises

The Inter-American Development Bank is providing Brazil with a \$3 billion conditional credit line in order to boost lending to small- and medium-sized enterprises, the bank said Nov. 19. The program is aimed at helping companies expand and diversify their operations while spurring competitiveness and job creation, the bank added. Brazil's National Economic and Social Development Bank (BNDES) is also contributing matching funds for the initiative. Businesses can receive as much as \$3 million in financing through the program.

Financial Services News**Venezuela Cites Operational Problems in Seizure of Four Banks**

Venezuela's government on Nov. 20 seized four small banks, due to a range of operational problems, Reuters reported, citing Finance Minister Ali Rodriguez. The government seized **Banco Confederato**, **Banco Canarias**, **Banco Provienda** (Banpro) and **Bolivar Banco**, said Rodriguez. The government was concerned about unexplained sources of

“The fundamental objective of these measures is to guarantee the rights of depositors, savers and even creditors.”

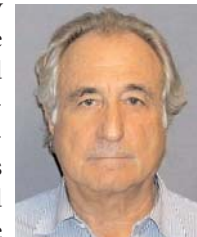
— Ali Rodriguez

funds, credit problems and failure to adhere to some obligations, Rodriguez added. "The fundamental objective of these measures is to guarantee the rights of depositors, savers and even creditors," Rodriguez told reporters at the presidential palace in Caracas. Venezuelan authorities have been monitoring the banks since late last year, said banking superintendent Edgar Hernandez. The banks will continue operating and plans will be formed to fix their problems, said Hernandez. He did not say whether the government planned to sell the banks.

Santander Seeks Dismissal of Lawsuit Related to Madoff Losses

Spain's **Banco Santander** has asked a U.S. district judge in Florida to dismiss a case against the bank brought by Latin American clients seeking damages for multimillion dollar losses linked to imprisoned financier Bernard Madoff, wire services reported. In a Nov. 18 filing, Santander said investors couldn't sue the bank for damages because it also was a victim of Madoff, who earlier this year was convicted of running a \$50 billion

pyramid scheme. "Defendants' failure to detect Madoff's fraud was not due to their intentional or severely reckless failure. ... The far more likely, and hence plausible, inference is that defendants, like thousands of other sophisticated investors around the world, genuinely believed Madoff," the



Madoff filing said, according to Bloomberg News. The Spanish bank lost about \$3.2 billion through two investment funds connected to Madoff. In addition to rejecting responsibility for the losses, Santander said the case couldn't be brought in the U.S. because many of the investors were clients of its subsidiaries in the Bahamas and Switzerland; thus, any legal complaints would have to be made in those jurisdictions. As a result, Santander asked the judge to "reject the entire complaint," EFE reported. According *The Wall Street Journal*, approximately 3,000 Latin American clients of Santander lost money in funds connected to Madoff.

File Photo: U.S. Department of Justice.

Mexico's Infonavit Places \$192 Mn in Mortgage-Backed Debt

Mexican government-owned housing fund Infonavit, the country's biggest mortgage lender, on Nov. 19 announced the placement of 2.5 billion pesos (\$U.S. 192.2 million) in mortgage-backed debt with investors, bringing the total amount of bonds placed this year to 11.3 billion pesos (\$U.S. 868.8 million). Infonavit said it expected the bonds to carry a coupon of 5.4 percent, 10 basis points lower than the previous issue, according to a press release. The 22-year Cedevis bonds are denominated in UDIs, an index unit used for pricing debt in Mexico's credit system, and received AAA local credit ratings from the three major ratings agencies. "Despite the world financial crisis and economic environment in Mexico, [Infonavit] was able to attract new

investors, including individuals and private pension funds, which demonstrates the consolidation of this instrument in the financial market," the lender said in a statement. Infonavit a day earlier said it reached 78.3 percent of its lending goal for 2009. The fund granted 366,853 mortgages during the year through Nov. 15, totaling over 115 billion pesos. Of those mortgages, 61 percent went to low-income workers, defined as those earning less than 6,664 pesos per month. Infonavit is funded by its own lending operations, mandatory contributions from private-sector employers and its sales of mortgage bonds, and accounts for more than half of Mexico's annual home loans, according to Dow Jones.

CEO: Canada's Scotiabank Seeking 'Small Niche' in Brazil

Bank of Nova Scotia, or Scotiabank, would like to secure a "small niche" in Brazil, the bank's chief executive officer, Richard Waugh, said Nov. 16, Bloomberg News reported. "We probably can see ourselves having some small niche," Waugh

Scotiabank currently has a representative office in Brazil.

said at a banking conference in Miami. Currently, Scotiabank has a representative office in Brazil, Latin America's largest economy. It also has operations in countries including Peru, Mexico and Jamaica. Scotiabank may seek to grow its investment banking operations in Brazil, especially in the mining, infrastructure and energy sectors, said Waugh.

Remittances News

Report: Mexicans in U.S. Spend More on Taxes Than Remittances

Mexican immigrants in the United States spend more money on U.S. taxes than they do on remittances sent to Mexico, EFE reported Nov. 19, citing a new study. Mexican migrants in the United States

Comings & Goings

Bank of America Merrill Lynch Global Research announced Nov. 12 that David Beker has rejoined the company as head of Latin America Economic and Fixed Income Strategy. Beker most recently was emerging markets fixed income portfolio manager at Ontario Teachers Pension Plan. In his new role, Beker will be responsible for growth, inflation, exchange rates and fixed-income recommendations across the region. Beker previously was a Sao Paulo-based economist with **Merrill Lynch**, which he joined in 2003. He later relocated to New York to work on Merrill Lynch's fixed income strategy team. Beker left **Bank of America** after it bought Merrill Lynch in January for \$24 billion, Bloomberg News reported. Beker is replacing Felipe Illanes, who became Latin America economist for **The Rohatyn Group** in September. The day after Bank of America named Beker to the post, Latin America economist Alejandro Cuadrado resigned, Bloomberg News reported. Cuadrado told the news organization in an e-mail that he was stepping down to "pursue new opportunities."

JPMorgan Chase & Co. has named Claudio Berquo to head the company's investment banking, treasury and securities service and asset management operations in Brazil, Bloomberg News reported Nov. 16. After assuming the new role, Berquo will also continue as the private bank's head in Brazil. Berquo, who has been with the financial services company for 15 years, previously oversaw the company's wealth management operations in Brazil.

paid almost \$52.8 billion in U.S. taxes last year, "an amount far higher" than the \$25.14 billion sent back to Mexico, said the report by **BBVA Bancomer**, Mexico's biggest bank. "Just as Mexican migration has had a positive impact on Mexican families, it also has [been positive] for the American economy," the report said. Between 1994 and 2008, the United States gross domestic product expanded by \$4.4 trillion, at 2005 prices, the study said, adding that labor of Mexican migrants accounted for 7 percent of the

Mexican migrants paid almost \$52.8 billion in U.S. taxes last year.

total. Mexican migrants' annual contribution to growth in the United States accounted for about 3.8 percent of GDP last year. BBVA Bancomer estimates that remittances to Mexico will decline by 13 percent this year after falling 3.6 percent last year. In 2010, the bank expects remittances to increase between 1 and 5 percent.

MoneyGram Temporarily Reducing Money Transfer Fees to El Salvador

U.S.-based **MoneyGram International** said Nov. 18 that it is temporarily reducing fees to transfer money to El Salvador in the wake of Hurricane Ida. The fee reductions will be in effect until Dec. 2. "MoneyGram is eager to help the people in El Salvador continue their recovery and respond to the urgent needs following Hurricane Ida," said John Warner-Gutierrez, MoneyGram International's vice president for Latin America and the Caribbean. "By temporarily reducing fees, we're working to help families deliver more funds for the essential needs of their loved ones in El Salvador." The fee reductions will allow customers in the United States and Canada to send as much as \$1,000 to the Central American country for \$8.50, said the company, headquartered in St. Louis Park, Minn. "We tend to see an increase in money transfers to affected regions following wide-scale disasters," Warner-Gutierrez said. In El Salvador, recipients can collect the remittances at branches of banks including **Banco Agricola**, **Banco Azteca** and **Scotiabank**.

Political News

Lula Welcomes Ahmadinejad to Brazil, Says Iran Must Be Engaged

Brazilian President Luiz Inacio Lula da Silva on Monday welcomed his Iranian counterpart to Brasilia, saying world leaders should engage the Middle Eastern country, not isolate it, the Associated Press reported. The visit is Iranian President Mahmoud Ahmadinejad's first to Brazil. His Latin American tour this



Lula and Ahmadinejad (L-R) on Nov. 23

Photo: Brazilian Government.

week also includes visits to Venezuela and Bolivia. "There's no point in leaving Iran isolated," Lula said Monday in his weekly radio program, before meeting with Ahmadinejad, the AP reported. "It's important that someone sits down with Iran, talks with Iran and tries to establish some balance so that the Middle East can return to a certain sense of normalcy." Israel has accused Iran of using its nuclear program to develop nuclear weapons, which Iran denies. Lula has said Iran has the right to continue with the program as long as it is for peaceful purposes. Ahmadinejad said Sunday that the two countries might explore a partnership in nuclear energy development. "We can build partnerships to build nuclear plants," Ahmadinejad told Brazil's Globo TV News, the AP reported. "Our two countries need nuclear power to generate electricity. Both Brazil and Iran are entitled to benefit from nuclear technology." Iran increased Middle East tensions on Sunday when it started large-scale war games designed to protect its nuclear installations from attacks. Dozens of Ahmadinejad backers and opponents

Featured Q&A

Continued from page 1

ered good politics to take on the banks. The only thing tempering that impulse is the impressive lobbying power of the Brazilian banks themselves."

A **Claudio Takashi Yamaguti, executive director of Latin American credit card business operation at Itau Unibanco in Sao Paulo:** "The credit card industry has grown significantly in Latin America in the past few years and today represents a large portion of total consumption. Its increasing importance in the overall economy generated a strong attention from most of the region's governments, which have worked closely with the credit card industry in order to establish rules for the protection of a rapidly growing base of consumers. For example, we see in many countries the obligation to inform the client at least 30 days before any change in pricing; players must guarantee a clear communication of the effective value of fees and interest rates

charged each month; and it is usually forbidden to charge penalty fees for the cancelation of the card. In addition to the government rules, in many cases we have seen that the industry itself has

“In many cases we have seen that the industry itself has proactively established its own rules.”

— Claudio Takashi Yamaguti

proactively established its own rules in order to protect consumers and therefore prevent eventual future pressure from the society and the government for further interventions."

Continued on page 6

demonstrated in Brasilia Monday, a day after approximately 500 people protested at Rio de Janeiro's Ipanema Beach. Protesters condemned Ahmadinejad's denial of the Holocaust and asked Lula to call for free speech in Iran. Ahmadinejad is the third prominent Middle Eastern leader to visit Brazil in the past weeks. His visit follows trips there by Israeli President Shimon Peres and Palestinian Authority leader Mahmoud Abbas. [Editor's note: See related Q&A in the Nov. 23 [issue](#) of the Dialogue's daily *Advisor*.]

Honduras' Micheletti Says He'll Step Aside During Election

In a symbolic move, de facto Honduran President Roberto Micheletti said Thursday that he will temporarily step down from power ahead of the country's Nov. 29 presidential election. In a televised address, Micheletti, who was sworn in after a coup ousted President Manuel Zelaya June 28, said he will likely step

aside from Nov. 25 to Dec. 2, the date Honduran lawmakers are scheduled to consider whether to reinstate Zelaya. "The goal of this measure is for all Hondurans to concentrate on the electoral process and not on the political crisis," Micheletti said, according to Reuters. **Micheletti**



In his address, Micheletti did not say who would be acting president during that period. Following Micheletti's announcement, Zelaya reiterated his vow not to return to the presidency if Honduras' Congress restores him to power after the election, saying that would make the coup legitimate.

File Photo: Honduran Government.

Former State Department Analyst, Wife Plead Guilty to Spying for Cuba

A retired U.S. State Department analyst and his wife on Nov. 20 pleaded guilty to

charges of spying for Cuba over three decades, Bloomberg News reported. In federal court in Washington, Walter Kendall Myers, 72, pleaded guilty to three counts of conspiracy to commit espionage

“For the past 30 years, this couple betrayed America's trust by covertly providing classified national defense information to the Cuban government.”

— David Kris

and two counts of wire fraud. Gwendolyn Steingraber Myers, 71, pleaded guilty to one count of conspiracy. "For the past 30 years, this couple betrayed America's trust by covertly providing classified national defense information to the Cuban government," said Assistant U.S. Attorney General David Kris, according to Bloomberg News. "They are being held accountable for their actions." In a plea agreement, Walter Kendall Myers agreed to a life prison sentence and promised to cooperate with U.S. investigators. His wife agreed to a prison sentence of seven and a half years. They also must forfeit \$1.74 million, a home in Washington, a yacht and a car. Walter Kendall Myers retired from the State Department in October 2007 as a senior Europe analyst. He had access to classified reports on Cuba, according to the Department of Justice.

Economic News

Fitch Ratings Lowers Mexico's Credit Rating to BBB

Fitch Ratings on Nov. 23 lowered its investment-grade credit rating for Mexico to BBB on the heels of falling oil production and the most severe recession since the 1930s, Bloomberg News reported. The downgrade gives Mexico the second-lowest credit rating from Fitch, putting the country in the same category as Thailand

and Russia. The ratings organization also changed Mexico's outlook from negative to stable. The reduction was Fitch's first for Mexico since it assigned the country an initial BB rating in 1995. Mexico in 2000 was the second Latin American country to receive an investment-grade rating after the North American Free Trade Agreement increased the country's exports. On Friday, Mexico's national statistics agency said the country's economy grew 2.9 percent in the third quarter as compared to the previous three-month period, marking the end of Mexico's recession. The economy contracted 6.2 percent year-on-year in the third quarter. Mexico's economy will shrink as much as 7.5 percent in 2009, the most in seven decades, the central bank has said. Oil, which accounts for 38 percent of the country's budget, has dropped 47 percent since its high of \$147.27 a barrel in July of last year. Production at Mexican state-run oil company **Pemex** last year dropped at the sharpest rate since 1942, causing Mexico to forgo 300 billion pesos in revenue, Finance Minister Agustin Carstens has said.

IMF Chief Economist Says Emerging Economies Face Risk of Bubbles

Some of the world's emerging economies are at risk of forming bubbles through uncontrollable movements of capital and accumulation of reserves, the International Monetary Fund's chief economist said in an interview published Nov. 23, Reuters reported. "These countries have interest rates that are higher than the developed countries and more pressure on their exchange rates," Olivier Blanchard told French daily newspaper *Le Monde*. "It can only be difficult for Brazil to see the real appreciating when the yuan is weakening with the dollar." Countries are also diversifying their foreign reserves, which he said is a good move that would not lead to the U.S. dollar's collapse.



Blanchard

File Photo: IMF.

POLITICAL & ECONOMIC BRIEFS

Chavez Hails Arrival of Russian-Made Arms

Venezuelan President Hugo Chavez said Nov. 22 he is expecting the arrival of 300 Russian-made tanks and armored vehicles, and called on supporters to join local militias to defend the country from a foreign invasion, the Associated Press reported. The statements come at a tense time in Venezuelan-Colombian relations. On Nov. 19, the Venezuelan military destroyed two pedestrian footbridges on the countries' border, and Chavez has continued to blast an agreement between Bogota and Washington to increase U.S. troops' access in Colombia.

Argentina's Unemployment Rate Increases to 9.1 Percent

Argentina's unemployment rate increased in the third quarter to 9.1 percent as compared to 7.8 percent in the third quarter of last year, the government said Nov. 20, Reuters reported. Unemployment also edged higher from 8.8 percent in this year's second quarter. For 2009, the government has reduced its forecast for economic growth to 0.5 percent. The country's economy had seen at least 7 percent annual expansion in the past six years.

Peru Expects 10 Percent Increase in Exports Next Year

Peru's exports will increase 10 percent in 2010 on rising demand for metals, fish products and natural gas, the president of a national exporter association said, Bloomberg News reported on Nov. 23. Jose Silva, head of exporter group Adex, told the news service that commodities, which make up 70 percent of Peru's exports, were rebounding from the economic crisis faster than manufactured goods.

Featured Q&A*Continued from page 4*

A **Marta Colomar Garcia and Sumeet H. Chugani, attorneys at Diaz, Reus & Targ, LLP in Miami:** "Obama's new 'anti-Reaganomics' regulation dubbed the 'Credit Cardholders' Bill of Rights Act of 2009' has two key objectives: protecting consumers from predatory lending and protecting the greater good from another crisis rooted in bank 'gluttony.' Unlike their Latin American counterparts, U.S. consumers are thrown credit cards with excessive spending limits. Latin American consumers, however, are not immune from the pull of mass consumerism. One of the consequences of this influence is the increased lending practices that have facilitated consumers'

American consumer demands will soon be realized through stricter regulatory policies placing checks on bank usury practices. This will promote economic expansion and further the regional objective of becoming a power player in the world economy."

A **Jean Mary Pirie, publisher of CardNews in Sao Paulo:** "The economy in Brazil has started already to show that it is on the way to overcome the economic slowdown. The unemployment rate is falling and consumers are keeping up with their payments at the same level now as before the crisis. In Brazil's card industry, this year's growth is expected to be 20 per-

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“Latin American consumer demands will soon be realized through stricter regulatory policies placing checks on bank usury practices.”

— *Marta Colomar Garcia & Sumeet H. Chugani*

access to credit in Latin America. This has fueled spending and has fostered economic expansion. Consequently, demand for credit has stimulated consumer desire for regulation. Lawmakers in both El Salvador and Brazil, for example, have implemented legislation in response to consumer sentiment. These policies are comparable to Obama's regulation. However, increased regulation in Latin America may disincentivize creditors from lending to low- and middle-income constituents. Limiting the majority of the population's access to cheap credit may reduce short-term wealth. On the other hand, potential borrowers will be forced to save rather than spend. More liquidity accompanied by fewer deficits may help increase macroeconomic stability and appease private lenders such as the International Monetary Fund and World Bank. Latin

cent in volume, four percentage points lower than last year, but even so a very good result. Interest rates are still high for revolving credit. There has been pressure made by the federal banks by lowering their interest rates with the intention of other banks to follow suit. The government is now concentrated on regulating the acquiring business, which will no doubt cause a change in the scenery but mostly related to the lowering of costs for merchants. At the moment, there is no indication that the access to credit should be restricted or regulated by the government."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.