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### FEATURED Q&A

#### What Explains the Increase in Colombia's Banked Population?

**Q** The percentage of adults with bank accounts in Colombia increased to 58 percent last March from 47 percent a year earlier, according to Colombian banking association Asobancaria. The association added that more than 17 million adults in Colombia were using at least one banking product at the end of June. What is responsible for the increase in Colombia's banked population? What are industry and the government doing to get more Colombians to use financial products? What financial products have seen the most growth? Can Colombia's success integrating more people into the banking system be replicated elsewhere in the region?

**A** Andrés Portilla, deputy director of regulatory affairs at the Institute of International Finance in Washington: "The increased levels of 'bankarization' in Colombia respond to a concerted effort between the private and public sectors. A combination of factors has been successful. First, the use of nonbank channels has reached clients in areas of the country where banks were traditionally not present. This has allowed financial firms to reach almost 100 percent of municipalities in Colombia. Second, specific governmental policies such as tax exemptions and the promotion of micro-credit has increased use of the financial services. And third, the marked improve-

ment of the security situation country-wide as well as better physical infrastructure allow banks to be present in municipalities where five years ago it was either not safe or too expensive to be present. Savings accounts have experienced the highest growth, and more positively, the percentage of clients who hold a combination of savings and credit products continues to rise. Challenges remain of course. Taxes on financial transactions as well as price and interest rate controls artificially increase the cost base for financial institutions and ultimately consumers. Other

*Continued on page 3*



#### Colombia's Suramericana Fuels Parent Firm's Earnings

Suramericana, Colombia's largest insurance company, is expected to help fuel a \$279 million net profit this year for its parent company, CEO David Bojanini said Sept. 14. See story on page 2.

*File Photo: City of Medellín.*

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## FINANCIAL SERVICES BRIEFS

**Colombian Unit of Banco Santander Plans \$78M Bond Sale**

**Banco Santander's** Colombian unit filed plans Sept. 17 to issue local bonds worth up to 140 billion Colombian pesos (\$78 million). The bonds will have a maturity of as long as seven years and the sale still needs approval from the local regulator. Santander, the eleventh largest bank in Colombia, did not indicate what it plans to do with the proceeds.

**Jamaican Bank Cleared of Violating Money Laundering Act**

Jamaica's **National Commercial Bank (NCB)** was cleared Sept. 15 of charges that it breached the Money Laundering Act, the *Jamaica Gleaner* reported. Under the act, financial institutions must report deposits of greater than \$50,000. NCB was taken to court after investigators probed the account of Norris Nembhard, who is currently serving a prison sentence in the United States for conspiracy to export cocaine. The magistrate ruled that the directive to file the reports is tantamount to a regulation and must be published in the country's official gazette to become law.

**Banco Popular Adding Access to Thousands of ATMs for Customers**

**Banco Popular** said Sept. 16 that it providing its customers access to thousands of surcharge-free ATMs throughout the United States, the Puerto Rico-based bank said Sept. 16. "Through the partnership Banco Popular is now connected to communities across America, providing its customers with surcharge-free access to 33,000 ATMs in leading national and local merchant locations," the bank said, adding that the ATMs are part of the Allpoint Network.

**Financial Services News****Scotia Capital Acquiring Brazilian Unit of Commerzbank**

Canada's **Scotia Capital** is acquiring a Brazilian unit of **Commerzbank**, Scotiabank said Sept. 16, The Canadian Press reported. **Bank of Nova Scotia**, or Scotiabank, said that it has reached an agreement with the German bank to acquire the unit, São Paulo-based **Dresdner Bank Brasil**. The deal is not "materially significant," said Scotiabank, which did not disclose the terms of the agreement. "Scotia Capital has been actively expanding our wholesale business in key Latin American markets where we see tremendous potential for growth and we are very optimistic about the opportunity in Brazil," said Mike Durland, Scotia Capital's co-CEO. The Canadian bank has been present in Brazil for nearly 40 years and the acquisition will allow it to broaden its offerings, said Rob Pitfield, Scotiabank's group head of international banking. "Latin America is an increasingly important part of Scotiabank's international strategy and we continue to build on our already strong franchise by delivering superior service," said Pitfield. Last week, Scotiabank announced that Scotia Capital would broaden its mandate in order to take advantage of opportunities in wholesale banking. Scotiabank is the largest bank operating in the Caribbean and is growing its operations in Mexico and elsewhere in Latin America. It has almost 1,900 branches and 32,000 employees in Latin America.

**Mexico's BBVA Bancomer Confirms End of Talks With Su Casita**

**BBVA Bancomer**, Mexico's largest banking group, has confirmed that it has ended discussions with home-finance company **Hipotecaria Su Casita** to create a strategic alliance, Dow Jones reported Sept. 13. BBVA Bancomer's chief executive, Ignacio Deschamps, told reporters that the discussions ended because the two companies had differing "evaluation criteria" for the assets of Su Casita. The home-finance lender said last week that

the parties were unable to reach an agreement on valuation. **Barclays Capital** analyst Alexander Monroy said the termination of talks between the companies was a disappointment. "There has been relatively little news on Su Casita's situation over the recent weeks—the last piece of news being Bancomer performing due diligence on Su Casita's portfolio. As such, we were hoping that this meant a deal was going ahead," Monroy said last Friday in an investment note, Dow Jones reported. Su Casita reported a loss of 147.2 million pesos last year as loan-loss provisions almost doubled. The nonbank lender made only 4,375 mortgages in 2009 for 1.93 billion pesos, a decline from 20.18 mortgages for 7.84 billion pesos the previous year. Su Casita's number of total performing loans declined 10.4 percent to 48.34 billion pesos and nonperforming loans increased to almost 11 percent of the lender's total loans in 2009. Nonbank lenders have struggled since the global economic crisis, in part because they are barred by law from accepting deposits which otherwise would provide new funding.



Deschamps

File Photo: BBVA Bancomer.

**Argentina's Banking Sector Holds Promise: Citigroup**

The banking sector in Argentina has positive prospects because of higher levels of lending and the possibility of a change in the presidency, **Citigroup** said Monday in a report, Dow Jones reported. President Cristina Fernández de Kirchner or her husband and predecessor, Néstor Kirchner, is expected to run for another term as president next year. The prospect of the Kirchners being defeated next year may provide a "confidence shock" to Argentina's economy, Citigroup said. Also, banks in Argentina "showed explosive loan growth" during this year's sec-

ond quarter and Citigroup has raised earnings estimates for the banking sector "mainly on the assumption of much higher sustainable loan growth," the bank said. It added that **Grupo Financiero Galicia** shows the most promise within the sector.

## Insurance News

### Colombia's Suramericana Helps Fuel Earnings of Holding Company

Colombia's **Suramericana**, the South American country's largest insurance firm, is expected to help parent company **Grupo de Inversiones Suramericana** book a net profit of nearly 500 billion Colombian pesos (\$279 million) for this year, the holding company's chief executive told Dow Jones Sept. 14. The insurance business is experiencing good growth and made a one-time profit earlier this year through the sale of a 5.8 percent stake in retailer **Almacenes Éxito** to **Citigroup**, said the CEO, David Bojanini. The holding company made a 33 billion

*Grupo de Inversiones Suramericana is in talks to acquire Bancolombia's insurance business in El Salvador, said Bojanini.*

peso profit on the sale, market analyst Jairo Lastra of local brokerage **Proyector Valores** told Dow Jones. Last year, Grupo Suramericana reported a net profit of 446 billion pesos. In addition to the insurance operation, the holding company is the biggest shareholder of Colombia's largest bank, **Bancolombia**. It owns stakes in **Inversiones Argos** and **Grupo Nacional de Chocolates** and has cement and power generation assets as well. The company is also in talks to acquire Bancolombia's insurance company in El Salvador, said Bojanini. "We want to gather in the same company all the insurance activities of the group," he said, adding that the company

### Featured Q&A

*Continued from page 1*

countries in the region can learn from the Colombian experience. The public-private sector partnership is the key fac-

“The public-private sector partnership is the key factor for success.”

— *Andrés Portilla*

tor for success. While private initiatives can improve bankarization levels, public incentives are absolutely essential. But ultimately, the essential truth is that bankarization goes hand-in-hand with economic stability. Public policies are ineffective unless they are accompanied by an overall macroeconomic environment that is stable and where inflation is adequately controlled. Those are the real challenges for the region.”

**A** **Jorge Lara Urbaneja, senior counsel at Baker & McKenzie in Bogotá:** "That 58 percent of adults in Colombia use bank accounts really means that 42 percent of such adults do not use them. Thus,

is also considering the acquisition of other insurance businesses in the region.

### MDS Holdings Acquires Brazilian Insurance Broker

Portugal's **MDS Holdings** has acquired Brazilian insurance broker **Quorum Saúde Seguros e Previdência**, Britain's *Post* reported Sept. 20. At the same time, MDS named Hélio Novaes, Quorum's founder, at chief executive of its operations in Brazil. Quorum, which is headquartered in São Paulo, is a multiline broker and now says it is Brazil's third-largest broker. MDS Brazil currently employs 534 people in 12 states in Brazil. Novaes began his career in the insurance industry with a position in risk management for

Asobancaria's numbers show that Colombians are far from trusting the regulated financial system. Levels of poverty remain very high, so a minority of individuals are in the position of showing long-term financial ability and meeting banking requirements. Very significant, also, is the impact of the 0.4 percent tax on financial transactions, which is collected by financial institutions on every payment effected with the system. Nevertheless, informality is very expensive for low-income people who are forced to pay very high costs and interest when dealing through informal intermediaries. This explains the position of Asobancaria's president, who asked financial regulators to eliminate legal limitations on interest rates in order to attract small businesses into the banking network. In turn, the recently elected government announced the elimination of the 0.4 percent tax. However, elimination will be gradual and should last at least until 2018. It must be acknowledged that several low-end financial institutions operate in Colombia to support small businesses owned by single women who are the heads of households. These institutions have grown substantially and obtain financial support from international banks and multilaterals (such as the Andean Development

*Continued on page 6*

SulAmérica Seguros. He became the company's vice president of marketing and production in 1996 and then became executive vice president after SulAmérica and ING integrated. He started Quorum in 2006. "Hiring Hélio as CEO of MDS Brazil and acquiring Quorum confirms our commitment to Novaes the Latin America market and ambition to become a leader in the international brokerage and risk management industry," said MDS chairman José Manuel Fonseca.



*File Photo: Quorum.*

## Economic News

### Top Mexican Lawmaker: Cutting Sales Tax Could Harm Credit Rating

A proposal by the opposition Institutional Revolutionary Party, or PRI, to cut Mexico's sales tax could harm the country's credit rating, a top lawmaker from the ruling National Action Party told Bloomberg News Sept. 20 in an interview. Carlos Pérez, the deputy coordinator for the National Action Party, or PAN, in Mexico's Chamber of Deputies, said the PRI's proposal to reduce the sales tax would send investors a negative message.



Pérez

*File Photo: Mexican Government.*

Earlier this month, the PRI proposed lowering the value-added tax to 15 percent from 16 percent, which Pérez said would decrease government revenue by 33 billion pesos (\$2.6 billion). A year ago, lawmakers boosted the tax in order to bolster the government's finances. "It's not the 33 billion pesos, but rather the message that we would send at home and abroad," Pérez told Bloomberg News. "Our rating wouldn't be the same." In December, **Standard & Poor's** lowered the country's foreign currency debt rating to the second-lowest investment grade level, BBB, with a stable outlook. The ratings agency said Mexico had not done enough to expand its tax base. **Fitch Ratings** cut Mexico's debt rating in November and **Moody's** has a Baa1 rating, the third-lowest investment grade rating, for the country. Mexico's tax hikes last year helped to restore investors' confidence in the government's finances this year and helped Mexico avoid "a world of sovereign stress," former Deputy Finance Minister Alejandro Wener said earlier this year. President Felipe Calderón has said he is opposed to cutting sales taxes. The Chamber of Deputies must pass the revenues portion of the budget by Oct. 20.

## Subscriber Notice

### Leadership and Responsibility in the New Brazilian International Agenda

Thursday, September 23, 2010

9:00 a.m. to 1:00 p.m.

Woodrow Wilson International Center for Scholars  
1300 Pennsylvania Avenue, N.W.  
6th Floor Flom Auditorium  
Washington, DC

*Confirmed speakers:*

**Thomas Shannon**

U.S. Ambassador to Brazil

**Ernesto Fraga Araujo**

Minister, Brazilian Embassy

**Denise Gregory**

Executive Director, CEBRI

**Al Fishlow**

Professor, Columbia University

**Donna Hrinak**

Senior Director of Latin America Government Affairs, PepsiCo

**Joel Velasco**

Chief Representative for North America,  
Brazilian Sugarcane Industry Association (UNICA)

**Paulo Sotero**

Director, Brazil Institute, Woodrow Wilson Center

**Peter Hakim**

President Emeritus, Inter-American Dialogue

A joint event of the Brazil Institute at the Woodrow Wilson International Center for Scholars, the Brazilian Center for International Relations, the Inter-American Dialogue and Prospectiva Consulting.

To register to attend, please email [renata.johnson@wilsoncenter.org](mailto:renata.johnson@wilsoncenter.org)

## Former Chief of Argentine Central Bank Predicts Continued Inflation

The former president of the Central Bank of Argentina, Martín Redrado, warned Sept. 16 that the Argentine economy is showing signs of exhaustion at a discussion hosted by the Inter-American Dialogue. Redrado said the government has drained the country's fiscal resources and "looking forward we will see more



Redrado

File Photo: Redrado Financial.

inflation, less growth." Redrado was ousted from his position at the helm of the central bank over a dispute with President Cristina Fernández de Kirchner over the appropriation of \$6.6 billion in reserves to finance the public debt. He contends that the administration's expansionary policies are driving inflation to an unsustainable level, threatening to spiral wages and prices out of control. Redrado also criticized the erosion of the trade surplus through a misaligned exchange rate and the raiding of the country's fiscal assets but said that, due to high commodity prices, he does not predict an immediate crisis. Currently, the official inflation rate is 11.1 percent, but independent economists peg the figure at about 25 percent. Fernández's administration on Thursday unveiled its 2011 budget bill, which plans to again use foreign reserves to meet debt repayments and forecasts the economy will grow 4.3 percent in 2011 with 8.9 percent inflation. The bill is expected to meet resistance from the opposition, which accuses the government of underestimating growth and inflation in order to use additional tax revenue without congressional oversight.

## Political News

### Brazil Cabinet Chief Steps Down Amid Accusations of Corruption

The cabinet chief in Brazilian President Luiz Inácio Lula da Silva's administration resigned Sept. 16 amid corruption allega-

tions, Bloomberg News reported. Erenice Guerra, who formerly was a top aide to ruling party presidential candidate Dilma Rousseff, said she was stepping down in order to defend herself from accusations that she and her children solicited bribes from companies doing business with the country's government. "I need peace and time now to defend myself and my family, so that the truth prevails," Guerra wrote. Guerra's executive secretary, Carlos Eduardo Lima, will replace her on an interim basis, said Lula's spokesman, Marcelo Baumbach. Brazil's *Veja* magazine reported Sept. 11 that **Capital Consultoria**, a lobbying firm that Guerra's two sons control, allegedly charged fees totaling 5 million reais (\$2.9 million) in order to help cargo airline

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“I need peace and time now to defend myself and my family, so that the truth prevails.”

— Erenice Guerra

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**MTA Linhas Aereas** win a contract with Brazil's postal service. The airline, based in São Paulo, has denied any business dealings with Guerra or her children. Guerra has denied wrongdoing and has threatened to sue *Veja* for slander. In an article published Sept. 16, businessman Aldo Wagner told the *Folha de S. Paulo* newspaper that he was asked to pay the lobbying firm a 5 percent commission in order to secure a 9 billion real loan for his energy company, **ERDB do Brasil Ltda.** from Brazilian state development bank BNDES. Wagner told the newspaper that he discussed a stalled solar energy project with Guerra in Brasília when she was executive secretary to Rousseff. Guerra's office denied that she met with Wagner. Wagner also told *Folha* that he refused to pay 450 million reais to the consulting firm and BNDES rejected the loan. Rousseff told reporters that Guerra was right to resign and prepare to defend herself. Rousseff added that the development bank made the right decision in rejecting the loan, as it would have been the country's most expensive energy project.

## POLITICAL & ECONOMIC BRIEFS

### Chávez Reiterates Objection to U.S. Ambassador Designate

Venezuelan President Hugo Chávez on Sept. 17 repeated his objection to the Obama administration's choice for ambassador to Caracas. The nominee, Larry Palmer, told a U.S. Senate Committee in July that Chávez's administration had "clear ties" to terrorist groups and that Venezuela's soldiers had low morale. "If they decide to expel our ambassador there then so be it," Chávez said on state television, Bloomberg News reported. "Yankee go home!" The State Department has said Palmer, who has not yet been confirmed by the Senate, remains the nominee. No date has been set for Palmer's arrival in Venezuela.

### Rebel Commander Among Those Killed in Colombia Military Strike

A top commander of the Revolutionary Armed Forces of Colombia, or FARC, was among those killed Sept. 19 in a military raid in the southern Colombian jungle, Colombian authorities said Sept. 20, Reuters reported. Sixto Antonio Cabana and more than 20 others were killed in the military's strike against a FARC camp near the Ecuadorian border, police commander Gen. Oscar Naranjo told reporters.

### Funes: El Salvador Needs Neither U.S. Nor Venezuelan Models

El Salvador's president said Sept. 14 that his country needs neither U.S.-style capitalism nor Venezuela's brand of socialism, the *Miami Herald* reported. "In El Salvador it's not possible to build socialism and much less 21st century socialism, which I really cannot define and is not clear to me," Mauricio Funes said at the annual Americas Conference in Coral Gables, Fla.

**Featured Q&A***Continued from page 3*

Corporation, the Inter-American Investment Corporation and the International Finance Corporation).

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“Colombians are far from trusting the regulated financial system.”

— *Jorge Lara Urbaneja*

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This is perhaps the major element behind the banking standardization in Colombia. This model started in India and is replicated throughout Latin America.”

**A** **Diego Alcazar, director of financial institutions at Fitch Ratings in New York:** “Following the regional trend, as competition heightened and margins narrowed, Colombian banks for the past few years have expanded into the under-banked retail and micro-credit segments. This allowed them to bolster growth and revenues while contributing to the increase in Colombia's banked population. Nonbank financial institutions and nongovernmental organizations also contributed by introducing customers to basic financial services; some of these customers went on to demand services from banks. In order to reach and attract more customers, banks are expanding their networks, better segmenting customers and tailoring products to each segment. Banks acquired customers indirectly (through payroll services), based on core products (residential mortgages) or supplying a financial life-line (microcredit). Inorganic growth was also a factor as some banks acquired spe-

cialized entities or loan portfolios. Just before the global crisis, banks' assets were growing so fast that the government increased deposit reserve requirements to slow down growth, tame inflation and avoid over-indebtedness. The products that have grown the most since 2009 are savings accounts, which drew 705,015 new customers; micro-credit, 313,905 new customers; and mortgages, 56,186 new customers. In relative terms, the order was reversed, reflecting the still incipient nature of retail and microcredit. A similar trend was present throughout the region with some nuances. Bancarization was slower in more mature markets (Chile, Mexico and Panama, among others) and in countries that faced significant political or economic uncertainty (such as Venezuela and Ecuador). Nevertheless, access to financial services is generally on the rise

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“Banks are expanding their networks, better segmenting customers and tailoring products to each segment.”

— *Diego Alcazar*

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in countries including Colombia, Brazil and Peru. Also, strong growth is likely to continue given the still important unfulfilled demand, positive economic prospects and high profitability of this segment.”

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*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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