INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Managing Director,
Eton Park Capital Management

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Jason Hafemeister
Vice President,
Allen F. Johnson & Associates

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris International

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig Kelly
Vice President,
The Cohen Group

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.-Start Content-

FEATURED Q&A

How Well Are Latin American Banks Dealing With Cyber Threats?

Q A wave of cyber attacks has been targeting corporate bank accounts, according to a June 25 report by McAfee and Guardian Analytics. The criminals behind the attacks have attempted to steal at least $78 million from accounts, so far. While Europe has been the main target, thefts have spread to other locations, including Colombia and the United States, the firms said. How well are banks in Latin America dealing with the threat of online fraud? Have financial institutions in the region done enough to protect themselves and their customers? How big of a burden is it for banks to protect themselves against cyber attacks? Are governments doing their part to ensure consumers and banks are protected from threats?

A Don Jackson, senior security researcher at the Counter Threat Unit research team at Dell SecureWorks: "Although we don't have a dollar figure of the amount of losses from hackers targeting online banking customers in Latin America, we know that banking 'trojans' —malicious software targeting online bank accounts—is one of the top cyber threats affecting Latin America. Antivirus provider Kaspersky reported in 2011 that 36 percent of all new bank trojans originated in Brazil. With approximately 70 million Internet users, Brazil has a tremendous pool of online banking customers for hackers to target. In recent years, we have seen an increase in Brazil-based cyber criminals targeting bank clients in other Latin American countries as well as in Portugal and Spain. Numerous banks in Latin America, especially in Brazil, offer their online banking customers a variety of security solutions, like special security plug-ins, tokens and security cards, to help combat cyber fraud. Although these security precautions can help businesses and consumers protect their accounts from some banking trojans, they cannot thwart the most

Continued on page 3

Santos Rejects Claims of FARC Resurgence in Colombia

A recent surge in violence from Colombia's FARC amounts to a last gasp of the rebel group as it attempts to remain prominent, President Juan Manuel Santos said in an interview published Wednesday. See story on page 2.

File Photo: Colombian Government.

Inside This Issue

FEATURED Q&A: How Well Are Latin American Banks Dealing With Cyber Threats?.....1

Colombia's Santos Rejects Claims of a FARC Resurgence 2

Mexican Banking Regulator Slaps HSBC With $28 Million Fine.....2

White House Criticizes Cuba Over Detention of Dissidents.....2

U.S., Amnesty International Criticize Cuba Over Detentions 2

Profit Slumps at Brazil's Vale as Chinese Growth Slows.....3

Copyright © 2012, Inter-American Dialogue

NEWS BRIEFS

U.S., Amnesty International Criticize Cuba Over Detentions

The White House and Amnesty International on Wednesday criticized Cuba for its detention of more than 40 dissidents the day before at the funeral of a prominent human rights activist, the Associated Press reported. They had been attending the funeral of Oswaldo Payá, who was killed Sunday in a car crash. The dissidents yelled "Freedom!" at state security agents before being detained, questioned and released after a number of hours. The White House said the incident provided "a stark demonstration of the climate of repression in Cuba." Amnesty International said the incident was typical of Cuba's "intimidation against dissidents and human rights activists."

Ecuador to Hold Off on Assange Decision Until After Olympics

Ecuador will wait until after the Summer Olympics to announce a decision about WikiLeaks founder Julian Assange's request for political exile, said Foreign Minister Ricardo Patiño. Assange has been holed up in Ecuador's London embassy since June 19, avoiding extradition to Sweden, where he is wanted for questioning about allegations of sexual assault and rape. The games begin Friday and end on Aug. 12.

Peruvian Inflation 'Near Zero' in July, Says Central Bank President

Peru's inflation rate will be close to zero in July, central bank chief Julio Velarde said on Wednesday, Reuters reported. However, consumer prices could be affected if food prices continue to increase. About half of the Andean nation's consumer price index is comprised of food and a recent drought in the United States has pushed up grains prices.

Political News

Colombia's Santos Rejects Claims of a FARC Resurgence

The Revolutionary Armed Forces of Colombia is not making a comeback, and recent FARC attacks amount to a last-ditch effort by the rebel group to receive attention, Colombian President Juan Manuel Santos told Reuters in an interview published Wednesday. The FARC is faced with declining relevance as government troops continue attacking them, which has led a surge in violence as the rebels attempt to remain prominent, Santos told the wire service a day earlier. "The weaker these illegal groups are, the more they want to show that they are alive," the president said in Cartagena. "And what do they use? Terrorism." Santos' predecessor as president, Álvaro Uribe, has steadily criticized Santos via Twitter over the view that the security gains Colombia saw under Santos are evaporating. Earlier this month, Uribe withdrew from the ruling coalition and became part of the opposition. The former president blasted Santos, saying he is "squandering the inheritance" of Colombia's progress in improving security. Santos, who served as defense minister under Uribe, defended his position, adding, "Unfortunately some people want to use this violence and terrorism as a political weapon … And, in a way, they play into the hands of the terrorists by magnifying the effect." Santos said he will not discuss his plans for re-election until next year. His popularity ratings have fallen in recent weeks amid the perception that the FARC is gaining strength and as corruption allegations surface in Congress. "Santos will remain politically vulnerable and may see a further drop in his approval ratings if the government does not show progress on improving Colombia's security environment further," the **Eurasia Group** risk consultancy said in a research note.

Uribe

File Photo: Colombian Government.

Company News

Mexican Banking Regulator Slaps HSBC With $28 Million Fine

Mexico's banking regulator has fined the local unit of Britain's **HSBC** with a $28 million fine for its failure to stop money laundering through the bank's accounts, the Associated Press reported Wednesday. The National Securities and Banking Commission said the bank has paid the fine, which is equal to approximately half of the 2011 profits of the Mexican subsidiary. The regulator and a U.S. Senate investigation determined that the bank did not adequately control billions of dollars worth of suspicious flows and failed to respond promptly after warnings from authorities. Even though **HSBC Mexico** was not among the country's largest banks in the mid-2000s, it accounted for about half of the total flow of dollars in cash transfers from Mexico to the United States, said Guillero Babatz, the head of the Mexican banking commission. Regulators discovered the suspicious flows and brought them to the attention of local managers for HSBC in Mexico in 2007 and 2008, said Babatz. However, the local managers "minimized the risks," which led the regulators to contact top managers at HSBC in Mexico, an unusual step he added. A report released earlier this month by a U.S. Senate committee said that HSBC Mexico transferred about $7 billion in cash into the United States. "Bulk cash shipments could reach that volume only if they included illegal drug proceeds," the committee's report said. HSBC Mexico has acknowledged that it did not report 39 suspicious transactions

> "HSBC Mexico recognizes it failed to strictly comply with banking regulations ..."
>
> *— HSBC statement*

Copyright © 2012, Inter-American Dialogue

and that it belatedly reported 1,729 others. "HSBC Mexico recognizes it failed to strictly comply with banking regulations, and with the standards that regulators and clients expect of our institution," the bank said in a statement. HSBC started taking "drastic and assertive" actions to correct the problem in late 2008, said the Mexican banking commission. HSBC became the first Mexican bank to completely stop dollar transactions in 2009. "HSBC regrets that actions in the past, which have been corrected, affect the bank's image today," the bank's statement added. In 2010, Mexico's government instituted new limits on cash transactions in dollars at all banks in the country.

Profit Slumps at Brazil's Vale as Chinese Growth Slows

Slowing growth in China took a toll on the second-quarter profits of Brazilian iron-ore producer **Vale**, Reuters reported Wednesday. The company reported its lowest level of net income in more than two years on falling Chinese demand and also as a result of a weakening Brazilian real. In addition, a decline in the Brazilian real has increased Vale's costs to service its debt. The world's largest iron-ore producer earned $2.66 billion in the second quarter, a drop of 58.7 percent from the same quarter last year. The company's profits missed the average estimate of nearly $3 billion from 10 analysts in a Reuters survey. The company sold iron-ore at $103.30 per metric ton, a 29-percent decrease from last year and 5.5 percent lower than in this year's first quarter. Murilo Ferreira, who has been Vale's chief executive officer for just more than a year, has tried to assure investors that the company is bracing for lower growth in China. In coming years, Vale may also see rising costs of doing business as Brazil's government collects higher taxes and royalties from mining companies. Vale's preferred stock has fallen 14 percent over the past 12 months. In the second quarter, China's share of Vale's sales declined to 43.7 percent from 47.2 percent in this year's first quarter. Still, Vale's net revenue increased 7.2 percent in the second quarter to $12.15 billion. The revenue total missed analysts' expectations of $12.6 billion in revenues. Prices for iron-ore exports to China may continue falling. The prices of Brazil's shipments of the commodity to China are 15 to 21 percent lower now than they were a year ago, according to data from Chinese customs officials. Spot prices for iron-ore sank to an eight-month low on Wednesday and have plummeted by more than a third since mid-February.

> *Vale reported its lowest level of net income in more than two years.*

Featured Q&A

Continued from page 1

sophisticated threats, such as ZeuS and SpyEye. It is vital that banks work with their online customers to help defend against the increasing threat of financial fraud. Banks should take a layered approach to Internet security and educate their corporate customers to do the same by implementing a robust intrusion prevention solution to defend against cyber threats. Additionally, they should have a comprehensive picture of the network that shows how systems are configured, how they connect and the ports and services available on each device. Also, they should use a threat intelligence service that delivers early warnings and actionable security intelligence tailored to their environment to quickly protect against threats and vulnerabilities. They can also cordon off critical data in well-monitored digital 'vaults' that restrict access to important data, and make it more obvious to see any malicious attempts to copy or steal the data. And finally, they should monitor hosts, logs and networks 24/7/365."

Carlos Lara, president of Lara & Associates LLC and chairman of HTC Americas: "For several years, banks from Latin America have invested significant resources in technology, people and processes; although the size of the bank determines how sophisticated their solutions are, all of them have suffered from internal and external threats. Losses continue to be significant and unpredictable. Traditional solutions of maintaining and securing data and networks, like secure locations, password authentication, data encryption and access restrictions are only the first step. The biggest challenges faced by banks, companies and government institutions are the ever-changing threat landscape and the increasing variety of access devices, particularly mobile devices. The most significant challenge is to implement integral solutions that can address these issues in a cost-effective manner and that contemplate upcoming technologies—like the use of virtual credit cards. These integral solutions should address tactical and strategic scenarios while bridging business and IT. They should also provide a user-friendly environment to end users, partners and providers. The cooperation among countries and other entities is important to share best practices, but the more the threats are moving from consumer attacks to business attacks, the more difficult they are to identify and control. Banks are only one of the often-targeted entities in the world. The 21st century

> "The more the threats are moving from consumer attacks to business attacks, the more difficult they are to identify and control."
>
> *— Carlos Lara*

Continued on page 4

Copyright © 2012, Inter-American Dialogue

Featured Q&A

Continued from page 3

technology explosion has its unique challenges that should be understood as a global responsibility. Due to the massive and immediate threat that represents to all institutions, self-governance should also play an important role."

A Bryan Rozo, eBanking solutions manager for the Andean Region at Gemalto: "In Colombia, for example, there is no regulation that obliges banks to protect their customers with systems like double-format authentication. The whole banking ecosystem is now stepping into the process of making stronger efforts to protect against attacks. Bank fraud is an evolving matter for the banks; the more protection they take, the more advanced the fraud becomes. Defrauders see an opportunity to attack in countries like Colombia, where protections are currently very basic. In coming months, stronger government regulations will push banks to use double-format authentication, which is the common step against the most prevalent sophisticated frauds like DNS poisoning, pharming and man-in-the browser. The bigger the efforts, the more experienced defrauders will achieve. The key message for the banks is: go take step-by-step security measures that are stronger than the market standards to prevent fraud."

A Wally Swain, senior vice president for emerging markets at The Yankee Group in Bogotá: "There is a progression of responses to technology challenges by Latin American governments. In the first phase, they really don't acknowledge that the threat exists. In the second, they hope it goes away. In the third, it becomes a bullet-point in ministerial presentations. In the fourth and final phase, they mobilize resources to deal with it. My opinion of cyber-security is that we are somewhere between the second and third phase in most countries. It has just started to appear in presentations of Colombia's IT and communications ministry. I haven't seen mention of it elsewhere in the region. Banks are more than aware of the threat. For example, their clients are admonished to be careful with passwords. Sophisticated threats like DDOS no doubt occur but pass by without public scrutiny. Given the somewhat 'behind closed doors' approach to banking regulation in the region, this shouldn't be surprising. But cyber-security has to become a public issue before governments will take notice."

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

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2012

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Rachel Sadon
Reporter, Assistant Editor
rsadon@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director of Finance & Administration
Paul Isbell, Visiting Senior Fellow
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Remittances and Development Program
Tamara Ortega Goodspeed, Senior Associate, Education
Jeffrey Puryear, Vice President, Social Policy

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Copyright © 2012, Inter-American Dialogue