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FEATURED Q&A

How Much Does Cybercrime Threaten Latin American Companies?

Q U.S. retailer Target acknowledged in March that it missed early signs of the security breach that eventually compromised 40 million credit- and debit-card accounts and the personal information of as many as 70 million customers late last year. To what extent are banks, retailers and credit-card companies in Latin America exposed to liabilities relating to financial cybercrime? As the usage of payment cards and online shopping increases in Latin America, will regulators in the region impose tighter rules on financial services companies and retailers? How costly will compliance with anti-fraud measures become for banks and other credit-card issuers in the region?

A Thomas Morante and Steven B. Roosa, partners at Holland & Knight in Miami: "Latin America is considered somewhat behind the curve on cyber-preparedness, although support is growing for regulation and cyber laws have been adopted in several countries, including Argentina, Brazil, Colombia, Mexico and Peru. In addition, the Organization of American States has developed a cyber security program to support the OAS Comprehensive Inter-American Strategy to Combat Threats to Cyber Security. Because cybertheft is a global phenomenon where the attackers know no borders, the recent experience of U.S. retailers paints a useful picture of what the industry in Latin America faces. Retailers and other consumer-oriented businesses confront an enemy that: (1) conducts extensive reconnaissance, (2) takes advantage of multiple vulnerabilities in a system—such as in the Target case, where back-end servers and point-of-sale devices were compromised, and (3) is skilled at exfiltrating large amounts of data from organizations while bypassing monitoring systems. The cost of compromise is large, including lost customer goodwill, data-breach lawsuits by consumers, and the cost of indemnifying companies affected

Continued on page 3

U.S. Defense Secretary Eyes Closer Ties With Mexico

Mexican Brig. Gen. Uriel Ríos on Wednesday greeted U.S Defense Secretary Chuck Hagel (L-R) upon Hagel's arrival in Mexico City. Hagel said he wants to form closer military ties between the countries. See story on page 2.

Photo: U.S. Department of Defense.

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NEWS BRIEFS

Colombia's Santos Restores Ousted Bogotá Mayor to Office

Following a court order, Colombian President Juan Manuel Santos on Wednesday reinstated ousted Bogotá Mayor Gustavo Petro to office, BBC News reported. In December, the country's inspector general sacked Petro and banned him from holding office for 15 years over alleged mismanagement of the capital's trash collection system. Santos ratified the ouster in March, but the Superior Tribunal of Bogotá on Tuesday ordered Petro's reinstatement. Petro had argued that his removal was politically motivated.

Brazilian President Signs Internet 'Bill of Rights'

Brazilian President Dilma Rousseff on Wednesday signed into law the country's first Internet "Bill of Rights," the Associated Press reported. The new law aims to protect privacy by limiting the data that online companies can collect on Internet users. Rousseff called the law's "net neutrality" clause, which bars companies from charging more for content that demands higher bandwidth, "fundamental to maintaining the Internet's free and open nature." [Editor's note: See related Q&A in the April 8 issue of the *Advisor*.]

Banco Bradesco Beats Estimates in Reporting 18% Profit Rise

Brazil's **Banco Bradesco** said Wednesday its profit rose 18 percent in the first quarter, Bloomberg News reported. Adjusted net income climbed to 3.47 billion reais ($1.56 billion), beating market analysts' estimates. One of the largest lenders in Latin America, Bradesco said it spent less money to cover bad loans in the period, shifting from riskier auto lending to mortgage and payroll loans, according to the report.

Political News

Defense Secretary Eyes Closer U.S.-Mexico Ties

U.S. Defense Secretary Chuck Hagel said Wednesday during a trip to Mexico that he wants to deepen defense ties between the two neighboring countries, the Associated Press reported. Hagel made the comments to reporters accompanying him during the visit to Mexico City where he is participating in talks today with his Mexican and Canadian counterparts. "Over the years we've probably never done enough to reach out to our Latin American partners," said Hagel, adding that the United States has largely focused on crises in other regions. "The places that get most of the attention around the world are the trouble spots." Hagel is only the third sitting U.S. secretary of defense to visit Mexico, following trips by William Perry in 1995 and Robert Gates, who visited as recently as 2010, the AP reported. Military relations between the United States and Mexico have long been strained, starting when the United States defeated Mexico in the Mexican-American War in the 1840s. More recently, drug trafficking along the border has troubled the countries' relations. Today's talks would also cover regional security threats, such as violent extremists, in addition to possible areas for cooperation, such as humanitarian assistance and disaster relief. Hagel also plans to visit Guatemala before returning to the United States on Friday.

Economic News

Strike by Construction Workers Halts Panama Canal Expansion

Work on a major project to expand the Panama Canal, already running behind its original schedule and with higher than expected costs, came to a halt Wednesday amid a nationwide strike by construction workers, EFE reported. The canal expansion project "is completely paralyzed," Hector Hurtado, secretary of the Suntracs union, told EFE. Workers nationwide are demanding annual salary hikes of at least 20 percent, according to the report. "The entire project is paralyzed ... the business leaders have forced us" to take this step because their "salary offer is not acceptable to workers," Hurtado said. The Panama Construction Chamber is proposing a staggered raise that would see workers' pay increase by 22 percent in four years, according to EFE. The project, originally slated to be finished this year, is now planned for completion in late 2015 or early 2016. In related news, Japan has protested to Panama about planned limits on the size of ships in the expanded canal, saying they could prevent some natural gas transport ships from reaching customers in Asia, *The Wall Street Journal* reported Wednesday. Panama has set a width limit of 49 meters for ships passing through the widened canal, according to the report, but Japan says that is slightly too narrow for a type of LNG carrier called a Q-Flex, which is 50 meters wide and can carry as much as 38 percent more LNG than 49-meter-wide models. The Panama Canal Authority responded to the *Journal* Wednesday to acknowledge that the global LNG fleet has gradually increased in capacity over the years, but it said the size increases are generally limited so as to maintain flexibility to trade to most LNG terminals and that it expects the fastest-growing part of the world's fleet will handily fit in the expanded canal.

> "The entire project is paralyzed..."
>
> — *Hector Hurtado*

U.S. Senate Advocates for Canada Pipeline May Push for Vote

Congressional advocates for the proposed Keystone XL pipeline suggested Wednesday they would revive efforts to override the Obama administration's opposition to the project in the wake of a State Department decision to push back a deadline to advance it, Bloomberg News

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reported. "We'll have to start counting noses again," Sen. Heidi Heitkamp (D-N.D.), a supporter of the pipeline, told the news service. "Now that this process has taken a turn for the worse, I think we need to have those discussions again." The State Department, which is leading an interagency review of **TransCanada**'s proposal to build the $5.4 billion pipeline from Alberta to Nebraska, on April 18 extended its previous deadline over a legal challenge and asked other agencies to file comments on the plan by early May. Senate advocates presently lack several of the 60 votes needed to buck the administration and bring the bill up for consideration in the Senate, and even more votes would be required to reach the 67 needed to override a veto from President Barack Obama should a bill pass in Congress. "The simplest path for Keystone XL remains the State Department," Andy Black, chief executive officer of the Association of Oil Pipe Lines, a Washington-based group whose members include TransCanada, told Bloomberg News. Meanwhile, analysts at an Inter-American Dialogue event on North American energy trends on Wednesday suggested that the future of the pipeline was far from decided. "I think the question has gotten more complicated rather than less," Sarah Ladislaw, the director and senior fellow in the CSIS Energy and National Security Program, told the audience. Aside from political and environmental opposition, the U.S. energy industry itself may not be as fully supportive of the pipeline deal as it once had been, she noted, pointing out that some U.S. energy producers are finding railways to be a viable and flexible alternative to a new fixed pipeline. "You basically see a lot of rail traffic moving around to solve the issue that the absence of this infrastructure has had over a period of time," she said. [Editor's note: See the Dialogue's video with related pipeline comments beginning at 1 hr., 15 min.]

Heitkamp

File Photo: U.S. Senate.

Featured Q&A

Continued from page 1

by the breach of one's systems. Latin American governments are aware of these threats—with incidents of malware, spam, malicious Web site hosting and online banking theft on the rise. Playing defense has its costs: paying for implementation and operation of defensive systems, patching vulnerabilities and hiring information security professionals. Given the advantage that cyber thieves have, the quality of the attackers and the difficulty of mounting defensive measures, cyber woes will continue even if additional steps are taken in Latin America to strengthen defenses including enhancing cyber liability insurance against privacy breach and cyber attacks. This first- and third-party coverage is becoming more widely available, affording protection for fraud and theft, forensic investigation, business interruption, extortion, computer data loss and restoration, costs of litigation/regulatory response, and notification to customers."

A Marta Colomar-Garcia, associate attorney and Albert Xiques, senior paralegal at Diaz, Reus & Targ, LLP in Miami: "The level of Internet use in Latin America has grown over the past decade. As a result, Latin America is increasingly becoming a cybercrime target. Online banking theft and hacking attacks tend to be the most common cyber liability risk in Latin America. Cyber liability cases regularly dominate headlines across Latin America. When a network security or data breach occurs, repercussions include liability, fines and penalties, and damage to the company's reputation. Most cases of cyber liability end with embarrassment, apologies, job terminations and loss of clients. However, victims have gone further by demanding compensation for damages or for reputational damage. Due to the increasing cybercrime in Latin America, the legal environment regarding privacy is evolving rapidly. The majority of countries are enacting data protection laws. Some countries like Brazil approach cyber-risks as a national security issue; others like Colombia focus on the economic impact of those risks. However, the Latin American legal landscape can vary considerably from one country to another. Most countries in the region are fostering partnerships among governments and with private businesses to act together and coordinate their approach to cyber-risks. Unfortunately, there is still a lack of legal uniformity, and companies should be aware of how the laws differ from one country to another. Although many governments have passed information security laws related to cyber data, companies cannot rely on government guidance for cyber security risks. If a cyberattack causes damage to a third party, the company could face liability or at least a claim. Given the costs of investigations, potential for fines, penalties and reputational costs, finding ways to set the proper tone and be proactive in deterring cyberattacks should be a top priority for corporations."

> "Latin America is increasingly becoming a cybercrime target."
>
> — ***Marta Colomar-Garcia & Albert Xiques***

A Wally Swain, senior vice president for emerging markets at The Yankee Group in Bogotá: "With an unfortunate tradition of fraud, money laundering and organized crime in many countries, Latin American banks and bank regulators are typically obsessed with security. This has, in fact, slowed the development of online and especially mobile banking and payments solutions. Sometimes they impose layers of physical security on top of online transactions. My leading Colombian bank requires that I physically go to a bank branch to validate a new payee. But sometimes security technolo-

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Featured Q&A

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gy is available but not used. I have an EMV (chip credit card), but I am not required to use the PIN. PIN codes are only used with EMV debit cards. Surveys show that Latin American consumers are surprisingly unaware of the need for data security. With consumers unaware and banks either applying inappropriate technologies or not applying available technologies, the region is ripe for a major scandal."

A Luca Tenzi, Switzerland-based security consultant: "There is no doubt that Latin American countries are aligning their legislation with the best international standards when it comes to fighting cybercrime. With the upcoming World Cup and Olympics, Brazil will be the frontrunner when it comes to protecting credit- and debit-card accounts and the personal information of the thousands of tourists who will be visiting the country. In that view, banks and financial institutions have made a strong push for the use of smart cards with the rapid deployment of EMV-compliant cards and terminals. Diminishing the risk of skimming fraud and the use of PIN-enabled chip cards have provided card users an extra layer of security. Nevertheless, while legislation against economic and cybercrime exist and new laws will be implemented, offenders are unlikely to be convicted, let alone penalized. In South America, the issue is not implementing stricter rules, but rather enforcing them. In the fight against fraud, the judiciary would need to support the efforts that banking and financial institutions are undertaking by imposing strong sentences on those committing fraud and institutions that do not comply with the law."

A Kai Schmitz, senior investment officer for Global FinTech and ePayments at the International Finance Corp.: "Fraud in credit card transactions is lower than the high-profile cases and media attention would suggest. Card companies claim that fraud amounts to just 2 percent of transaction volume. However, consumers and retailers hit by fraud may find this is bad enough. Most concerning in the Target case (and other recent cases) is that the retailers were certified to comply with card industry security standards, but allegedly broke the rules. When even very tight rules do not prevent security breaches, something fundamental may be broken. The response in the United States has been to call for finally implementing chip and PIN cards, but this has been called for many times before. Unless retailers are convinced, past experience suggests it will not happen this time either. Regulation may force a change, but few in the industry wish for even more regulation. Alternatives to card payments, however, are few and from a security standpoint so far are also not promising. Bitcoins and other virtual currencies may be inherently more secure than card payments, but unless standards and regulations are enforced on the providers, only adventurous consumers and merchants will dare to use them. At least Latin America has its own answer for secure ecommerce payments: Safetypay, a company operating out of Peru and headquartered in Miami, which allows secure payments online to be made from consumers' bank accounts, without giving financial information to the merchants or Safetypay. Maybe U.S. card companies should take notice."

> "When even very tight rules do not prevent security breaches, something fundamental may be broken."
>
> — *Kai Schmitz*

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

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