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FEATURED Q&A

What Reforms Are Needed in Chile's Pension System?

Q Chilean President Michelle Bachelet on April 29 said that the country's pension system does not adequately provide for retirees. Bachelet made the remarks to a panel of 25 experts who are to study possible pension system reforms and produce a report by October. What are the main problems with Chile's pension system? What kind of reforms does it most need? What new opportunities or hurdles could the reforms pose for financial services companies in the country?

fixed with appropriate regulation. What needs to be done? First, raise the productivity and formality of the Chilean workforce through change in the productive structure of the economy toward more sophisticated and internationally competitive production. Second, ensure that employers enforce the participation of all their workers in the pension system. Third, strengthen the non-contributory ('solidary') pillar of the system, which President Bachelet introduced in her first term in office. But please don't go back to

Continued on page 3

A Manuel Agosin, dean of the School of Economics and Business at the University of Chile: "The major problem with the Chilean pension system is the low wages that most workers earn. With low lifetime employment wages, it is impossible to have a high pension. In addition, replacement rates are low because workers have many gaps in periods of employment during their working lives, they contribute little early in their careers, and many workers are informal and don't contribute at all. Only about half of the workforce is in the system. While Chile has a lower proportion of informal workers than several other Latin American countries, this percentage is still significant. Wages are low because of low levels of skills for the majority of workers. There is also a problem with the high commissions that pension funds charge, but this is secondary and can be



Jamaican Government Scraps Bank Withdrawal Tax

Jamaica's government announced April 30 that it has canceled plans to impose a tax on bank withdrawals. Finance Minister Peter Phillips said other types of levies will replace the controversial tax. See brief on page 2.

File Photo: Jamaican Government.

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FINANCIAL SERVICES BRIEFS

Jamaica Scraps Controversial Bank Withdrawal Tax

The Jamaican government on April 30 announced that it is canceling plans to impose a tax on bank withdrawals that was presented as part of the country's 2014-15 budget, BBC News reported. Finance Minister Peter Phillips said the tax will be replaced by other levies, including a 15 percent withholding tax on some insurance premiums and an extension of the consumption tax to imported services.

Mobile Banking Accounts for 6% of Brazilian Banking Operations

Operations using smartphones accounted for 6 percent of banking operations in Brazil last year, *Telecompaper* reported May 1, citing a survey by the Brazilian Federation of Banks, or Febraban. However, bank customers in Brazil are using mobile banking conservatively, as 97 percent of account accesses using smartphones are only to check balances, not conduct transactions, the survey found.

Brazil's BTG Pactual Reports 36 Percent Rise in Profit for Q1

Grupo BTG Pactual, which is controlled by Brazilian billionaire Andre Esteves, said May 6 that its profit for the first quarter increased 36 percent, beating analysts' estimates, Bloomberg News reported. The São Paulo-headquartered bank's adjusted net income, excluding one-off items, rose to 832 million reais (\$373 million), or 92 centavos per share, as compared to 612 million reais, or 68 centavos per share, in the first quarter of last year. Sales and trading revenues, which includes the bank's commodities operations, grew 30 percent year-on-year in the first quarter.

Financial Services News**Bancolombia to Devote 10 Percent of Assets to Highway Program**

Bancolombia said May 6 that it is in talks with the administration of Colombian President Juan Manuel Santos about financing the government's \$25 billion highway program, Bloomberg News

The bank expects the highway projects to be "materialized" in its loan portfolio by the end of the year.

reported. Colombia's largest bank added that it plans to devote approximately 10 percent of its assets to the initiative. The bank expects the highway projects to be "materialized" in its loan portfolio by the end of next year and "fully reflected" in 2016, Bancolombia's chief financial officer, José Humberto Acosta, said on a conference call. The infrastructure project could be delayed, however, as builders have had trouble lining up financing, José Restrepo, an equity strategist at the **Serfinco** brokerage, told Bloomberg News. The program's first three projects only attracted two bidders out of a pool of 10, he said. "There are still issues that haven't been resolved in the financing of the program," Restrepo told Bloomberg News. "There's something that hasn't been right in the structure, which explains why you're not getting all the bidders."

Banco do Brasil to Review Dividend Amid Compliance With Basel Rules

Banco do Brasil said May 8 that it would review its dividend as it considers its budget for next year and adheres to new capital requirements, Bloomberg News reported. "It's reasonable that the bank reviews this metric and others that affect performance and capital indicators that must be accomplished under the final

Basel III rules," Banco do Brasil's chief financial officer, Iván Monteiro, said on a conference call with analysts. Monteiro made the statement in response to a question about whether the current dividend is too high considering the bank's lending growth estimates. The remarks sent the bank's shares sliding as much as 2.4 percent. On May 7, the state-run bank missed analysts' estimates in reporting first-quarter earnings. Recurring net income amounted to 2.436 billion reais (\$1.1 billion) in the first three months of the year, a 9.3 percent decline from the first quarter of 2013, Reuters reported. Analysts in a poll by the wire service expected recurring profit of 2.512 billion reais on average. The bank's interest income declined as lending rates dropped in the first quarter amid a shift toward less-risky loans. The Brasília-based bank's revenues from financial services, or fee income, dropped 7.1 percent as part of a seasonal pattern. The bank also reported a decline of 8.1 percent in expenses after Chief Executive Officer Aldemir Bendine began an effort to improve bank branches' cost efficiency. Banco do Brasil's recurring return on equity declined to 14 percent in the first quarter as compared to 14.2 percent in the fourth quarter of last year and 17.4 percent in the first quarter of 2013.



Bendine

File Photo: Brazilian Government.

Remittances News**Remittances to Mexico Rise 16 Percent in March**

Remittances to Mexico from Mexicans living abroad, mostly in the United States, increased 16 percent in March, the largest rise in two-and-a-half years, the central bank said May 2, Agence France-Presse reported. Mexicans sent \$2 billion back home in March, an increase from \$1.7 bil-

lion in the same month last year, the bank said. The rise was the eighth consecutive monthly increase in remittances to Mexico and the largest monthly jump since September 2011, the central bank added. The money transfers represent Mexico's

“We expect workers' remittances to firm gradually throughout 2014 given the brighter outlook for growth and employment in the U.S.”

— Alberto Ramos

third-largest source of income, after oil and tourism. The increase was seen as a sign of an improving economy in the United States as Mexicans there appear to be finding jobs more easily. "We expect workers' remittances to firm gradually throughout 2014 given the brighter outlook for growth and employment in the U.S.," Alberto Ramos of **Goldman Sachs** said in a research note.

Insurance News

Amadeus Capital Invests in Brazilian Insurance Site Bidu

London-based **Amadeus Capital Partners** said April 29 it had made its first investment in Latin America with \$8.9 million in funding for Brazil's **Bidu Holdings**, a two-year-old company offering price comparisons for customers looking online for insurance. Bidu is not tied to any one insurance company, but offers real-time quotes from 10 insurers in Brazil, as well as other financial products such as credit cards, according to Amadeus. The B-round funding, led by Amadeus with participation from **Monashees Capital**, **Bertelsmann** and **Otto Capital Partners**, is the first investment from the Amadeus IV Digital Prosperity Fund, which held a first close in July 2013 at \$75 million and invests in later stage venture and growth companies developing online and mobile applications and services targeted the middle classes in Latin America, the

Featured Q&A

Continued from page 1

the pay-as-you-go system that prevailed before the pension reform of the early 1980s. That is a siren song that would bring disaster. It was broken then and things would be much worse now with Chile's rapidly aging population."

A **Milko Matijascic, researcher at the Institute of Applied Economic Research (IPEA) in Brazil:** "Low benefit levels and the difficulty of achieving a decent pension have prompted the Bachelet administration to renew its effort to complete the reform process that it began during her earlier term. The 1981 Pinochet-era reform, which reduced contributions, has not led to benefits that offer replacement rates that meet the norms set by the International Labour Organization (ILO). This is aggravated by high transition costs of switching to the new system as well as high administrative costs. The picture is complicated by a labor market where skilled workers receive lower replacement rates under the defined contribution system. Less-skilled workers tend to spend more time in the informal sector and spend fewer years contributing to a pension fund. The 2008 reform provided for subsidies so that all Chileans would receive at least a minimum benefit. The current pension system is one of Chile's most profitable industries, but it is maladapted to Chile's labor market. Reforms should lower management costs associated with higher volumes of contributions, given that the 10 percent contri-

but ion rate is insufficient. There has been talk of a state-run pension fund, which would likely prove to be very popular as in Uruguay. In any case, the financial services industry will need to be more

efficient and proactive to guarantee a higher replacement rate according to ILO criteria. If it is not possible to achieve this, new models that go beyond individual pension accounts need to be part of the reform agenda to ensure decent pensions for all workers."

“The current pension system is one of Chile's most profitable industries, but it is maladapted to Chile's labor market.”

— Milko Matijascic

efficient and proactive to guarantee a higher replacement rate according to ILO criteria. If it is not possible to achieve this, new models that go beyond individual pension accounts need to be part of the reform agenda to ensure decent pensions for all workers."

A **Andras Uthoff, lecturer in economics at the University of Chile and member of the Presidential Advisory Commission on Pension Reform:** "Reality and time are taking their toll on Chile's pension system. The industry-financed research outcomes and predictions (at very expensive costs) have proven false. Pension funds built up through individual accounts and their effects on capital market developments have not helped

Continued on page 6

where he most recently was senior vice president for strategic business expansion. "Latin America is an important, growing market for ACE, and we're fortunate to have David as part of the team," Jorge Luis Cazar, ACE Group's senior vice president and regional president for Latin America, said in a statement.

Caixa Econômica Federal Eyeing Partnership With BTG Pactual

Brazilian state-run lender **Caixa Econômica Federal** is considering a part-

ACE Group Names Heard as Senior VP for Latin America

Insurer **ACE Group** announced May 8 that it has appointed David Heard as its senior vice president for personal and business insurance in the company's Latin America region. Heard is joining ACE from **American International Group**

nership in investment bank **Grupo BTG Pactual's** high-risk and corporate insurance business, Reuters reported May 2, citing two sources familiar with the matter. BTG Pactual is negotiating the purchase of **Banco PanAmericano's** insurance unit. Both Caixa and BTG are partners in the consumer lender, the sources told Reuters. BTG started insurance operations last year.

Political News

Solís Vows Transparency Upon Taking Office in Costa Rica

Luis Guillermo Solís was sworn in May 8 as Costa Rica's president and vowed to govern the Central American country with transparency and welcome feedback from all parts of the country's society. "When I make a mistake, correct me," said Solís, the Associated Press reported. "When I waver, give me strength." Costa Rica will become a "new citizens' democracy," said Solís, a



Solís vowed to help strengthen small- and medium-sized businesses during his term.

Photo: Solís Campaign.

member of the center-left Citizens' Action Party. The new president said that during his term, he would focus on strengthening small- and medium-sized businesses while also bolstering environmental and social programs, fighting tax evasion and controlling the country's \$2.5 billion deficit. Solís easily won Costa Rica's April 6 runoff election, defeating former San José Mayor Johnny Araya of the National Liberation Party. Araya had abandoned his campaign in March after polls showed him trailing Solís. The outgoing administration of President Laura Chinchilla of the National Liberation Party was beset by corruption scandals, problems with infrastructure and

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among many others.

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an internal debt amounting to 60 percent of gross domestic product, reported the *Tico Times*. Dignitaries from 80 countries attended the inauguration in the National Stadium in San José. Among them were the presidents of Bolivia, Ecuador, Guatemala, Honduras, Panama and the Dominican Republic. El Salvador's president-elect was in attendance as was Spain's Prince Felipe de Borbón.

Legislation Sanctioning Venezuela Advances in U.S. House

Legislation to punish Venezuela's government over alleged violations of demonstrators' human rights advanced May 9 in the U.S. House of Representatives despite objections from the Obama administration, the Associated Press reported. The House Foreign Affairs Committee recommended approval of the sanctions bill, which now goes to the full House. Two

“It's hardly worth responding to the stupid things the imperialist elites in the north do.”

— Nicolás Maduro

Democrats on the committee voted against advancing the legislation. The measure would bar the United States from granting visas to Venezuelan officials who violated the rights of anti-government demonstrators and would also freeze their assets. The protests that began in early February against Venezuelan President Nicolás Maduro's government have left more than 40 people dead. Senators have proposed similar legislation, but those measures have not advanced out of committee. Last week, Roberta Jacobson, the State Department's assistant secretary of state for Western Hemisphere affairs, urged lawmakers to wait for the outcome of talks between Maduro's government and the protesters and added now is not the right time for sanctions. Maduro reacted angrily to the

calls in Washington for sanctions. "Now they're going around with this stupid idea that they're going to sanction us," he said, Reuters reported. "It's hardly worth responding to the stupid things the imperialist elites in the north do." Earlier this month, Venezuelan troops dismantled four protest camps where students had positioned themselves in Caracas. Authorities arrested 243 youths, which seemed to revive an anti-government movement that appeared to have been slowing down. Students held another protest march on May 10. "The protest must not and is not going to stop until there is liberty, democracy and sovereignty in Venezuela," protester Miguel Barreto told Reuters.

Economic News

Panama's Incoming President to Impose Price Controls on Food

Panama's president-elect said May 6 that his first action upon taking office on July 1 will be to impose price controls on several basic foods in order to hold down rising costs, Reuters reported. Juan Carlos Varela, who was elected May 4, said he would "establish emergency price controls on 22 products in the basic basket to lower the cost of living by more than \$600 million for the Panamanian people and avoid speculation in products." The move will be a blow to Varela's rival, current President Ricardo Martinelli, who owns one of the Central American country's largest supermarket chains. When Varela was asked whether the price controls would affect Martinelli's stores, Varela responded, "Without a doubt." The price controls would be applied to foods including rice, meat and cheese, said Varela, adding that food products carry huge profit margins. "We feel that this is very unfair to people," said Varela, whose family owns the country's largest liquor company. Increases in Panama's annual inflation rate have been slowing. Inflation decreased to 3.3 percent in March. However, prices of food and drinks have gone in the opposite direction, rising 5.1 percent on the year in March, a half percentage point increase from December.

POLITICAL & ECONOMIC BRIEFS

More Americans Should Learn Spanish, Mujica Tells Obama

Uruguayan President José Mujica on May 12 met with U.S. President Barack Obama at the White House. Speaking after the meeting, Mujica said that more Americans should learn Spanish and that the United States "will have to become a bilingual country." Mujica also spoke of the dangers of smoking and his interest in having U.S. professors teach in Uruguay since many Uruguayan students come to the United States to study every year.

Argentina Reduces 2013 Economic Growth Figures

Argentina has reduced its estimate of economic growth for the first three quarters of 2013 from 5.6 percent to 3.5 percent after changing the base year from 1993 to 2004, the national statistics agency said May 9, according to Bloomberg News. The move follows a censure from the International Monetary Fund last year for reporting inaccurate economic data. The statistics agency kept its estimate for 2013 growth steady at 3 percent, saying that fourth-quarter growth was 1.4 percent.

Analysts Boost Estimate for Brazil's Economic Growth

Analysts in the private sector have revised their estimate for 2014 growth in Brazil up to 1.69 percent from 1.63 percent last week, the Central Bank said May 12 in its weekly "Relatório Focus," which includes a survey of analysts from approximately 100 private financial institutions, according to EFE. Analysts also revised their inflation forecast down to 6.39 percent from 6.50 percent.

Featured Q&A*Continued from page 3*

finance enough employment-intensive investments, and formal jobs fall short. Transforming social security 'taxes' into compulsory individual savings has not

“Reforms need to solve structural problems such as inequality in income and savings capacity, labor market informality and credibility of the system.”

— *Andras Uthoff*

created incentives to induce independent workers to participate, nor have they improved the system's credibility. Adjustment of fiscal accounts to pay for transition costs has burdened public finance. The competitive pension fund managers' market has not been regulated to reconcile the principle of equivalence of individual contracts with that of the solidarity needed to achieve universal

access. Also, a large share of the population is contributing less than necessary into the system in order to adequately finance their retirement, and only 60 percent of the poor are being guaranteed a benefit. Reforms need to solve structural problems such as inequality in income and savings capacity, labor market informality and credibility of the system. Also, it is necessary to address the existing disincentives to saving and working that are implicit in the structure of subsidies in existing social programs. The issue is largely related to low contributions, although returns are also falling across generations. A welfare state is not on the horizon. Thus, pension fund managers will not disappear, but most likely their role will be diminished, whereas the state will take a more active role in affiliation, managing accounts, building credibility, enforcement and education.”

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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