INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ FINANCIAL SERVICES

FEATURED Q&A

How Much Will Jamaica's Banking Services Act Change the Sector?

Q Jamaica's Senate on June 13 passed the Banking Services Act, which won approval in the House of Representatives the previous week. The measures, which will not take effect until lawmakers approve accompanying regulations, establish some new rules for banks, including a requirement that they hand over money in dormant accounts to the government. The reforms also will allow banks to use third-party agents to offer banking services, such as cash deposits and withdrawals, as well as payments of bills and loans. Will the reforms be beneficial for banks operating in Jamaica? To what extent will the changes protect consumers? Are there drawbacks to the reforms?

A **Matthew A. Hogarth, partner at Wilmot Hogarth & Co. in Kingston:** "The Banking Services Act should benefit Jamaican banks in numerous ways. For example, banks are now permitted to outsource a number of their functions by means of approved and regulated agents. Banks will have a cost-effective opportunity to penetrate locations in Jamaica that currently do not have banks. This will have far-reaching implications for the Jamaican economy as it creates new business opportunities for professional outsourcing and augments the banks' ability to increase their customer bases by converting more of the 'unbanked' into customers. The Act also seeks to extricate politics from the Jamaican banking industry by removing powers currently held by the relevant minister to non-politically appointed supervisors. Customers should benefit from the protection and security to be realized by a metamorphosis of the framework for the banking industry toward governance that is more consistent with international standards, namely the Basel Core Principles, which set out a robust raft of banking supervision principles, while balancing considerations that seek to address the

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Scotiabank Strikes Deal for Chilean Credit Card Market

Wendy Hannam, Scotiabank's executive vice president for Latin America, said her bank's 15-year, $280 million deal with Chile's Cencosud will attract new customers to the bank. See story on page 2.

File Photo: Scotiabank.

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FINANCIAL SERVICES BRIEFS

Diebold Supplying More Than 1,000 ATMs to Peruvian Bank

Financial services technology company **Diebold** announced June 16 that it will supply more than 1,000 Opteva automated teller machines to **Banco de Crédito del Perú**. The ATMs will be deployed across Peru, including in remote regions to increase customers' access to BCP's services and better serve Peru's underbanked population, Diebold said in a statement. An estimated three-quarters of Peruvian adults are currently unbanked.

Cartica Adds Itaú as Defendant in CorpBanca Merger Dispute

U.S.-based investment firm **Cartica Management** said June 12 that it has added Brazil's **Itaú Unibanco Holding** as a defendant in the lawsuit that it filed in an effort to stop Itaú from gaining control of Chile's **CorpBanca**, Reuters reported. Cartica has alleged that Itaú, CorpBanca and CorpBanca's controlling shareholder have violated disclosure and anti-fraud rules, which the companies dispute.

Popular to Repay U.S. Treasury $935 Million From Bailout

Popular Inc., the parent company of **Banco Popular de Puerto Rico**, said June 18 it has received regulatory approval to repay the U.S. Treasury Department $935 million that it received from the Troubled Asset Relief Program (TARP), a bailout program set up during the 2007-2009 financial crisis to support struggling institutions, Reuters reported. Popular, one of the top 10 lenders that still owes the government money from TARP, said it will repay the funds using internal liquidity and through issuing $400 million of debt securities.

Financial Services News

Scotiabank Spends $280 Million for Chilean Credit Card Firm

Canada's **Bank of Nova Scotia**, or Scotiabank, said June 20 it will acquire the credit-card and consumer-loan operations of Chilean retailer **Cencosud** for $300 million Canadian dollars ($280 million). Under the 15-year deal, which would make Scotiabank Latin America's third-largest card operator, the Canadian company will purchase 51 percent of Cencosud's operations and take over its entire loan portfolio, as well as injecting $1.2 billion into the unit. Cencosud's financial services business includes approximately 2.5 million credit cards and more than $1.2 billion in outstanding balances in Chile. Cencosud also manages the Puntos Cencosud loyalty program, one of the most popular loyalty programs in the country, according to Scotiabank. Scotiabank's business in Colombia, which operates as **Banco Colpatria**, has a similar partnership arrangement with Cencosud in that market. "Scotiabank is excited about this acquisition because it will strengthen our credit card offerings for our customers and attract new customers to the bank," Wendy Hannam, Scotiabank's executive vice president for Latin America, said in a statement. "This transaction will also increase our scale in Chile's growing consumer lending market and is consistent with our focus on growing in key markets in Latin America, including Chile," she added. Scotiabank entered Chile in 1990 and has since grown to an operation with close to 3,800 employees, 130 branches and 166 ATMs across the country. In a research note circulated Monday, **Moody's Investors Service** said the deal will help Cencosud reduce risk from financing consumer credit card receivables, allowing the retailer to focus on its core businesses operating its supermarkets, department stores, home improvement stores and shopping centers. The company has stores in Chile, Brazil, Argentina, Peru and Colombia.

> "This transaction will also increase our scale in Chile's growing consumer lending market ..."
>
> *— Wendy Hannam*

Banco Santander Brasil, Bonsucesso Planning Joint Venture

Banco Santander Brasil and **Banco Bonsucesso** are discussing a potential joint venture in an effort to expand payroll loans, Bloomberg News reported June 13. The banks are in talks about a possible non-cash transaction in which Santander Brasil, a unit of Spain's **Banco Santander**, would receive a majority stake in the new firm, an unnamed person familiar with the matter told the news service. An agreement between the two banks would help Santander Brasil boost its struggling payroll-lending operation and would also provide Bonsucesso funds for growth. Santander Brasil's loan portfolio that is backed by payroll deductions declined 15 percent for the year through March to 12.8 billion reais ($5.7 billion). By comparison, the country's largest bank by market value, **Itaú Unibanco**, saw its portfolio increase 52 percent during that time to 24.7 billion reais.

Bolivian Central Bank Bans Use of Bitcoin

Bolivia's central bank has issued an order banning the use of Bitcoin and any other currencies not regulated by a government, the *PanAm Post* reported June 19. The move makes Bolivia the first country in Latin America to outlaw such digital currencies. "The use of currencies not issued or regulated by states, countries, or economic areas, is prohibited, as well as electronic payment orders denominated in currencies not authorized by the Central Bank of Bolivia in the context of the national system of payments," said the order, which was issued in May. The decision by the central bank mentions virtual currencies including "bitcoin, namecoin, tonal bitcoin, ixcoin, devcoin, freicoin, 10coin, liquidcoin, peercoin, quark, primecoin, feathercoin, and others not belonging to any state, country or economic zone" and said such currencies could "cause losses for their holders." Any mobile payments in Bolivia must be paid in bolivianos, the country's national currency. The resolution also states that the measure is intended "to ensure the stability of domestic purchasing power." Mauro Betschart, a co-founder of Bitcoin services company **Moneero**, told the *PanAm Post* that Bitcoin was created to protect people from governments' distorting monetary policies. "People who live in Latin America ... do not trust the government to direct monetary policy. They have suffered, among other problems, from chronic hyperinflation, banking crises, and currency restrictions," said Betschart.

Regulator Finds Errors in Banamex's Dealings With Oceanografía

Mexico's banking and securities regulator has identified what it said are serious errors in **Citigroup** unit **Banamex**'s dealings with Mexican oil-services company **Oceanografía**, *The Wall Street Journal* reported June 19. In February, Citigroup announced that it had discovered about $400 million in fraudulent loans made to Oceanografía by Banamex. Oceanografía appeared to have falsified invoices to Mexican state oil company **Pemex** that were used as collateral, Citigroup said in February. The confidential document from Mexico's National Banking and Securities Commission, which was prepared in May and subsequently obtained by *The Wall Street Journal*, the regulator discovered deficiencies in the internal controls at Banamex as well as in loan origination and administration and weaknesses in risk administration, contracts and internal audit functions. The regulator could impose fines against Banamex, a person familiar with the case told *The Wall Street Journal*. Former employees of Banamex accepted work orders and progress reports from Oceanografía rather than requiring official invoices, the news-

Featured Q&A

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peculiarities that are inherent in the Jamaican banking industry. Ostensibly, this legislation, and the reform that it seeks to commission, should cure evils rather than create drawbacks. Naturally, with enhanced supervision and regulation comes the inextricably associated increase of administrative burden for those who are so regulated. Drawbacks may become evident once the attendant regulations are promulgated and the relevant players start operating within the confines of the Act. Both the Act and the regulations are expected to become refined over time through the usual series of amendments."

A **Earl Jarrett, member of the *Financial Services Advisor* board and general manager of Jamaica National Building Society:** "The Banking Services Act, 2014 seeks to consolidate the supervision and regulation of commercial banks, merchant banks and building societies. The supervisor of banks and financial institutions will now have the power to issue binding supervisory rules. The proposed law will require the governor of the Bank of Jamaica (BOJ) to be the supervisor of banks and financial institutions, independent of the minister of finance. The legislation has wide implications for the entire financial sector; and, while the objective was to consolidate existing provisions into one omnibus law, legislators took the opportunity to introduce new provisions, including the ability of banks to appoint agents to offer financial services. This proposal will pave a pathway for the introduction of mobile commerce in Jamaica based on the retail payments systems guidelines, which contemplates the appointment of agents. This provision will significantly improve access to financial services; and, hopefully, it will also reduce the cost of providing financial services to many Jamaicans who spend several hours waiting in line at banks and incurring significant fees for bank transactions. In addition, the appointment of agents will distribute services to people in underserved communities. Concerning unclaimed money in bank accounts, the new provisions in the Act are not new, as under the existing laws, funds that remain unclaimed for 15 years are paid to the government. The law expressly excludes building societies from this provision. Overall, the law is about tightening the supervision of the financial sector to bring it in line with the requirements that exist in the more developed countries. The proposed law will establish a Supervisory Appeals Board to receive appeals from the financial sector, and it will establish new rules on the formation of boards and financial committees, such as separating the position of CEO and chairman of a bank. The new law will provide greater confidence to investors about the stability of the banking system in Jamaica, and in the long term, will assist in attracting more foreign direct investment while reducing the potential for future failure in the financial sector."

A **Oliver Clarke, member of the Inter-American Dialogue and chairman of The Gleaner Company Limited:** "Jamaica has completed its first year under an International Monetary Fund (IMF) program, and from all indications the administration has been implementing it with some degree of success. Among the program's requirements was the passage of several laws including ones for the financial sector. The Banking Services Act, 2014 combines laws governing merchant banks, commercial banks and building societies into one; and it removes potential political interference by creating an independent supervisor of financial institutions who will be the governor of the Bank of Jamaica (BOJ). The law will remove the finance minister's power in relation to the granting and revocation of banking and other financial licenses; and that power will now be reposed in the BOJ governor. The law significantly streamlines the supervisory powers of the BOJ

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paper reported, citing a person familiar with the matter. That exposed Banamex to risk because Oceanografía might not have actually performed the work described in the documents. In addition, employees of Banamex were told they did not need to corroborate information with Pemex, the person said. The report has not been released publicly because Mexico's attorney general's office is still investigating. Citigroup declined to comment to *The Wall Street Journal* about the report. Citigroup has fired 12 employees based in Mexico, including four managing directors, in connection with the case. Citigroup's chief executive officer, Michael Corbat, has vowed to improve Banamex's controls and discipline employees for the incident, which he called a "despicable crime."

Video

Financial Education and Inclusion in Mexico

an Inter-American Dialogue discussion with

Isabel Cruz
Asociación Mexicana de Uniones de Crédito del Sector Social (AMUCSS)

Anne Hastings
MicroFinance CEO Working Group

Manuel Orozco
Inter-American Dialogue

View the June 23 webcast of the discussion.

En Español

Insurance News

Marsh & McLennan to Buy Majority Stake in Panama's Semusa

Insurance broker **Marsh & McLennan** announced June 18 that it has reached an agreement to acquire a majority stake in Panama-based insurance broker and advisor **Semusa**. Marsh & McLennan said that **Marsh**, its wholly owned subsidiary, will make the acquisition, the terms of which were not announced. The deal will strengthen Marsh's position in Central America and the Caribbean and comes after last year's acquisition of **Franco & Acra Tecniseguros** in the Dominican Republic. The combined company, which will operate under the name **Marsh Semusa**, "will bring together the long-established and highly-regarded operations of Semusa, with the global footprint, solutions, and placement capabilities of Marsh to provide an enhanced service to clients of all sizes in Panama," Marsh said in a statement. Semusa has been the Panamanian correspondent for Marsh for 15 years. Upon the deal's closing, Samuel Urrutia, the president of **Semusa Group**, will become March Semusa's board chairman. Emanuel Abadia, the current CEO of Semusa, will become CEO of Marsh Semusa. "Panama is one of the fastest growing economies in the world, and I am excited that Marsh's first office in Central America will be located in one of its most dynamic business environments," Peter Zaffino, Marsh's president and chief executive officer, said in a statement. "The country has seen significant expansion across the financial services, infrastructure, construction, energy, logistics and transportation sectors. We look forward to offering companies in Panama the full range of our global and regional capabilities." The transaction is expected to close in this year's third quarter.

Political News

Brazil's Workers Party Confirms Rousseff for Re-Election in October

Brazil's Workers Party on June 21 formally ratified President Dilma Rousseff as its candidate for re-election on Oct. 5, the Associated Pess reported. At the party's convention in Brasília, Rousseff said she would lead the country to a "new development cycle and increase investments to improve social, educational and health services," according to the report. Sitting Vice President Michel Temer will again share the ticket with Rousseff. Despite rising inflation, slower growth and dogged corruption scandals in her term in office, a poll released June 17 shows that Rousseff is maintaining her lead over her rivals ahead of the election, *The Wall Street Journal* reported. The survey, conducted by the **Ibope** polling institute, showed that Rousseff had the support of 39 percent of respondents, up slightly from 38 percent in a poll published earlier in June. Aécio Neves of the Brazilian Social Democracy Party had the backing of 21 percent of voters in the latest poll, down from 22 percent. Eduardo Campos of the Brazilian Socialist Party saw his support decline to 10 percent from 13 percent. [Editor's note: See Q&A on Rousseff's popularity ahead of the elections in the May 16 issue of the daily *Advisor*.]

Economic News

Argentina Takes First Formal Steps to Negotiate with Bondholders

Argentina's government on June 23 asked U.S. District Judge Thomas Griesa to give it more time to seek a deal with hedge funds suing to collect on bonds affected by the country's 2001 default, *The Wall Street Journal* reported. In a letter, Argentina's lawyer asked Griesa to suspend his ruling so the country doesn't miss an interest payment at the end of the month and to facilitate "good faith negotiations" between both parties, according to the report. The U.S. Supreme Court last week declined to review Griesa's ruling that Argentina must compensate holdout creditors or it cannot make payments to bondholders who accepted restructured debt in 2005 and 2010. The letter was Argentina's "first step" formally in U.S. court toward negotiating with holdout creditors in a bid to end the dispute and avoid a default, according to the report. Also on June 23, Griesa appointed **McCarter & English** attorney Daniel Pollack to preside over negotiations, *Clarín* reported. According to his Web site bio, Pollack is "widely recognized as one of the preeminent trial lawyers in the country in the conduct of financial litigation" and has appeared as counsel in numerous federal and state appellate courts. Meanwhile, Argentine cabinet chief Jorge Capitanich said he had written a letter to Griesa asking for "fair and equitable treatment for 100 percent of the bondholders," suggesting that satisfying the holdouts should not put at risk the payments being made to bondholders that previously renegotiated their debt. Argentine stocks and bonds rallied as much as 9 percent Monday in light of the conciliatory gestures by the government, despite news that the South American country's economy had slipped into recession in the first quarter, Reuters reported. The two funds that sued Argentina in the case, **NML Capital** and **Aurelius Management**, hold about $1.3 billion worth of bonds, but Argentina says the court decision would force it to pay all holdouts more than $15 billion, Agence France-Presse reported.

Mexico Unemployment Rate Rises Slightly in May to 5 Percent

Mexico's unemployment rate rose slightly higher than expected in May to a seasonally adjusted 5 percent, up from 4.9 percent in April, state statistics agency INEGI said June 23. "The labor market continues to exhibit significant slack," **Goldman Sachs** analyst Alberto Ramos said in a research note about the data. "The unemployment rate remains much higher than the 3.7 percent average that prevailed from January 2007 through June 2008," he added. INEGI said that in May, 58.68 percent of the population 14 years and over in the country was economically active, slightly lower than that observed in the same month of 2013, when it stood at 59.89 percent. However, more than 8 percent of the working population is estimated to be "under-employed," expressing a need or want to work more hours, according to INEGI.

Fitch Downgrades Guatemala Ratings Further Into Junk Territory

New York-based **Fitch Ratings** on June 20 downgraded Guatemala's long-term credit ratings further into junk territory, to 'BB' from 'BB+', *The Wall Street Journal* reported. In a statement, Fitch said Guatemala has "not been able to make sufficient progress to materially enhance its growth prospects, widen its revenue base and improve its fiscal flexibility." The Central American nation has the narrowest revenue base in the 'BB' category, Fitch noted. A tax reform originally intended to raise 1 percent of GDP in extra revenue last year "had a muted impact on tax collection" due to deductions, administrative hurdles at customs and court rulings against tax compliance. Guatemala's five-year average growth of 2.8 percent lags behind the median growth of 3.7 percent for the other countries that Fitch rated 'BB' in 2013. On the positive side, economic activity could accelerate depending on the U.S. recovery and on the pace of execution of a pipeline of $7.6 billion in public-private infrastructure projects in 2014-2019, which equates to 14 percent of GDP. The outlook could improve with sustained improvements in tax collection and a better budget process resulting in greater fiscal policy flexibility, Fitch said. In a meeting with U.S. Vice President Joe Biden in Guatemala City on Friday, President Otto Pérez Molina asked the United States to start a temporary work program for Guatemalan migrants and grant them "temporary protected status," the Associated Press reported. Biden said the Obama administration pledged $93 million in new programs to reduce violence in Central America.

POLITICAL & ECONOMIC BRIEFS

Mexico Reportedly Planning New Airport to Serve Mexico City

Mexico is considering plans to build a new 120 billion peso ($9.23 billion) airport that would serve Mexico City, whose Benito Juárez International Airport is the second-busiest in Latin America, sources told Reuters June 19. Several consortiums have submitted bids to design the airport, and a winner may be announced in July.

Doria Medina to Make Third Run for Bolivia's Presidency

Bolivia's center-right opposition alliance, the Democratic Unity Coalition, on June 17 named businessman Samuel Doria Medina as its presidential candidate ahead of the Oct. 12 election, the Associated Press reported. This will be Doria Medina's third run for the presidency, and he is expected to face President Evo Morales, who has not yet declared his candidacy. Doria Medina is a former finance minister and heads Bolivia's largest cement company and the Bolivian branches of **Burger King** and **Subway**.

Governor of Mexico's Michoacán State Resigns

The governor of Mexico's western Michoacán state has stepped down because of health reasons, Mexico's government said June 18, the Associated Press reported. Gov. Fausto Vallejo, a member of the ruling Institutional Revolutionary Party, met with President Enrique Peña Nieto to tell him of his decision. Vallejo had a kidney transplant last year, but neither he nor the government described his health problems on Wednesday. A few days earlier, local media published a photograph of Vallejo's son purportedly meeting with Knights Templar drug cartel members.

Featured Q&A

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and institutes heavy financial and custodial penalties for breaches of the law, and it should act as a major deterrent to unsound practices within Jamaica's financial sector. The supervisor of the sector now has the power to review all information that exists within a commercial bank. The Act separates the roles of the chairman and managing director of a bank; and it sets restrictions for individuals having multiple roles within a banking group. The Act also introduces new provisions such as the appointment of agents of banks, which will enable greater levels of access to financial services by the majority of the population. In general, the new Act is all about commercial bank and financial services supervision and safety, as well as the consolidation of responsibility within the BOJ. From an early review, it is evident that the burden of compliance has increased; and, therefore, the directors and managers of financial institutions will need to act with greater levels of caution, given that the liabilities, both criminal and civil, are severe. The new laws could also have the negative effect of slowing down the availability of loans to the productive sector in an economy that has seen little growth over the past four decades."

> "It should act as a major deterrent to unsound practices within Jamaica's financial sector."
>
> *— Oliver Clarke*

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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