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## FEATURED Q&amp;A

## Will Panama Finally Be Removed From the 'Grey List'?



Juan Carlos Varela, Panama's president, won praise for organizing a successful Summit of the Americas in April, but will he succeed in changing the Central American country's reputation for money laundering? // File Photo: Government of Panama.

**Q** Panama's Congress on April 22 unanimously approved anti-money laundering legislation that will bolster supervision of non-financial sectors through which proceeds from drug trafficking and other illicit activities have been laundered in recent years. To what extent will the reforms, a main goal of President Juan Carlos Varela, be effective in fighting money laundering in Panama? What do the increased regulations mean for financial services companies operating in the Central American country? Will the changes convince the Financial Action Task Force to remove Panama from its "grey list" of countries with lax anti-money laundering standards?

**A** Richard Fogarty, managing director, and Mauricio Garcia, director for global investigations and compliance services, at Berkeley Research Group: "The measures adopted are a strong foundation for organizing a robust system to combat money laundering in Panama. They involve the creation and strengthening of the institutions in charge of implementing the policies, the collection and analysis of information classified as suspicious by the financial and non-financial institutions which are required to report it and the elimination of anonymity in shareholding interests. The regulations approved lay the groundwork for setting up a comprehensive system to combat money laundering, and, of note, they also apply to non-financial institutions, which often become the target and weak link for money launderers to utilize once financial institutions have strengthened their compliance regimes and made it much more difficult to breach their operations. It is important to highlight that the control and prevention measures for

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## TODAY'S NEWS

## VENEZUELA

## Venezuelan Bank Profits Rise on Higher Lending

Lending by banks in Venezuela grew 89 percent in the first quarter and profits were up sharply, despite inflation rates that are among the highest in the world.

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## DOMINICAN REPUBLIC

## Dominican Officials Charge 17 With Bank Fraud

Officials in the Dominican Republic have filed fraud and money laundering charges in court against 17 people involved in the \$341 million Peravia bank scandal case, including its CEO, José Luis Santoro.

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## BRAZIL

## HSBC May Select Bidder for Brazil Unit by Late June

Britain's HSBC could sell its Brazil unit by the end of next month, according to media reports. HSBC's CEO, Stuart Gulliver, has targeted Brazil, Mexico, Turkey and the U.S. as potential places for cuts.

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Stuart Gulliver // File Photo: HSBC.

## BANKING NEWS

## Venezuelan Bank Profits Rise on More Lending

Lending by banks in Venezuela grew 89 percent in the first quarter, El Universal reported May 17. The figure, based on published balance sheets of domestic banks, suggests there has been a sustained expansion in lending for agriculture, mortgages and micro-credit loans, according to the report, which calculated that net profit of domestic banks grew by 72 percent in the first quarter of the year. Last week, New York-based Fitch Ratings said private Venezuelan banks continue to report resilient loan quality ratios and earnings, even when adjusted for inflation. Venezuela has among the highest rates of inflation in the world. But the ratings agency warned that growing macroeconomic imbalances and government policies that favor state banks will pose challenges to private banks. "The banking system's significant exposure to the public sector, as well as a marked shift in portfolio composition toward more vulnerable economic segments and consumer loans, could lead to a sudden deterioration in asset quality in the event of a forced economic adjustment," said Mark Narron, a director at Fitch.

## Brazil's Itaú Lowers Growth Expectations on Economic Woes

Brazilian bank Itaú Unibanco Holding on May 12 revised its expectations for loan growth this year downward as the nation's economy sputters, The Wall Street Journal reported. Itaú, Brazil's second-largest bank by assets, said it expects its credit portfolio to grow between 3 and 7 percent this year, down from the 6 to 9 percent it previously anticipated. Last year, the bank's loan portfolio grew 9.8 percent to 559 billion reais (\$181 billion) while the economy expanded just 0.1 percent. The economy is

expected to contract by 1.18 percent this year, according to a recent central bank survey of economists. As a result, Brazilian banks, which had experienced years of double-digit increases in their loan books, are seeing less demand for credit. Brazil's economy faces a number of headwinds, including higher-than-target inflation, high interest rates and a scandal at state oil company Petrobras, all of which are

**Brazilian banks are seeing less demand for credit.**

holding back growth. Despite the challenging macroeconomic scenario, Itaú posted a strong net profit in the first quarter of 5.73 billion reais (\$1.86 billion), up from 4.42 billion reais a year earlier, which was primarily due to gains from an increase in the interest rate charged to customers. At the end of the first quarter, the bank reported having a credit portfolio of 578.59 billion reais, a 13 percent increase year-on-year.

## HSBC May Select Bidder for Brazil Unit by Late June: Report

Britain's HSBC Holdings could select a winning bidder for its Brazil unit by the end of next month, three sources with knowledge of the matter told Reuters on May 13. HSBC's chief executive officer, Stuart Gulliver, has targeted Brazil, Mexico, Turkey and the United States as potential locations for shedding assets. Bids for the Brazil unit may not surpass its book value of 10 billion reais (\$3.3 billion), the wire service reported. Banco Bradesco, Banco Santander Brasil and Grupo BTG Pactual have had access to the preliminary documents for the sale, the sources told Reuters. A report in Valor Econômico on May 7 singled out Grupo BTG Pactual for having interest in acquiring HSBC's Brazil unit. The newspaper did not cite sources in the report, but said BTG Pactual, the

## NEWS BRIEFS

## Mobile Financial Services Growth Strongest in Latin America, Caribbean

With a 50 percent growth rate, Latin America had the fastest growth in new registered mobile money accounts in the world last year, industry group GMSA said in a report released May 14. Three countries in Latin America—El Salvador, Honduras and Paraguay—ranked in the survey among the top 15 markets globally in terms of the proportion of adults using mobile money. Last month, three mobile money service providers crossed the 1 million active customer milestone, the report noted.

## Chinese Bank to Buy Control of Brazil's Banco BBM

China's state-owned Bank of Communications Co. announced May 19 that it has reached a deal to buy 80 percent of Brazilian lender Banco BBM for an estimated 525 million reais (\$173 million), Valor Econômico reported. The bank's current controlling shareholders will reduce their stake to 20 percent. Banco BBM had \$1 billion in assets and \$192 million in shareholder equity as of the end of 2014, according to The Wall Street Journal. The deal's announcement coincides with Chinese premier Li Keqiang's visit to Brazil.

## Chile's CorpBanca Says Deal With Itaú Unibanco Undervalues It

Chilean bank CorpBanca said May 13 that a deal made in January 2014 with Brazil's Itaú Unibanco significantly undervalues it, with its strong results over the last year and a weak performance by Itaú's local unit leaving a shortfall of \$1 billion between the agreed upon price and its current value, CorpBanca said in a statement to the local regulator. The deal would be the largest combination of banks in Latin America since 2008.

## FEATURED Q&amp;A / Continued from page 1

money laundering and terrorism financing are specific elements of the risk management system of any institution and, in particular, of financial services institutions. The measures in question here constitute a vehicle by which institutions can focus on the specific principles of bankers, such as knowing with whom they are working and monitoring their transactional behavior, not only in order to have legal coverage, but also to prevent the risk of contagion to other clients, while protecting their reputation as a guarantor of the trust and security of their clients. The increased regulations provide financial institutions with the elements required to ensure transparency in the international market, while adding a key element to institutional stability and sustainability. The changes should be seen more as an additional factor that ensures the sustainability

of the financial and non-financial sector in Panama; in reality, the control and prevention of money laundering should not be seen as a legal obligation but rather as institutional principles dedicated to doing business with individuals and clients with well-established reputations, while also enhancing transparency and thus the good reputation of the institution.”



**Jaime Jácome, Panama-based partner, and Arti Sangar, Dubai-based partner, both at Diaz, Reus & Targ:**

“Panama’s new legislation is certainly an encouraging move toward meeting international norms of cooperation against money laundering. It is indeed undeniable that the implementation of the new legislation is aimed at ameliorating, if not removing entirely, some of the

Continued on page 4

largest independent emerging-market investment bank, had been offered an opportunity to consider the sale. HSBC started the process of shedding the asset in late April and has hired Goldman Sachs to locate a buyer. BTG Pactual, which is controlled by billionaire André Esteves, has nearly completed its acquisition of the BSI Group, a Swiss private banking firm. Representatives for BTG Pactual and HSBC declined to comment to Reuters on the newspaper’s report. Regulators in Brazil may block a large bank’s purchase of HSBC’s Brazil unit out of competition concerns, Valor reported. But if a smaller entity purchases the operation, it would likely have to cut jobs and close branches in order to help recoup the acquisition price. As of December, HSBC’s Brazil operation had 170 billion reais in assets. BTG Pactual on May 6 reported that its first-quarter earnings rose 2.6 percent to 854 million reais (\$281 million), or 94 centavos a share, as compared to 832 million reais, or 92 centavos, a year earlier, Bloomberg News reported. The profit exceeded the estimate of analysts surveyed by Bloomberg and eased concerns that losses on private-equity stakes would undermine the bank’s finances. The results included impairment provisions for invest-

ments related to state oil company Petrobras, which is embroiled in a corruption scandal.

## Citigroup Facing Lawsuit in Argentina

An Argentine court ruled May 19 that Citibank cannot take any more steps to exit the custody business in the South American nation, raising the specter of punitive measures if the bank decides to move forward with plans to leave, Reuters reported. The announcement comes amid an ongoing battle between Argentina and bondholders who refused to accept debt restricting and are instead seeking full repayment on defaulted bonds. In early March, U.S. District Court Judge Thomas Griesa said Citigroup could not process payments of Argentine bonds, prompting Citi to announce that it would exit the Argentine custody business. Earlier this month, Citigroup said in a regulatory filing that Argentina has sued the bank, and some of its employees in the South American nation could face criminal charges in the face of contradictory court requirements, according to Agence France-Presse. Since late March,

Argentine officials “have taken certain adverse actions against Citi Argentina, including filing a lawsuit against Citi Argentina and instituting a suspension of certain activities,” the U.S. bank said. It faces “the loss of licenses to operate in Argentina and criminal charges against bank employees.”

## Consumer Demand for Credit Falls 12 Percent in Brazil

The number of Brazilians taking out credit fell 12.2 percent in April compared to the previous month, Agência Brasil reported May 18. The data, released by financial firm Serasa Experian, shows that any credit increases were driven by micro loans and lending to small companies. Over the first four months of the year, demand for credit increased just 4.3 percent compared to the same period in 2014. Higher interest rates on loans, declining real income due to higher inflation and low levels of consumer confidence have had a negative impact on consumers’ willingness to take on new debt, according to Serasa Experian. The declines in April were relatively even across the nation, with the biggest drop in the northeast region, down 12.6 percent, and the lowest rate of decline in the midwest, at 11.6 percent.

## Dominican Republic Charges 17 for Fraud

Officials overseeing the banking sector in the Dominican Republic on May 18 filed fraud and money laundering charges in court against 17 people involved in the \$341 million Peravia bank scandal case, including its CEO, José Luis Santoro, Dominican Today reported. The bank was dissolved by regulators last year as investigators uncovered more than a thousand fraudulent loans. The case made headlines in October when police alleged that people connected with the fraud planned to kidnap a Venezuelan businessman trying to collect millions in dollars of debt from the bank.

## RESEARCH ALERT

## POLITICAL NEWS

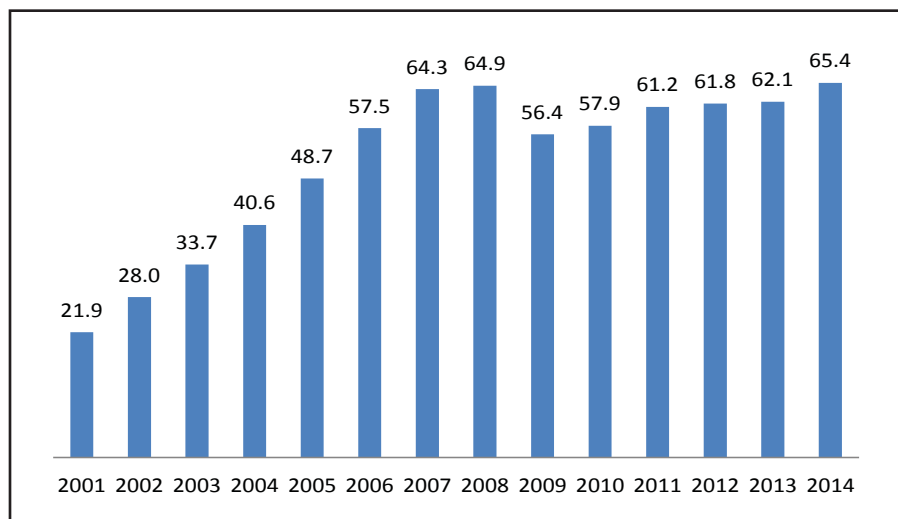
## Venezuelan Officials Targeted in U.S. Drug Probe: Report

U.S. prosecutors are looking into allegations that a number of high-level Venezuelan officials are involved in cocaine trafficking and money laundering, The Wall Street Journal reported May 18. Citing unnamed sources familiar with the probe, the report says a top target is the head of Venezuela's National Assembly and the country's second-most powerful politician, Diosdado Cabello. "There is extensive evidence to justify that he is one of the heads, if not the head, of the cartel," a U.S. Justice Department official told the newspaper in reference to a group believed to be comprised of top officials and military officers. "He certainly is a main target." An elite U.S. Drug Enforcement Administration unit in Washington as well as federal prosecutors in Miami and New York are using information from former drug traffickers, informants once close to the government and defectors from Venezuela's military, including naval captain Leamsy Salazar, who has said he was the head of Cabello's security detail, to build the cases, the sources said. Salazar's testimony forms the basis of the recently published book, *Boomerang Chávez*, in which Emili Blasco, a Washington correspondent with Spanish news outlet ABC, details alleged drug trafficking sponsored by government officials that Blasco claims began under late President Hugo Chávez, Fox News Latino reported. Sources said current President Nicolás Maduro is not a target of the investigation. The Venezuelan government in the past has denied allegations of high-level drug trafficking, calling it a U.S. attempt to destabilize the South American country. Last week, Cabello said that "They accuse me of being a drug trafficker without a single piece of evidence, and now I'm the bad guy," in reference to Venezuelan journalists and executives who published drug trafficking allegations earlier this year. While U.S. investigators told The Wall Street Journal that they are far along in their investigation, any

## Remittances to Latin America, Caribbean Set New Record High in 2014: Report

Workers from abroad sent a record \$65.4 billion to home countries in Latin America and the Caribbean last year, a [report](#) released May 12 by the IDB Group's Multilateral Investment Fund found. The report identified "significant growth" in remittance flows to Mexico (8 percent), Central America (7.4 percent) and the Caribbean (6.3 percent), most likely linked to the recovery of the economy and labor market in the United States.

### Remittances to Latin America and the Caribbean (billions of US\$)



However, there was a decrease of 1 percent in flows to South America, partly due to the economic situation in Spain, which constitutes a major source of remittance flows to that subregion.

Since the 2008-2009 international financial crisis, and up until 2013, the total amount of remittances sent by migrants to their countries of origin had failed to match the levels of 2008, when they reached a high of almost \$65 billion.

Mexico, which receives more than a third of all remittances sent to Latin America, continues to be the largest recipient, with \$23.6 billion, followed by Guatemala with \$5.5 billion, the Dominican Republic with \$4.5 billion, El Salvador with \$4.2 billion and Colombia with \$4 billion.

The Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) received almost 70 percent of the remittances sent to South America, totaling almost \$11.3 billion. The authors associated flat growth in Andean remittances with a stagnant job market in intraregional remittance-sending countries (Venezuela in particular).

According to the report, the recovery of remittances is projected to continue or even accelerate in 2015, given growth forecasts for the United States, Spain and Latin America.

## NEWS BRIEFS

## Granger Defeats Ramotar in Guyana's Presidential Election

Challenger David Granger, a retired army general, was elected president of Guyana, electoral officials in the South American country declared May 14, Stabroek News reported. Granger, of the multi-ethnic Partnership for National Unity-Alliance for Change Coalition (APNU+AFC), defeated incumbent President Donald Ramotar of the People's Progressive Party (PPP/C), which has been in power for 23 years. Granger's coalition won 206,817 votes, while Ramotar's ruling party garnered 201,457, BBC News reported. Ramotar had been seeking a sixth consecutive term, but his administration had faced allegations of mismanagement and corruption.

## Chile, Peru Keep Key Interest Rates Unchanged

Chile and Peru on May 14 decided to keep their interest rates low as high inflation and weaker currencies have made the central banks hesitant to adjust rates, Bloomberg News reported. Peru's central bank kept its key lending rate at 3.25 percent, and Chile kept its rate at 3 percent. Growth in both countries remains sluggish after a drop in copper prices, their main export, reduced investment and consumer demand.

## Venezuela's Unofficial Exchange Rate Rises Above 300 Bolívars Per Dollar

Venezuela's unofficial exchange rate has weakened to more than 300 bolívars per dollar as the government's changes to the nation's rigid currency control system fail to meet demand for dollars in the country, Reuters reported May 13. The bolívar has fallen about 43 percent since the beginning of the year and hit 300.72 per dollar on May 13, according to widely used Web site DolarToday.

possible resulting indictments may stay sealed until arrests are made in order to avoid further straining U.S.-Venezuelan relations.

## Guatemala: Street Protesters Call for President to Resign

At least 40,000 Guatemalans packed Guatemala City's Constitution Square despite extreme heat and rainfall on May 16, with some calling for the resignation of President Otto Pérez Molina in the wake of recent allegations of corruption in his government, Siglo 21 reported. The turnout outnumbered demonstrators that took to the streets April 25, after news broke of the case in major media, according to the report. Demonstrators in 13 cities across the Central American nation banged drums and blew whistles calling for an end to corruption, Deutsche Welle reported, noting that the movement was organized via social media without any discern-

**The ruling Patriot Party's presumed presidential candidate has quit the party.**

ible leadership. Pérez Molina's vice president, Roxana Baldetti, resigned May 11 after being implicated in customs fraud involving the country's tax ministry. While prosecutors have accused Baldetti's private secretary of masterminding the scheme, the former vice president denies any involvement in it. At least 50 people are suspected of being involved in the corruption ring. Guatemala is holding general elections in September, with the presidential runoff scheduled for October 20 if no winner is declared in September. The ruling Patriot Party's presumed presidential candidate, former Infrastructure Minister Alejandro Sinibaldi, has quit the party, saying it had lost its way in the wake of the customs tax fraud, Bloomberg

News reported. Sinibaldi may keep his candidacy alive with a third party, although recent polls give a large lead to Manuel Baldizón, a populist right-of-center-businessman. On May 14, Guatemalan lawmakers picked Alejandro Maldonado Aguirre, a constitutional judge who has also been a cabinet minister, ambassador and political leader, to replace Baldetti as vice president. [Editor's note: See related [Q&A](#) in the April 16 issue of the daily Advisor.]

## ECONOMIC NEWS

## Level of FDI Falls in Latin America, Caribbean

Latin America's level of foreign direct investment fell sharply last year as corporate investors turned their attention to other regions, according to an analysis by fDi Markets, a data service of the Financial Times. Capital investment in the region fell 39 percent, while the number of greenfield FDI projects declined 16 percent, according to the analysis, the newspaper reported May 12. Of the top 10 recipient countries for FDI in the region, Panama was the only one that did not experience a decrease in 2014. Last month, the World Bank said it expected average gross domestic product growth in Latin America to amount to only 0.8 percent this year "and may remain at low rates in the future unless ambitious pro-growth structural reforms are adopted." The World Bank said the nearly flat rate of growth is due to China's more moderate growth as well as "commodity prices stabilizing at lower levels." Mexico received 36 percent of the total investment in Latin America and the Caribbean, making it the regional leader, according to fDi Markets. Mexico's role as a main location for factory production of U.S. companies fueled its foreign direct investment. Of the other major economies in the region, Brazil's number of foreign investment projects declined 4 percent, while Colombia saw a 41 percent decline, according to the analysis.

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most egregious money laundering methods in the region. However, it is not the approval, but rather the effective and comprehensive implementation of this legislation that will determine its success. The primary challenge would be the extant levels of ignorance and perhaps negligence that exist in the community and how it can be addressed through education, awareness and compliance programs. It is critical that the Panamanian government invests resources to develop guidelines for the implementation of the new legislation and an education campaign to accompany it. The increased regulations are bound to substantially impact the financial industry, as they will have to re-evaluate their AML controls, ensuring that they are geared toward combating money laundering. However, certain challenges can

“The increased regulations are bound to substantially impact the financial industry.”

— Jaime Jácome and Arti Sangar

also be foreseen. The implementation of an AML program can be expensive, in balboas, time and resources. This will no doubt also bring about the necessity to invest in technology coupled with the requirement to train staff to achieve globally accepted standards of compliance. Forty-five years after the creation of a successful financial center in the region, the pressure of blacklists and the risk of sanctions have led Panama to tighten its AML legislation. The question that remains is whether the new legislation will minimize, if not eliminate, money laundering in Panama. The onus will lie on the Panamanian government's implementation measures. If successful, these measures can be expected to smooth the way for the removal of Pana-

ma from the FATF's contentious grey list of countries. However, this legislation should be perceived as a first step in that direction rather than the final one.”

**A** **Georges Hatcherian, analyst in the Financial Institutions Group at Moody's Investors Service:**

“The passage of the law is a significant step toward Panama's removal from the FATF 'grey list.' Panama had been included on the list because its Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) framework had lagged international standards. The 'grey list' made some international banks more reluctant to engage in correspondent banking with Panamanian counterparties, out of concern they could potentially suffer repercussions from indirect exposure to illicit activities. Removal from the 'grey list' should hence smooth the access of Panamanian banks to international correspondent banking lines, which are important tools for financing international trade. However, these benefits may be somewhat offset by higher operational costs to ensure compliance with the new law. The legislation addresses a good number of the shortcomings noted by FATF. It calls for the creation of a national coordination system to facilitate greater cooperation between the government and supervisory authorities, with regards to the prevention of money laundering and the financing of terrorism. The law also creates new money laundering controls and 'know your customer' requirements for financial and non-financial companies, including casinos, remittance companies, real estate agents and companies in the Colón Free Trade Zone. Before Panama can be removed from the 'grey list,' it will have to present its progress at a FATF global meeting in June. Panama could then be removed from the list as soon as October at the subsequent FATF global meeting.”

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