

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

July 16-29, 2015

BOARD OF ADVISORS

Ernesto ArmenterosVice Chairman of the Board,
Banco de Ahorro y Crédito Unión**Pablo Barahona**COO for Latin America and Iberia,
Liberty International**Richard Child**CEO,
Matrix Group**Jeanne Del Casino**Vice President & Group Credit Officer,
Latin America,
Moody's Investors Service**Michael Díaz Jr.**Partner,
Diaz, Reus & Targ, LLP**Brian Doran**Regional Executive &
Director of Gov't Affairs,
Popular Inc.**Ernesto Fernández Holmann**Chairman of the Board,
Ayucus**Rich Fogarty**Managing Director,
Berkeley Research Group**Desiree Green**Vice President,
International Government Affairs,
Prudential Financial**Earl Jarrett**General Manager,
Jamaica National Building Society**Thomas J. Mackell, Jr.**Former Chairman of the Board,
Federal Reserve Bank of Richmond**Thomas Morante**Partner,
Holland & Knight**Manuel Orozco**Senior Fellow,
Remittances and Development,
Inter-American Dialogue**Adalberto Palma-Gomez**Senior Partner,
Proxy, Gobernanza Corporativa**Rodolfo Pittaluga**Principal,
Deloitte Financial
Advisory Services, LLC**Jan Smith**Partner,
KoreFusion**Roberto Teixeira da Costa**Board Member,
SulAmérica**Mario Trujillo**CEO,
DolEx Dollar Express

FEATURED Q&A

Is the Money-
Transfer Industry
Facing a Shake-up?

PayPal, whose corporate headquarters are in San Jose, Calif., was founded in 1998 and is now a wholly owned subsidiary of eBay. // File Photo: Sagar Savla.

Q PayPal this month announced that it is acquiring online money-transfer firm Xoom in an all-cash deal. Will PayPal become a major player in the remittances sector? How big a threat is the company to more traditional money-transfer service providers such as Western Union and MoneyGram? To what extent will PayPal disrupt established business models in the remittances industry?

A Manuel Orozco, member of the Financial Services Advisor board and director of the Migration, Remittances and Development Program at the Inter-American Dialogue: "The acquisition of Xoom sends three main messages. First, it recognizes that the cross-border payment industry is a valuable market to investors. Second, investing in Xoom Corp. allows PayPal to establish a footprint in a space in which it has struggled for a decade to have a presence without generating a plan or solution from within. Third, it shows that Internet-based digital payments are central to current market growth. In that sense, there is more symbolism in the acquisition, however, it sends a strong message to existing competitors that access to capital will come from investors interested in these types of companies. The past three years have seen investments in businesses offering Internet-based digital cross-border transfers. The acquisition poses a challenge but not a threat to competitors in the cash-to-cash business: to speed their developments into Internet-based transfers quicker than planned. Most major companies already have an operational remittance sender Internet-based platform or are in the process of rolling one out. Those who do not have

Continued on page 3

TOP NEWS

BANKING

Citi Shuttering
Banamex USA,
Paying Regulators
\$140 Mn in Fines

Citigroup said it will shut down its Banamex USA unit and pay U.S. federal and California state regulators a total of \$140 million to settle allegations about lax anti-money laundering controls.

Page 2

INSURANCE

Gallagher
Acquires 65%
Stake in Bogotá-
Based Firm

The international arm of Arthur J. Gallagher said it will acquire the stake in ARM Re Ltda. Corredores de Reaseguros.

Page 4

BANKING

Scotiabank
Buying Citi Units
in Panama,
Costa Rica

Scotiabank, led by CEO Brian Porter, said it is buying the units for an undisclosed sum.

Page 3



Porter // File Photo: Scotiabank.

BANKING NEWS

Citi Closing Banamex USA, Paying \$140 Mn in Penalties

Citigroup announced July 22 that it is shutting down its Banamex USA unit and will pay U.S. federal and California state regulators a total of \$140 million to settle investigations about alleged deficiencies in its anti-money laundering programs. In its statement, Citi said ensuring “strong and sustainable” compliance with the

“Banamex agreed three years ago to correct numerous weaknesses in its anti-money laundering program. It has failed to do so.”

— Jan Lynn Owen

Bank Secrecy Act and preventing money laundering “is an ongoing mission.” The New York-based financial services company added, “Citi is committed to devoting the resources and expertise needed to continuously execute a robust and comprehensive program that helps protect the integrity of the financial system.” Banamex USA is an arm of Banamex, Mexico’s second-largest bank, which Citi owns. Citi established Banamex USA in order to make it easier for individuals and businesses to transfer money across the U.S.-Mexico border, the Los Angeles Times reported. In August 2012, the U.S. Federal Deposit Insurance Corporation and California’s Department of Business Oversight ordered Banamex USA to correct alleged violations of the Bank Secrecy Act. The federal law governs anti-money laundering and compliance programs and has requirements for banks to report any suspicious activities by customers. However, the bank failed to properly fix the problems, said regulators. “Banamex agreed three years ago to correct numerous weaknesses in its anti-money laundering program.

It has failed to do so,” Department of Business Oversight Commissioner Jan Lynn Owen said in a statement. The \$140 million penalty that Citi has agreed to pay includes a \$100 million fine to the FDIC and a \$40 million fine to the Department of Business Oversight. Banamex USA has three branches—in Los Angeles, Houston and San Antonio—in addition to about 300 full-time employees, assets of more than \$500 million and a deposit base of approximately \$460 million, said Citi. The bank said that the two Texas branches will close by October, with the Los Angeles branch remaining open throughout the wind-down process.

Florida Bank Signs First Deal for Cuba Account

Stonegate Bank on July 21 became the first U.S. bank to establish a correspondent account with Cuba since the historic thaw was announced between the United States and Cuba last December, The Wall Street Journal reported. Stonegate Bank, based in Pompano Beach, Fla., and Cuba’s Banco Internacional de Comercio inked the deal in Havana a day after the two nations formally restored diplomatic relations 54 years after diplomatic ties were broken off during the depths of the Cold War. Stonegate’s president, Dave Seleski, said the new agreement is a positive step for American business interests in the Caribbean nation. “For U.S. companies doing business in Cuba, we can facilitate transactions much easier now,” he said, The Wall Street Journal reported. Seleski arrived in Havana after attending the July 20 flag-raising ceremony at the newly converted Cuban Embassy in Washington. The establishment of a correspondent account will allow for financial transactions between the United States and Cuba, permitting customers to execute payments and other transactions that are authorized by the U.S. Treasury’s Office of Foreign Assets Control. The correspondent relationship between the two banks is expected to be in place within three to four weeks, the newspaper reported. Currently, all commercial transactions between the United States

NEWS BRIEFS

Bank Lending to Small- and Mid-Sized Brazilian Firms Evaporating

Bank lending to small- and medium-sized firms in Brazil is drying up amid concerns about what could be Brazil’s worst recession in 25 years, Reuters reported July 24. Large- and medium-sized banks are turning down an increasing number of loan requests as they fear that declines in revenue could mean loan defaults, bank executives told the wire service. Loans from banks such as Banco Daycoval and Banco do Brasil that typically cater to the segment have virtually stopped.

Peru Expands Pension Program by 24 Percent

Peru’s Pension 65 program, which provides monthly revenue for people aged 65 and above who live in underprivileged areas of the country, has added 89,760 senior citizens to its registry over the past year, a 24 percent expansion, state news agency Andina reported July 27. There are nearly 500,000 current beneficiaries of the program, with the largest increase being registered in native Amazonian communities. A total of 376,092 beneficiaries have joined the banking system to receive their benefits, the government said.

Brazil’s Sovereign Wealth Fund Reducing Stake in Banco do Brasil

The Brazilian government’s sovereign wealth fund sold 5.625 million shares of Banco do Brasil between late June and early July, earning it approximately 134 million reais (\$39 million), Reuters reported July 24, citing a statement from the fund, known as the Fondo Soberano do Brasil. The shares were sold at an average price of 23.84 reais apiece, and the proceeds were invested in a portfolio of domestic assets, which had been a request of the fund’s board.

and Cuba are routed through banks in third countries. Seleski said Stonegate Bank wants to pursue additional opportunities in Cuba, including facilitating credit card use. "Down the road, there's many other opportunities," he said. As more Americans travel to Cuba, the need for credit card use will grow, Jason Marczak, the deputy director of the Adrienne Arsht Latin America Center at the Atlantic Council, told the newspaper. While some U.S. credit card companies have said they will start processing transactions this year, U.S.-issued credit cards still don't work in Cuba, and most U.S. travelers there must conduct transactions in cash. [Editor's note: See related [Q&A](#) in the April 21 issue of the Dialogue's daily Advisor.]

Switzerland's Julius Baer Acquiring NSC Asesores Stake

Swiss private bank Julius Baer announced July 20 that it plans to acquire a stake in Mexican financial advisory company NSC Asesores for an undisclosed sum as the European company pushes forward into Latin America amid headwinds elsewhere including a steep appreciation of the Swiss franc and a tax-evasion probe in



Collardi // File Photo: Julius Baer.

the United States, the Financial Times reported. Julius Baer chief executive Boris Collardi said July 20 the bank plans to acquire a 40 percent stake in NSC, which manages about \$3 billion in assets and specializes in high-net worth individuals. It plans to increase its stake to a majority within two to three years. The acquisition follows Julius Baer's expansion into Brazil in 2012, when it purchased a majority stake in Brazil's GPS. Collardi, who led the push to ac-

quire Merrill Lynch's international operations in 2012, has said he is looking for more deals and that the Zurich-based bank will be "doing acquisitions on different levels in different markets." On July 20, the bank reported a 78 percent drop in net profit during the first half of the year, owing in part to its decision to set aside \$350 million to settle an ongoing U.S. investigation into the bank's alleged role in helping American clients evade taxes, which offset performance improvements. The bank is also feeling the effects of a stronger Swiss franc. Switzerland's central bank decided in January to let the franc gain in value, which has depleted the relative value of assets held in dollars and euros.

Scotiabank Buying Citi Units in Panama, Costa Rica

Toronto-based Bank of Nova Scotia announced July 14 that it has agreed to buy the retail and commercial banking units of Citigroup in

Panama and Costa Rica, The Globe and Mail reported. The bank did not announce the terms of the deal, but it said that the agreement would give it a total of 387,000 customers in Panama and Costa Rica, tripling the size of its

The deal will triple the size of Scotiabank's operations in Panama and Costa Rica.

operations in the Central American countries. The agreement also gives Scotiabank an 18 percent market share in credit cards in Panama and a 15 percent market share in credit cards in Costa Rica, making it the second-largest credit card issuer in the two nations. Scotiabank said that it has had operations in Panama since 1974 and in Costa Rica since 1995, The Wall Street Journal reported. Just two months ago, Scotiabank closed a deal to acquire Citi's commercial and retail banking operations in Peru. Last year, Citigroup said that it would

FEATURED Q&A / Continued from page 1

one out are slowly seeking to measure and contain the potential risk that these transfers are faced with (such as identity fraud, database hacking and card fraud). They are aware that mobile payments are showing exponential growth and staying only with C2C services is an incomplete strategy."

A Mario Trujillo, member of the Financial Services Advisor board and chairman, president and CEO of DoEx Dollar

Express: "PayPal has been a formidable, electronic payments company, focusing mostly on P2P payments, eBay's core business and other C2B payments. As a standalone business, it should be able to focus and innovate. Xoom, after more than a decade, also found a niche in the last few years in online/mobile family remittances, mostly originating from the United States to India, the Philippines and Mexico. Money-

Gram, at half the equity price, looks like a better value. Now, as far as either company disrupting the traditional players worldwide and becoming a major traditional remittance

“More than 90 percent of family remittances are made by un-banked or under-banked individuals.”

— Mario Trujillo

competitor, the challenge is very different. Today, there are at least 50 recognized innovator startups, some very well-funded, also trying to disrupt the traditional remittance markets. All of these players have one thing in common: customers must be banked or have access to a bank or 'value' account,

Continued on page 6

leave its consumer banking operations in 11 countries. In a statement, Scotiabank said the units it is acquiring from Citi will offer “significant opportunities.”

INSURANCE NEWS

Gallagher Acquires 65% Stake in Bogotá-based ARM

Arthur J. Gallagher, the international arm of U.S.-based insurance and risk management services firm Arthur J. Gallagher & Co., announced July 20 that it has expanded its investment in Latin America and acquired a 65 percent stake in Bogotá-based ARM Re Ltda. Corredores de Reaseguros (ARM), Insurance Journal reported. Terms of the transaction



Chilton // File Photo: Arthur J. Gallagher

were not disclosed. ARM, which was established in 2006, specializes in construction, energy and mobile equipment risks and handles facultative business across terrorism, transportation, property, third-party liability and contractors' machinery and equipment. Arthur J. Gallagher entered into an agreement to buy ARM last year, and all regulatory hurdles have now been cleared. Grahame Chilton, head of Gallagher's international brokerage operations based in London, will oversee the new operation, which will continue under the management of Chief Executive Carlos Rodríguez Angulo, Chief Operating Officer Fernando Téllez and their associates in Bogotá. “Our investment in ARM creates the perfect platform upon which to realize our ambitious plans for expansion in one of the strongest performing

Latin American territories,” said Arthur J. Gallagher's international commercial director Vyvienne Wade. In 2012, Arthur J. Gallagher created a reinsurance operation in Chile, which recently diversified into retail broking, and in 2014 entered the Peruvian market with the purchase of a stake in reinsurance specialist JAO & Partners.

POLITICAL NEWS

Colombia's Santos Orders Halt to Air Strikes Against FARC

Colombia President Juan Manuel Santos on July 26 ordered the military to halt air strikes against camps of the FARC rebels, BBC News reported. Santos' order came just days after the rebel group started a one-month cease-fire as part of an effort to speed up the pace of its peace talks with the government, which have been happening since November 2012. “I have issued the order to stop, as of today, bombing raids against camps where there are members of that group,” Santos said at a military event in Cartagena. “From now on, this type of bombing will only be done by explicit order of the president.” The peace talks resumed on July 23, less than two weeks after the government and the rebels reached an agreement to de-escalate the conflict. The same day that the negotiations restarted in Havana, a soldier was fatally shot in a clash with rebels as he worked to remove what the army called “war material” from a rebel base in Meta department. On July 24 during the peace talks, the FARC said it was not seeking impunity for fighters accused of war crimes during Colombia's five-decade conflict, Agence France-Presse reported. “We're not speaking of impunity in Havana,” FARC negotiator Ricardo Téllez told reporters. “Granting impunity would not be recognizing responsibility.” Last month, the FARC and the government agreed to establish a truth commission to investigate incidents during the conflict, a move for which Téllez voiced support. “We repeat: before applying the criminal justice process, it is imperative

to know the truth,” he said. Punishment that rebels could face if a peace accord is signed is among the most sensitive parts of the agenda

“From now on, this type of bombing will only be done by explicit order of the president.”

— Juan Manuel Santos

for the talks. During the current round of talks, negotiators are breaking into groups and tackling agenda items simultaneously, said Téllez. “The idea is to accelerate the negotiations,” he said. Compensation for victims of the conflict is also still on the agenda.

Mexican Authorities Find 129 Bodies in Clandestine Graves

From October through May, Mexican authorities found at least 60 clandestine graves containing 129 bodies during their investigation into the disappearance last September of 43 university students from the city of Iguala in Guerrero state, the Associated Press reported July 26, citing the office of Attorney General Jesús Murillo Karam, which provided the details in response to a freedom of information request from the wire service. None of the bodies have been identified as belonging to the students, and authorities do not believe they will be, the AP reported. Last year, Murillo Karam said corrupt local police handed the students over to members of a drug gang who killed them and incinerated their bodies. The discovery of the bodies does focus more attention on the number of people who have disappeared in Guerrero and other nearby states that have been hard hit by drug violence. More than 20,000 people are listed as missing in Mexico.

NEWS BRIEFS

Judge Orders Detention of Three Guards Connected to Escape of 'El Chapo'

A Mexican judge has ordered the detention of three prison officers as an inquiry continues into drug lord Joaquín "El Chapo" Guzmán's July 11 escape from the high-security Altiplano prison, BBC News reported July 24. The judge said he is looking more closely into the actions of an officer, who had been in the prison monitoring control center, and two prison guards who failed to answer the phone as the escape was occurring.

Guatemalan Court Orders Assessment for Ríos Montt at Mental Health Hospital

A Guatemalan court has determined that former dictator Efraín Ríos Montt, who has been accused of genocide during his 1982-1983 rule, should be assessed at a mental health hospital, BBC reported July 24. Ríos Montt two years ago was found guilty of genocide and human rights abuses against indigenous people, but the sentence was overturned, and a retrial has been delayed. A new trial date will be set on Aug. 3. Ríos Montt's lawyers have said the 89-year old is senile and unable to understand the charges against him.

Colombia Considering Cuts to Local Bond Taxes

Colombia may cut taxes on foreign investors' earnings on local bonds from the current rate of 14 percent before the end of the year as the country looks to further its capital market integration with the Pacific Alliance, Deputy Finance Minister Andrés Escobar said, Bloomberg News reported July 22. Colombia cut the tax rate in 2013, which helped boost foreign holdings of pesos bonds, and may do so again to remain competitive with Mexico, Peru and Chile, Escobar said.

ECONOMIC NEWS

Brazil's Jobless Rate Rises to Nearly Five-Year High

Brazil's unemployment rate rose in June to its highest level in almost five years, the latest piece of bad economic news for the government of President Dilma Rousseff, Bloomberg News reported July 23. The jobless rate in Latin America's largest economy increased to 6.9 percent last month from 6.7 percent in May, according to the country's national statistics institute. The June figure was the highest unemployment rate since July 2010 and was similar to the forecasts of 40 economists in a recent Bloomberg survey. Brazil is headed to its worst recession in 25 years, but persistently high inflation has also forced the central bank to increase interest rates. Policymakers increased the benchmark Selic interest rate six consecutive times to 13.75 percent. Inflation for the 12-month period through mid-July rose to 9.25 percent. Brazilian workers' average real wages declined 2.9 percent in June as compared to the same month a year ago. Inflation and unemployment have been taking a toll on consumer confidence, which is in record-low territory. Also, a poll released July 20 by MDA showed the approval rating of Rousseff's government at a record low of 7.7 percent, down from 10.8 percent in March.

Mexico Falls Short in First Oil Auction

Mexico held the first of five public tenders as part of its Round One oil auction on July 15, and only two of 14 areas available were auctioned off, falling short of the 30 percent rate the government had said would make the auction a success, The Wall Street Journal reported. Nine companies participated in the auction, seven of which submitted bids for one or more of the shallow-water blocks available in the southern Gulf of Mexico. A number of blocks received no offers, and others received

bids that fell short of the minimum requirement for profit-sharing with the government. A consortium comprised of Mexican company Sierra Oil & Gas, Houston-based Talos Energy and Britain's Premier Oil won both blocks that were awarded, offering to invest 10 percent above the minimum requirement in both blocks and offering the government 55.99 percent of operating profit from one and 68.99 percent from

Several of the oil blocks received no offers.

the other. Winning bidders had to pledge a level of investment above the government-mandated minimum and were those that offered to share the largest amount of operating profit with the government. Other bidders in the auction were Norway's Statoil, India's ONGC Videsh, Hunt Overseas Oil, Murphy Worldwide and Petronas Carigali International. "The first lesson is that the government minimums were high by industry standards, and the second is there could be doubts about the subsurface attractiveness," Pablo Medina, an upstream analyst at consulting firm Wood Mackenzie, told The Wall Street Journal. "This is only the first of five auctions, so I would expect the government to incorporate what it's learned in the next tenders."

Venezuela Headed to Default Next Year: Hausmann

Venezuela will have no choice but to default on its foreign debt next year, Ricardo Hausmann, a professor at Harvard University, told Bloomberg News July 27. Hausmann, the director of the university's Center for International Development and a former Venezuelan planning minister, said last year that the government had "no moral grounds" for paying debt at a time of intense shortages of staple products.

FEATURED Q&A / Continued from page 3

credit or debit card to initiate a payment. More than 90 percent of family remittances are made by un-banked or under-banked individuals. All of these innovators will be competing for this same 'top of the pyramid,' banked and tech-savvy customer. Both Western Union and MoneyGram have online/mobile platforms and massive retail distribution for the un-banked/under-banked customer, and none of the online/mobile innovators will disrupt their traditional customer business overnight. What's more likely is that the traditional players will adopt best-of-breed technologies and compete, for the 'top of the pyramid' customer business as well. Those most at risk are the banks, which are not equipped, competitive or service oriented to handle this sophisticated customer."

A **David Landsman, executive director of the National Money Transmitters Association:** "Whenever you think of Internet money transfer, the two names that spring to mind are PayPal and Xoom. Now, they are one. To recall a phrase Joe Biden made famous, this is a big deal, the biggest deal in the remittances world since First Data spun off MoneyGram. Although seen mostly as a payments company, PayPal was already a pretty big player in the remittances market. Some portion of the purchase price can be attributable to the motivation of killing a competitor and to prevent anyone else from getting Xoom. But the two companies are not direct competitors; their offerings are complementary. Since Xoom has always specialized in remittances more than PayPal, and they have more receiver-friendly distribution channels, this deal will catapult PayPal firmly into the remittances world. But that's not all. Xoom has plenty of intrinsic value (that is, future profitability) in its customer goodwill and in the operation itself. There will also, no doubt, be many back office redundancies that can be eliminated. Nevertheless, the Xoom brand should survive well.

Now, PayPal has jumped into the remittances market with both feet, and the combined entity already has a good remittances volume, and is already huge. To the extent

“ This deal will catapult PayPal firmly into the remittances world.”

— David Landsman

consumers are more and more willing to pay and accept payouts through digital channels, the new PayPal/Xoom will shake things up quite a bit competition-wise."

A **Richard Child, member of the Financial Services Advisor board and CEO of Matrix Group** "The purchase of Xoom by PayPal is indeed an interesting acquisition and signals PayPal's determination to enter the money remittance market. Given PayPal's current business model and the fact that it does not rely on brick-and-mortar to undertake its business leads me to believe that its participation in the remittance market will be disruptive in nature. To date, the remittance business has been built on a very traditional model and is highly dependent on physical acquisition and distribution networks. If PayPal and Xoom can win over customers to an electronic medium for transactions and don't face significant regulatory hurdles, I believe we will see a significant increase in competition and the beginning of a new era in the remittance industry."

Editor's note: The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gene.kuleta@thedialogue.org.

FINANCIAL SERVICES ADVISOR is published biweekly by the Inter-American Dialogue, Copyright © 2015

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gene.kuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

 **THE 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, Finance & Administration
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

Financial Services Advisor is published biweekly, with the exception of major holidays, from 1211 Connecticut Avenue NW, Suite 510 Washington, DC 20036

Phone: 202-822-9002
Fax: 202-822-9553

www.thedialogue.org

ISSN 2163-7962

Subscription Inquiries are welcomed at fretrial@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 commentator 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.