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THEDIALOGUE

FEATURED Q&A

Can New Reforms Save the Region's Pension Systems?

In June, Chilean President Michelle Bachelet signed a measure to create a state alternative to privately administered pension funds. Many pension contributors receive returns that are too low for their needs, she said. // File Photo: Chilean Government.

Q Chile's 'Bravo Commission,' which President Michelle Bachelet established last year, is due to make recommendations in August on ways to improve the country's pension system. The commission is studying the country's pensions amid concerns about the sustainability of the funds' yields. In Chile and elsewhere in the region, what are the biggest challenges faced by pension funds, and how well are governments reacting? What do demographic trends in the region mean for pension funds? What opportunities exist for private companies in Latin America with regard to pensions, and what more can regulators and government officials do to create a more successful pension system for citizens?

A Milko Matijascic, researcher at the Institute of Applied Economic Research (IPEA) in Brasília: "In Chile, defined contribution pension systems with individual accounts were introduced by the Pinochet administration in 1981, and similar initiatives were later adopted in countries such as Argentina, Uruguay, Colombia and Mexico in the 1990s. The idea was to reduce the fiscal load of defined benefit pay-as-you-go systems, stimulate regular contributions and promote economic growth based on savings. It is now clear that these goals have not been reached as a very large number of senior citizens were unable to contribute enough to be eligible for decent pensions. A previous reform, in 2008, introduced social assistance support for low-income contributors in Chile, which reaches 60 percent of households. In Latin America more broadly, we have seen two kinds of

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TODAY'S NEWS

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Brazilian Authorities Raid Collor's Home in Petrobras Probe

Authorities seized items including luxury cars from the home of the former president, who has denied wrongdoing. The homes of two other sitting congressmen were also raided.

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BUSINESS

Scotiabank Acquiring Citi Units in Panama, Costa Rica

Bank of Nova Scotia announced that it agreed to acquire Citigroup 's commercial and retail banking units for an undisclosed amount.

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POLITICAL

Venezuela Bars Machado From Holding Office

Venezuelan opposition leader María Corina Machado said the government barred her from holding public office for one year. The grounds under which she was banned are unclear.

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Machado // Photo: World Economic Forum.

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POLITICAL NEWS

Venezuela Bars Opposition Leader Machado From Holding Office

Venezuelan opposition leader María Corina Machado said Tuesday that the government has barred her from holding office for one year, Reuters reported. Machado said in a posting on Twitter that she had received a letter from the country's comptroller's office informing her of the decision and stating that she has 15 days to appeal. It was unclear on what grounds the government barred her from holding office. Under the decision, Machado still could run for a seat in the National Assembly in the Dec. 6 legislative elections, but it is unclear whether she would be allowed to take her seat if elected. Polls suggest that President Nicolás Maduro's party will lose control of the National Assembly in the election, and opponents have accused his government of attempting to sideline the opposition ahead of the vote. Daniel Ceballos, a jailed former mayor who is running for an Assembly seat, was also barred from holding public office after the government said he failed to submit a sworn declaration of his assets, local media reported. Also, Venezuelan election officials last month mandated that 40 percent of any party's legislative candidates must be women, a decision that was announced after the opposition MUD coalition had already selected its candidates. Only 11 of the 110 candidates selected in the opposition's May primary are women, the Miami Herald reported last month. "Venezuela's opposition leaders are the desperate government's target," the MUD coalition said Tuesday in a tweet, Reuters reported. "The new objective is María Corina Machado." Last year, Machado was stripped of her seat in the National Assembly after she accepted an invitation from Panama to deliver a speech critical of Maduro at the Organization of American States. Then in December, the state prosecutor's office indicted her on charges that she participated in a conspiracy to assassinate Maduro. Machado has strongly denied the accusations.

Brazilian Authorities Raid Collor's Home in Petrobras Probe

The investigation into a corruption scandal at Brazilian state oil company Petrobras intensified on Tuesday as Brazilian authorities raided the homes of former president and current

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reforms recently where some countries like Peru and Mexico have expanded non-contributory pensions, and others, like Argentina, have ended their defined contribution scheme. The coexistence of different pillars or tiers has become a new paradigm, and the coexistence of multiple institutions to provide pensions seems to be inevitable. Authorities and regulators should focus on three main challenges: administrative costs are onerous and reduce the availability of funds for retirement; increased longevity is having a greater fiscal impact; and labor markets remained precarious, with large informal sectors. Conversely, contributions are too low, especially since employers usually are not required to contribute. Finally, while investment, especially in infrastructure, is needed, public-private partnerships have not taken off, and there are insufficient opportunities for institutional investors and pension funds."

Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "The biggest challenges of the pension systems in any country are the coverage of the system and the replacement rate that the system provides. The region as a whole suffers from lack of coverage for one simple reason: Most workers in the region work in

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NEWS BRIEFS

Bomb Rocks Headquarters of Ecuador's Ruling Party

A bomb exploded late Monday night at the headquarters of Ecuador's socialist PAIS Alliance Party, which is headed by President Rafael Correa, causing significant damage but injuring no one, the International Business Times reported Tuesday. The explosion was not caused by a "household item, but a high-caliber bomb, strategically placed," PAIS Alliance legislator Bairon Valle said, according to TeleSur. Government officials have not commented on the motivation or suspects in the attack.

Venezuela's Currency Falls to 1% of Official Rate on Black Market

Venezuela's bolívar is now trading at just 1 percent of its official exchange rate value on the black market, Bloomberg News reported Tuesday. The bolívar, which has dropped 88 percent on the unofficial market over the past year, on Tuesday fell to a record 630.21 per dollar compared to the official rate of 6.3 per dollar, according to data from dolartoday.com. The government is receiving fewer dollars for its oil exports due to lower prices, and a shortage of greenbacks available at the government rates is pushing Venezuelans to the black market and driving up demand, analysts said.

Construction Begins on First Geothermal Plant in South America

Italian renewables company Enel Green Power and Chilean state oil company ENAP announced Tuesday that they have begun construction on the first geothermal plant in South America and the first built at 4,500 meters above sea level. The Cerro Pabellón plant, which requires investment of $320 million, has two 24-megawatt units and is located in the northern Antofagasta region.

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Senator Fernando Collor and two other sitting congressmen, the Financial Times reported. Luxury cars were confiscated at the home of Collor, sparking an angry response from the politician. "If I have never had a chance to give testimony, if the operation is still at the investigation phase, without any formal charges being laid, isn't this a pre-judgment, a pre-condemnation," Collor, who was president of Brazil from 1990 until his impeachment in

Collor // File Photo: Brazilian Government.

1992, said in a statement on the Senate Web site. "The measure was invasive, arbitrary and flagrantly unnecessary, considering that the facts of the case have been investigated for at least two years... and I have never even been called to give any clarification," he added on social media, according to BBC News. Earlier this year, Brazil's Supreme Court authorized police and public prosecutors to continue investigating dozens of politicians in connection with the scandal, in which former company executives are believed to have collaborated with contractors and politicians to inflate contracts and extract billions in kickbacks and bribes from the company.

BUSINESS NEWS

Scotiabank Buying Citi Units in Panama, Costa Rica

Toronto-based Bank of Nova Scotia announced Tuesday 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 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 leave its consumer banking operations in 11 countries. In a statement Tuesday, Scotiabank said the units it is acquiring from Citi will offer "significant opportunities."

TECHNOLOGY

Microsoft Names New Head of Brazil Operations

Microsoft named Paula Bellizia as head of the technology company's Brazilian operations, effective July 1, replacing Mariano de Beer, who will transition to the position of president of new markets in Latin America, Telecompaper reported. Bellizia comes to Microsoft after recently chairing Apple in Brazil. She has 22 years of experience in the industry and previously worked for Microsoft from 2002 to 2012 and also served as the sales director for SMEs for Facebook in Latin America.

Oracle Plans to Open New Brazil Data Center

Oracle announced in late June that it plans to open a new data center in Campinas, São Paulo in August of this year, bringing its total to 19 data centers worldwide. The company said the new facility was designed to meet growing demand for its portfolio of cloud services and to "help customers embrace Oracle Cloud Software as a Service (SaaS) offerings." It will offer Oracle's entire portfolio of SaaS and PaaS (platform as a service) products, CEO Mark Hurd said. "This new data center in Brazil signals our commitment to helping companies in Latin America fully embrace cloud computing, modernize their business and become the leaders in their industry," said Hurd. We are seeing huge increases in cloud growth [in Latin America], at 19.7 percent," he added, according to Forbes.

Brazilian Antivirus Company PSafe Eyes Expansion

Brazilian digital security company PSafe, the leading anti-virus player in the country, has announced it is seeking to raise $30 million to expand its security and privacy app suite throughout Latin America, TechCrunch reported last week. The $30 million Series D financing is being led by existing investors Qihoo 360, Pinnacle and Redpoint eVentures Brazil and marks the first time a mobile start-up in Latin America has reached a 1 billion real valuation, according to the report. PSafe began offering a free application in 2010 and switched its focus from PCs to smartphones as Brazil's smartphone market expanded. The free app generates revenue through targeted advertising. It now has more than 52 percent of the Android market in Brazil, where more than 90 percent of the country's estimated 70 million smartphones are Androids. The application is the fifth-most popular in the Google Play store in Brazil after Facebook, Messenger, Whatsapp and Instagram. "Our goal was to get to 50 percent Android penetration in Brazil and then start expanding," said company founder and CEO Marco de Mello.

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the informal sector. Even in the best of the cases like Chile, Costa Rica and Uruguay, the coverage of the system is far from 100 percent. So the biggest challenge has been the coverage of the workers in the informal sector. There is a lot of movement between the informal and the formal sector in a country. If a noncontributory pension payment is high, the incentive to work in the formal sector gets weaker. The second problem for the people who are in the formal sector contributing to their own defined contribution is that they do not contribute sufficiently to get a replacement rate of 70 to 80 percent. Governments in the region are struggling with both of these problems. High required contribution rates will further weaken the incentive to join the defined contribution plans as they are mostly seen as taxes rather than saving for retirement. Most people in most countries have short planning horizons. One way governments can help is by educating people. We know that general education does not necessarily help pension planning. Financial education does a better job. Therefore, direct education about pensions is the best bet. However, in a region where the general education level is not high, it is not easy to teach people about their needs for old age."

Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach: "All pension funds in the region face three sets of challenges going forward. First, macroeconomic stability builds the middle class. Middle-class families are smaller. Over time, this changes the shape of the demographic pyramid, reducing the number of young people making contributions to pension funds. Funds available for retirement shrink, thereby increasing pressures in favor of deficit spending in the public sector, which threatens macroeconomic stability. Second, as the world economy transitions from manufacturing to information-based economic activities, volatility is bound to happen, and this poses a lot of pressure on investment returns. In short, it is difficult to preserve the extraordinary rates of return of the past over the next decades, given that stability will not be the defining characteristic of capital markets. Third, the ability of workers to participate and make contributions into the system affects the retirement accumulation. On the plus side, administrative fees are going down, which enhances the flow of disposable income for retirement. But in order to successfully navigate future economic waters, governments must not only keep macroeconomic stability, but also create incentives to increase and diversify savings. Such incentives include equity participation in privatized ventures, shared value practices and development of mortgage markets."

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>
> **— Beatrice Rangel**

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