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THEDIALOGUE

FEATURED Q&A

Will Peer-to-Peer Lenders Shake Up Banking in Mexico?

Kubo Financiero is planning to provide loans to microbusinesses in Mexico. // File Photo: Adriana Hidalgo Zamora.

Q Mexico's National Banking and Securities Commission earlier this year awarded the country's first peer-to-peer (P2P) license to Kubo Financiero. The lender plans to provide loans funded by any individual to microbusinesses such as small grocery stores. What is the future of P2P lending in Mexico? Will such efforts bring more Mexicans into the regulated financial system? Is P2P lending a threat to traditional lenders, or does it present an opportunity?

A Jan Smith, partner at KoreFusion in Mexico City: "The licensing of Kubo Financiero is no game changer, but it is a very welcome indicator of a financial ecosystem that is fostering diversity and growth. Kubo Financiero's platform offers investors a portfolio option with immediate liquidity, and it stays clear of start-up ideas centered on social media networking. It benefits from the aura of being a catalyst for social development and micro-entrepreneurialism, but under the hood it is a conservative model focused on profit. More than 65 percent of loans disbursed are destined for business growth; 20 percent of loans are balance transfers to lower rates. If a business is profitable but slightly cash-constrained, it is likely healthy, and if a debtor is paying high interest rates, then she (55 percent of the loans are to women) will likely succeed paying at a lower rate. Home improvement and education loans constitute the remainder and are usually safe bets. The current default rate of 7.5 percent is a tad high but entirely manageable. Kubo Financiero will not transform the habits of millions of Mexicans who favor keeping their savings in the form of physical goods or cash. As evidenced with the low use of retirement accounts for investment, banks

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TODAY'S NEWS

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Peru Captures Two Reputed Leaders of Shining Path

The capture of Dionisio Ramos and Alexander Alarcón Soto meant the dismantling of a column of the guerrilla group, said authorities.

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ECONOMIC

Argentina Wins a Battle Against Bond Holdouts

A U.S. appeals court reversed a ruling by District Judge Thomas Griesa.

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POLITICAL

Chile Declares State of Emergency Due to Storms

Strong winds, heavy rains and floods have killed at least six people and forced hundreds from their homes. Housing Minister Paulina Saball described homes that were carried away in a torrent of water.

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Saball // File Photo: Chilean Government.

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POLITICAL NEWS

Peru Captures Two Reputed Shining Path Leaders

Peruvian authorities have captured two leaders of the Shining Path, dismantling a column of the Maoist rebel group, the government said Monday, Agence France-Presse reported. The two suspected leaders, Dionisio Ramos and Alexander Alarcón Soto, are accused of killing police officers and soldiers in southeastern Cusco province, said Deputy Defense Minister Iván Vega. The men also are accused of attacking a police station and shooting down a helicopter, Vega added. "With this operation, the southern wing of Shining Path is dismantled. An energy and tourism hub is secured. It is possible they will send another column to take over the zone, but we will be watching," he said, AFP reported. In capturing the alleged rebels, soldiers also seized explosives and weapons that were hidden near a gas pipeline that connects Lima to Camisea, one of the region's largest gas reserves. Ramos and Alarcón were captured in a remote Amazon valley and were transported by air to Lima, BBC News reported. The men's capture followed last month's rescue of dozens of captives, mainly women and children, who had been enslaved by the guerrilla group. Some of the captives had been held for decades. Peru's government estimates that the Shining Path has approximately 350 members, including 80 armed fighters, AFP reported. The column reputedly led by Ramos and Alarcón had been operating in the area of the Peruvian Amazon known as the VRAEM, or the Valley of the Apurimac, Ene and Mantaro rivers, BBC News reported. The region is Peru's largest cocaine-producing area. Authorities in 1992 captured the Shining Path's leader, Abimael Guzmán, and largely dismantled the guerrilla group. However, it has been difficult for the government to completely get rid of the rebels in the Amazon jungle.

> **"With this operation, the southern wing of Shining Path is dismantled."**
>
> **— Iván Vega**

Chile Declares State of Emergency Due to Strong Storms

Chile's government has declared a state of emergency in the northern cities of Antofagasta and Tocopilla because of damage caused by strong storms in the region, MercoPress reported today. Strong winds, heavy rains, flash floods and mudslides from the storms, which began four days ago, have left at least six people dead nationwide and have forced hundreds of others to evacuate their homes. Chilean President Michelle Bachelet visited the region on Monday and met with emergency committee officials, after which she stated her commitment to strengthening security and ensuring the arrival of supplies for people in Tocopilla, where 500 soldiers are working to clear mud and rubble. "Some people lost all their belongings, others have been left in very complex situations," the president said. During a press conference at National Emergency Management Office (Onemi), Interior Minister Jorge Burgos announced that a state of exception had been declared and that Brigadier

Bachelet on Monday visited victims of the flooding in Tocopilla. // File Photo: Chilean Government.

NEWS BRIEFS

Nearly Complete Results Show Scioli With 38.4% of Vote in Argentina

With nearly all the ballots counted from Sunday's presidential primary in Argentina, ruling party candidate Daniel Scioli on Monday emerged in the strongest position to succeed current President Cristina Fernández de Kirchner, Agence France-Presse reported. With 97.8 percent of ballots counted, the current governor of Buenos Aires province had 38.4 percent of the vote as compared to 30.1 percent for conservative Buenos Aires Mayor Mauricio Macri and 20.6 percent for Sergio Massa, a dissident from Fernández's party.

Pollution Blamed for Sickening U.S. Rowing Team Members in Brazil

The team doctor for the U.S. national rowing team said that while she cannot rule out water or food, she believes a stomach illness that 13 of the 40-member contracted at the World Junior Rowing Championships in Brazil, a trial run for next year's Olympics in Rio de Janeiro, was due to poor water quality where the competition took place, the Associated Press reported Monday. Last month, the AP published a report showing high levels of viruses and bacteria from human waste in the waters where Olympic and Paralympic events are to take place.

Peru's Grupo Palmas Inaugurates Biogas Power Plant

Peruvian agroindustiral company Grupo Palmas on Aug. 7 put into operation a $2.9 million biogas power plant that will generate 1,900 kilowatts of energy, Géstion reported. Located in Tocache in San Martín province, the plant took nearly two years to construct. The plant is the first to provide electricity in the Amazon from biogas.

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General Claudio Hernández Muñoz has been put in charge of coordinating the response. In Tocopilla, in Chile's arid north, as much rain fell in the span of a few hours as has fallen there over the past seven years. Five floods affected the city and the highway connecting Tocopilla to Antofagasta, on which nearly 200 people were trapped until being rescued by helicopter. "It was an incredible sight the way the water came down so powerfully from a ravine that it carried away houses and totally destroyed them," Housing Minister Paulina Saball told a local radio station.

ECONOMIC NEWS

Argentina Wins a Battle Against Bond Holdouts

Argentina on Monday won a battle in its longstanding conflict with hedge funds holding sovereign bonds when a U.S. appeals court overturned a previous ruling that had expanded the definition of those allowed to sue the nation, MercoPress reported. The 2nd U.S. Circuit Court of Appeals in New York ruled unanimously that District Judge Thomas Griesa had improperly expanded the class of bondholders seeking repayment on bonds that the country defaulted on in 2002, the third time the court has overturned a ruling by Griesa in the matter. The three-judge panel said Griesa must redefine the class more narrowly to those that have held the eight series of bonds in question continuously and must also hold a hearing to determine the proper amount of damages.

The appeals court ruled that Griesa had improperly expanded the class of bondholders.

Griesa granted class action status to creditors seeking damages as a group in 2005, but only to those who had continuously held the bonds, and gave a $2.2 billion judgment against Argentina. The 2nd Court reversed that decision in 2010 after an appeal from Argentina, saying the judgment was inflated. Griesa then awarded creditors $700 million in damages, which the appeals court again overturned, ordering damages to be assessed on an individualized basis if determining as a group was not possible. Then in 2014, Griesa expanded the class definition to include all holders of outstanding bonds.

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and governments still wrestle with Mexicans' apathy toward financial products and low financial education. In all these regards, Kubo Financiero faces the same lending challenges and shares similar optics with its traditional peers. If it finds ways to monetize the payment data its algorithms gather and share them with other players, a key milestone will be reached. That remains to be seen, but what is indisputably special about Kubo Financiero is that it offers a dynamic platform to investors who are already active and yearn for less onerous options that are simultaneously more dynamic. This is particularly true of Mexican millennials who are socially and technologically savvy but unimpressed by traditional investment tools. Its incubator and seed capital origins are in itself symptomatic of how Mexican venture capital is opening up. Kubo Financiero is not a revolutionary disruptor, but it is an evolutionary achievement and a sign of new things to come."

Kai Schmitz, senior investment officer of the FinTech Investment Group at the International Finance Corporation: "Peer-to-peer lending, lending marketplaces and other tech-lenders have been established in most countries in Latin America and around the world. The sector is growing very fast and globally is forecasted to reach $286 billion by 2020, according to Morgan Stanley. The use of big data, automation and self-service is reducing the cost and time it takes to process a loan to levels where banks are uncompetitive. It also allows tech-lenders to serve consumer segments that are unattractive for conventional lenders, in particular low income and mostly 'unbanked' consumers. The high convenience and speed, however, also makes the service attractive for consumers who would have otherwise used banks and hence introduces competition in banks' core markets. But the new lenders also introduce opportunities for banks: approximately 60 percent of funding for the leading P2P lenders in the United States, Lending Club and Prosper, actually comes from banks, hedge funds and other wholesale lenders rather than individuals. These financial institutions either agree to underwrite specific types of loans, for example high quality loans for banks, buy loan portfolios or provide debt funding to tech-lenders that lend themselves. Hedge funds have successfully securitized portfolios of tech-loans and sold them to real money investors. Interest spreads are high, and the ability to originate at low costs through tech-lenders makes this attractive. The major risk, of course, is that many of the tech-lenders are not well regulated or supervised, have not proven their ability to manage large loan portfolios, especially during a crisis, and that there is little history so far to assess the quality of their loan

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> **"The new lenders also introduce opportunities for banks."**
>
> **— Kai Schmitz**

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approval algorithms. It may therefore be too early to tell whether the tech-lenders have cracked the financial inclusion riddle or are creating a new 'subprime collateralized debt obligation crisis.' However, marketplaces for financial services in general are proving to be a very effective distribution mechanism across the whole consumer spectrum."

> **"Mexicans have been informally doing 'peer to peer' for many years."**
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> **— Jackie Hyland**

Jackie Hyland, senior investment analyst at Accion Venture Lab: "Mexico's decision to grant the first peer-to-peer license is an exciting response to new lending players in the financial technology space and also to the growing need and demand for alternative financial services in the country. Mexico continues to have one of the largest underbanked populations in the region and high growth rates of informal lending. Mexicans have been informally doing 'peer to peer' for many years, through 'tandas' and other informal savings and credit circles. Because the need to expand financial services in Mexico is so great, P2P is filling a large unmet need in the market and is not necessarily a threat to traditional lenders, but will spark further competition, lower pricing and better quality services. Today, spreads between savings and credit rates in Mexico are increasingly large, and this is a great opportunity to let retail investors and borrowers capture this value. Also, P2P lending is built on a community of interpersonal trust, which is often stronger than trust in formal financial institutions. Now with companies like Kubo Financiero, which leverage technology to bring this interpersonal trust online, these individuals can be part of the formal financial system, create credit history and have increased opportunity to receive access to financial services previously unattainable. Hopefully this new regulation will be a catalyst to inspire more innovation in financial services, especially for those who need it most."

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

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