LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Tuesday, November 3, 2015

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Catterton Aimara

Marlene Fernández
Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President, Boeing Latin America

Jon Huenemann
Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones
Co-chair, Manatt Jones
Global Strategies LLC

Craig A. Kelly
Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto
Director, U.S. Education
Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty
Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo
Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

THEDIALOGUE

FEATURED Q&A

Has the Rosenthal Scandal Hurt the Banks of Honduras?

The Honduran bank is being investigated under the U.S. Treasury's Kingpin Act, which targets drug lords and their assets. // File Photo: Banco Continental.

Q Honduras' eighth-largest bank, Banco Continental, will be liquidated after U.S. prosecutors accused its owners, members of the powerful Rosenthal family, of using the bank and other businesses they own to launder drug money, charges the family has denied. The country's banking regulator has said that the deposits of more than 220,000 customers at Banco Continental would be guaranteed for up to $9,000. What effects will the bank's liquidation have on Honduras' banking sector and economy overall? How big a blow is Banco Continental's closure to confidence in the country's financial system? How well are Honduran bank regulators handling the situation, and how would you rate the U.S. Treasury Department's handling of the case?

A Manuel Orozco, director of the Migration, Remittances and Development Program at the Inter-American Dialogue and fellow at the Center for International Development at Harvard University: "The liquidation of Banco Continental brings up issues of process and substance. First, the financial system in Honduras is sound, and the effects of the closure pose no substantive harm in the stability of the institutions. However, the closing sends a strong message to other banks about their participation of any suspicious activity, and the possibility of future investigations. It is also clear that cooperation between the U.S. and Honduran governments was crucial to successfully seizing assets, arresting suspects and closing the institution. Overall, however, there are substantive issues at stake that touch on the more political sensitivities in Honduras. For example, organized

Continued on page 3

TODAY'S NEWS

POLITICAL

Nine of 33 Rescued Chilean Miners Suing Lawyers

Nine of the Chilean miners who were trapped underground for more than two months in 2010 are suing their lawyers, alleging the attorneys swindled them out of money related to the rights to their story.

Page 2

ECONOMIC

Maduro Pledges Support to Eastern Caribbean Via Petrocaribe

Venezuelan President Nicolás Maduro pledged more support for Eastern Caribbean states during a visit to St. Vincent.

Page 2

ECONOMIC

Peru's Central Bank Signals Plan to Hold Rates Steady

Central bank chief Julio Velarde said he was content with the country's inflation readings. The bank boosted its benchmark interest rate in September.

Page 2

Velarde // File Photo: TV Perú.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

POLITICAL NEWS

Nine of 33 Rescued Chilean Miners Suing Lawyers

Nine of the 33 Chilean miners who were trapped underground for more than two months in 2010 are suing their lawyers, alleging the attorneys cheated them out of money. The lawyers negotiated the men's rights relating to films, television series and books based on the miners' story, BBC News reported. The miners allege the lawyers, Remberto Rodrigo Valdes and Fernando García, "misled the 33, making them believe they would manage their own company, only to harm them and appropriate monies that rightfully belonged to them," the lawsuit alleges. One of the miners who is not part of the lawsuit, Mario Sepulveda, said he disagreed with the suit. "It's a shame they're being so ignorant and letting themselves be led astray by people who haven't read the contracts properly," Sepulveda told Agence France-Presse. However, Victor Zamora, who is one of the plaintiffs, said there is no dispute between the nine plaintiffs and the rest of the group. "It's not about fighting the [other miners] because we're a very united group," said Zamora, AFP reported. "The division we have within the group is because of what the lawyers have done to us." The 33, a movie about the miners' ordeal and starring Antonio Banderas as Sepulveda, was released earlier this year in Chile and is to be released next week in the United States. The miners were trapped underground for 69 days after a cave-in at the San José copper mine in the Atacama Desert near Copiapó. All 33 miners were rescued through a winching operation, and nearly all of them were in good medical condition.

The miners were trapped underground for 69 days in 2010.

CORRECTION

A commentary on page 2 of Monday's Advisor incorrectly stated that Brazil's inflation rate is currently higher than at any time since the 1930s. In fact, Brazil's annual inflation rate was higher as recently as 2003.

ECONOMIC NEWS

Venezuela's Maduro Pledges Support for Eastern Caribbean

Venezuelan President Nicolás Maduro on Monday pledged additional support for the Eastern Caribbean under his government's Petrocaribe program, the Associated Press reported. Venezuela is looking for a regional hub that can be the center of construction for 50 homes financed by Petrocaribe, in which the Andean country provides oil to member countries on preferential terms. "There should be no doubt in our minds that PetroCaribe today is the backbone of the energy, social and economic development of our region," Maduro said during a visit to the island of St. Vincent. The home construction program could be a model for other investments on the Caribbean island, Maduro added. He also said that Venezuela's government would provide St. Vincent with 7,500 laptop computers and that the two governments would work toward closer

Maduro // File Photo: Venezuelan Government.

NEWS BRIEFS

Coty Agrees to Buy Hypermarcas' Beauty Care Unit for $1 Billion

U.S. beauty product manufacturer Coty will pay about $1 billion for the beauty care unit of Brazil's Hypermarcas, increasing its distribution capacity in one of the world's largest consumer markets, ahead of a similar deal with Procter & Gamble, or P&G, Reuters reported Monday. Coty said the deal would provide a platform to sell more P&G products in Brazil, a market with a growing demand for U.S. cosmetics. However, analysts are concerned that while there is a growing demand for personal care products in Brazil, the state of the economy indicates that the demand may soon taper off.

Itaú Posts Stronger-Than-Expected Profit for Third Quarter

Brazil's Itaú Unibanco Holding today beat estimates as interest income growth offset higher loan-loss provisions and growth of expenses, Reuters reported. For the third quarter, the bank said its recurring net income amounted to 6.12 billion reais ($1.57 billion).

Peru's Central Bank Chief 'Happy' With Inflation Readings

Peru's central bank president said Monday that bank is "happy" with official inflation readings of the past two months, Reuters reported. The annual inflation rate rose to 3.66 percent in October, which is higher that the central bank's one to three percent target range but lower than the three-year high of 4.04 percent that the inflation rate rose to in August. "We're happy with inflation in September as well as October," said central bank President Julio Velarde, indicating that the bank would hold the benchmark rate steady. The central bank increased the benchmark for the first time in four years in September to 3.5 percent.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

trade relations. Venezuela this year constructed a fuel storage and distribution plant on the island. The $32 million project nearly tripled St. Vincent's fuel storage capacity. Maduro also recently visited Antigua, Suriname, St. Lucia and Grenada. [Editor's note: See **Q&A** on Petrocaribe in the Nov. 11, 2014 issue of the Advisor.]

BUSINESS NEWS

Pan-American, Mutual Complete Holding Co. Merger

Pan-American Life Mutual Holding Company and Mutual Trust Holding Company have completed their merger into one entity, Pan-American Life Insurance Group announced Monday. "The merger of the two mutual insurance holding companies positions the combined entity as a premier life, accident and health insurance provider in the Americas," Pan-American said

Suquet // File Photo: Federal Reserve Bank of Atlanta.

in a statement. The combined company has a presence in the United States and 22 other jurisdictions in Latin America and the Caribbean, the company said. The combined company, which will retain the name Pan-American Life Mutual Holding Company, will have approximately $1 billion in revenues, $5.5 billion in total assets, 1.5 million covered lives and 1,650 employees. The transaction creates "a more balanced geographic footprint throughout the Americas and a more diversified base of business in the U.S.," said Pan-American's chief executive officer, José S. Suquet, who will lead the combined company from its headquarters in New Orleans. Stephen Batza, who was chairman, president and CEO of Mutual Trust, will become president of Pan-American Life's U.S. life insurance business, the company said.

Brazil Oil Workers Begin Strike

Brazil's Oil Workers Federation, or the FUP, on Sunday began a national strike, which it said by Monday had spread to 34 of Petrobras' rigs, EFE reported. The FUP, Brazil's biggest oil sector union, which represents platform and refinery workers, began the work stoppage to protest Petrobras' asset sales, The Wall Street Journal reported. In a statement, the FUP said it started the strike after more than three months of negotiations with the company. The asset sales that the FUP is protesting, the labor union said, will lead to thousands of layoffs and have a negative effect on Brazil's economy. Petrobras plans to divest from more than $15 billion worth of assets this year and next, and from up to $58 billion worth by 2019. The state-run oil company said it is "evaluating the impact" of the strike and "taking all necessary measures to maintain production" at the affected rigs. The strikes and subsequent paralysis of the rigs adds to Petrobras' troubles as it deals with low oil prices, a debt load of $130 billion and an ongoing corruption scandal.

FEATURED Q&A / Continued from page 1

crime in Honduras has included handling financial proceeds from at least 1 percent of the total revenue of drug sales (estimated to be at least $30 billion a year) through money laundered through different methods, including the use of legal entities like construction companies, small businesses and banking financial institutions. Laundering hundreds of millions of dollars requires sophisticated methods and collaboration of many authorized businesses to insert funds in small denominations (thousands), and it begs the question as to whether other financial institutions may have participated in cleaning those proceeds, from opening bank accounts, to discretionally taking or accepting recurrent four figure deposits without all due diligence. Second, the timing of the U.S. Treasury's action may not be accidental, considering that there are already U.S.-backed efforts to reduce corruption, violence and crime in Central America. Moreover, the position of the Honduran government highlights its inability to properly regulate and detect the presence of financial crimes when a bank is accused of being involved for at least 10 years in money laundering. It also seems that the U.S. government is using some of its regulatory muscle to exert far more influence in the region than diplomatic recourse."

Georges Hatcherian, analyst in the Financial Institutions Group at Moody's Investors Service: "Beyond the obvious negative implications for Banco Continental, its liquidation will also weigh on international funding prospects for other Honduran banks. Global financial institutions will likely become more concerned about compliance risks in Honduras, notwithstanding the passage last March of a special law to prevent money laundering. Continental's liquidation comes at a time when money laundering in Central America and the Caribbean has become an increasing worry for investors, also illustrated by the inclusion of Panama, home of one of the region's largest banking centers, to the Financial Action Task Force 'grey list.' In response to these rising worries,

> **"Global financial institutions will likely become more concerned about compliance risks in Honduras...."**
>
> **— Georges Hatcherian**

Continued on page 4

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 3

some institutions have increased scrutiny of their correspondent lines to the region. Because Honduran banks are largely deposit-funded, the key risk to the system resulting from this incident is a decline in depositor confidence that would further erode banks' funding profiles. However, Honduras' bank regulator is taking measures to prevent such a loss of confidence from occurring. Despite accounting for around just 4 percent of total assets in the system as of January 2015, Honduras' banking regulator claims that the bank's more than 220,000 depositors will be covered up to $9,000 per person. Although this recent development raises funding risks in Honduras, financial fundamentals in the country's banking system are otherwise stable, albeit somewhat weaker than in other Central American countries. While asset quality and core capitalization remain below regional averages, profitability compares stronger, explained by relatively ample net interest margins."

Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach: "For too long a time, the U.S. law enforcement establishment had been pondering whether or not to extend RICO Act principles to FCPA-triggered cases. This is no longer the case as RICO is alive and well and is presiding over investigations dealing with Palermo Convention enforcement. The good news is that the days of impunity south of Rio Grande are over. The bad news is that organized crime and their collaborators will seek greener pastures by moving their financial operations to the Seychelles, the Channel Islands, Switzerland and Lichtenstein. Local impact of the Banco Continental operation will be important and could affect the whole financial system. But it will strengthen compliance while driving mafia groups away from the country. One must always bear in mind that the most valuable asset to any criminal enterprise is money. Should money be cut off through effective monitoring and unplugging of laundry outlets, crime will find it difficult to operate. The Treasury Department did a great job on what will prove to be the first among many clean-ups in the hemisphere."

Adalberto Palma Gomez, senior partner at Aperture S.C. in Mexico City: "This case creates a very negative precedent for the financial industry. The bank was in compliance with local regulations, and suddenly, due to an extraterritorial action (a designation by OFAC), was subject to a forced liquidation, generating uncertainty among financial and economic parties. It is at least a cause for concern among law-abiding institutions. So far, no final judicial resolution has been enacted on failures of the bank's anti-money laundering policies, procedures, internal controls or OFAC programs. A worst-case scenario in the financial world is to force liquidation of a financial entity. In this case, the relevant authorities opted to apply the ultimate measure based on information obtained by a foreign authority, and according to news reports, not necessarily following local due process of law. Again, this case creates a concerning precedent in the banking industry that could affect trust in financial authorities, supervisors, regulators and the local judicial system. Apparently, local regulators are handling the situation in 'panic mode' and not necessarily under due process, which could result in an overflow of negative public reaction."

> **"This case creates a very negative precedent for the financial industry."**
>
> **— Adalberto Palma Gomez**

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2015

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program
Maria Darie, Director, Finance & Administration
Ramón Espinasa, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Alejandro Ganimian, Nonresident Fellow
Peter Hakim, President Emeritus
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

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:

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 freetrial@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.