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THEDIALOGUE

FEATURED Q&A

What's the Future of Fintech in Latin America?

Investments in financial technology have been on the rise in the United States. // File Photo: Pixabay.

Q The value of financial technology investments in the United States soared last year to $9.89 billion, up from $3.39 billion in 2013, a 191 percent increase, according to a report released in June by Accenture. Is Latin America experiencing a similar increase? How much demand is there among financial services companies in the region for improved technologies? What types of new technologies are most needed among financial firms? Are venture capitalists interested in putting more resources into financial services sector startups in the region?

A **Kai Schmitz, leader of FinTech Investment for Latin America at the IFC Global FinTech Investment Group:** "Investments in financial technology ('fintech') have risen around the world, including in Latin America. At IFC, for example, we now have a dedicated investment team focusing on this space. The reason is simple: the digitalization of commerce is reaching financial services with full force. And since history now shows that everything that can go digital will go digital, financial services are next on the list. Multi-party transactions are moving away from market makers to electronic marketplaces and the delivery of retail financial services is moving to the Internet. The more easily a service can be commoditized, the faster this will happen. Take loans for example, where not much trust is needed from the borrower, and differentiation is limited to pricing, so online lending is maybe growing faster than any other digital financial service. Goldman Sachs estimates that the sector in the United States is worth $4.7 trillion, and Jamie Dimon recently warned of the threat fintech companies pose to banks. Investors

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Argentina's Menem Sentenced to More Than Four Years

A court in Buenos Aires found that former President Carlos Menem oversaw the embezzlement of $466 million. Through his lawyer, Menem vowed to appeal.

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Scotiabank Reports 28% Profit Increase

Bank of Nova Scotia said strength in its international banking business helped drive profit.

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Puerto Rico Avoids Default, Governor Issues 'Distress Call'

Puerto Rico made a scheduled $354 million debt payment on Tuesday, but Gov. Alejandro García Padilla told U.S. senators that he was issuing a "distress call," saying the U.S. territory has run out of cash.

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García Padilla // File Photo: Commonwealth of Puerto Rico.

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ECONOMIC NEWS

Puerto Rico Avoids Default, Governor Issues 'Distress Call'

Puerto Rico on Tuesday made a scheduled $354 million debt payment, avoiding default, but the U.S. commonwealth's governor at the same time told members of Congress that the territory has completely run out of cash. Puerto Rico was able to make the payment due Tuesday because of a trade-off, Gov. Alejandro García Padilla told members of the U.S. Senate Judiciary Committee, The New York Times reported. The territory used money that had been earmarked for making payments next month on a lower tier of bonds than the constitutionally-guaranteed ones on which payment was due Tuesday. "This is a distress call, from a ship of 3.5 million people that is adrift at sea," García Padilla told lawmakers. The governor has pressed for Congress to allow Puerto Rico to restructure its debts under the U.S. bankruptcy code, a move that is currently prohibited because of Puerto Rico's status as a U.S. territory.

POLITICAL NEWS

Cuba Reinstates Restrictions on Physicians' Travel

Cuba has reinstated restrictions requiring its doctors to apply for a special permit before leaving the country to work abroad, BBC News reported Tuesday. Cuba's health services have been "seriously affected" by the great number of doctors who have moved abroad since the country loosened controls in 2013, said a government statement published in official state newspaper, Granma. The government also criticized the U.S. policy of recruiting doctors to work in the United States. "It must be recalled that the United States government has historically used its migratory policy as a weapon against the Revolution, and has, for political reasons, encouraged emigration from Cuba," the statement said. The majority of the doctors who have left Cuba since 2013 immigrated to the United States, and Cubans who reach the United States by land are offered automatic residency if they apply for it as part of the country's "wet foot/dry foot" policy. Cubans have recently been flooding Central American countries on their way to the United States in hopes of taking advantage of the country's residency policy. The current surge in Cuban migrants is believed to be a result of the recent rapprochement between the two countries, as some Cubans fear that the U.S. government will soon eliminate its policy to grant residency to those Cubans who apply for it.

BUSINESS NEWS

Vale Cuts Iron Ore Production Guidance

Brazilian mining company Vale on Tuesday announced a cut in its production guidance for iron ore by nearly 10 percent for 2016 amid a global surplus of the commodity, The Wall Street Journal reported. Vale expects to mine between 340 million and 350 million metric tons of iron ore next year, down from the previously projected 376 million tons. The dam failure last month in Minas Gerais state at Samarco Mineração, a joint venture between Vale and BHP Billiton, is expected to decrease Vale's iron ore production by some 17 million tons, The Wall Street Journal reported. The breach knocked out a conveyor belt at Vale's Fabrica Nova mine, which as an effect will eliminate about nine million tons of annual output. Samarco is also no longer expected to purchase eight million tons of iron ore from Vale after Brazilian authorities revoked its license. Vale believes that global demand for iron-ore exports will be between 1.35 billion and 1.4 billion tons for the coming year, though it projects that there will be a global output of 1.6 billion tons. The market glut, which is occurring at a time when the U.S. dollar is strengthening, has

NEWS BRIEFS

Argentina's Menem Sentenced to More Than Four Years

Former Argentine President Carlos Saúl Menem was sentenced Tuesday to four and a half years in prison by a court in Buenos Aires for overseeing the embezzling of public funds in order to pay government bonuses during his presidency in the 1990s, The New York Times reported. The court found that $466 million has been embezzled in the scheme. Menem had created a system in which money would be set aside for an intelligence agency and then would be periodically funneled to pay ministers and other government workers a bonus in addition to their regular salaries, the court said. Menem said through his lawyer that he would appeal the conviction.

Honduras Releases Five Syrians Arrested With Fake Passports

The five Syrian men who were caught and imprisoned in Honduras for trying to reach the United States with fake passports were freed from jail on Tuesday, Reuters reported. The five agreed to pay a fine in exchange for the court dropping the charges against them, a court spokeswoman said. Their capture stirred fears in the United States that militants from ISIS would try to enter the United States through its southern border, but Honduran authorities said there were no indications that the men were Islamic State fighters.

Mexico Allows Eni to Start Developing Three Oil Fields

Italian energy company Eni said Mexican authorities have permitted it to start the development of three offshore oil fields in the Gulf of Mexico, UPI reported Tuesday. Eni will drill four wells in the three fields, the energy company said in a statement.

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ultimately driven down prices for the commodity. On Monday, the Steel Index's benchmark price fell to $42.80 per ton from $100 per ton a year earlier. Vale projects that iron-ore prices will be between $48 and $52 per ton in 2016.

Scotiabank Reports 28% Profit Increase

Toronto-based Bank of Nova Scotia on Tuesday reported a 28 percent increase in profit for the quarter ending Oct. 31, saying that a strengthening international banking business and lower expenses drove gains, Bloomberg News reported. For the quarter, Scotiabank's net income increased to 1.84 billion Canadian dollars ($1.38 billion), or 1.45 Canadian dollars per share. That compares to 1.44 billion Canadian dollars, or 1.10 dollars per share for the same quarter in 2014. In the August-through-October period last year, the bank's bottom line was hit by some restructuring costs, the lender said. The profit that the bank reported on Tuesday beat the average estimate of analysts surveyed by Bloomberg. "The bank continues to perform well, given challenging conditions in certain businesses and markets," Scotiabank's chief executive officer, Brian Porter, said in a statement. "We are well-positioned, including through the Pacific Alliance countries, for future growth." Scotiabank is the first Canadian bank to report its earnings for the quarter that ended in October. Canada's six largest banks are expected, on average, to report a 4 percent increase in profit for the quarter, year-on-year, Rob Sedran, an analyst at CIBC Capital Markets, told Bloomberg News. For the quarter, Scotiabank also reported a 6.6 percent year-on-year rise in revenue to 6.13 billion Canadian dollars. The figure fell short of analysts' estimates. The bank also said that its operating expenses declined 2.3 percent to 3.27 billion Canadian dollars. For the quarter ending in October, the lender also set aside 551 million Canadian dollars in provisions for bad loans, a decline from 574 million last year. The bank's international banking earnings jumped 53 percent in the quarter to 564 million dollars. Porter has said that the lender is focused on Latin American countries, particularly Chile, Colombia, Mexico and Peru for growth. In July, Scotiabank struck a deal buy the Panama and Costa Rica operations of Citigroup. At the same time as its earnings announcement, Scotiabank said it has named Ignacio "Nacho" Deschamps as a strategic advisor for digital banking, effective Jan. 4, The Globe and Mail reported. Porter said the appointment is part of the bank's efforts to enhance its digital banking services in Canada and abroad. "His leadership in navigating and leveraging digital banking trends, and his deep banking expertise in key international markets, will provide tremendous benefit to Scotiabank," said Porter.

Porter // File Photo: Bank of Nova Scotia.

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see the opportunity and are searching for the new leaders of fintech. As a result of the very large market and high potential of these new companies, and maybe also because of the large inflow of capital, valuations are frothy not only in the United States, but also already in the main markets in Latin America, in particular in Brazil. There are many early-stage companies in the region with great promise and strong business models, some imported from the United States and others original. Banks are also beginning to pay attention and international players have entered the region. Picking the winners is therefore getting increasingly difficult."

Ariel Muslera, senior advisor for the Latin American Private Equity & Venture Capital Association (LAVCA): "Fintech is a hot market right now in Latin America, and we expect to see accelerated growth in the coming years. VC-backed companies targeting underbanked populations and millennials will be of interest because they represent two segments where Latin America has a clear lead in terms of demographics and the opportunity is significant. Also, because of the history of macroeconomic instability, there has been a number of startups looking at the Bitcoin and cryptocurrency space. A less obvious area is security and fraud detection, again because of the region's dynamics. However, Latin America is still several years behind the United States, and that is reflected in the number of fintech investments we've seen thus far. The local VC industry is gradually engaging the opportunity, and as an example, NXTP Labs, the largest Latin America accelerator, recently decided to focus its acceleration program exclusively on fintech startups. Another indicator is the presence of international companies exploring the ecosystem, including Santander InnoVentures from London, Omidyar Network from the United States, and BBVA Open Talent from Spain. A few high-profile Latin American companies that have gained traction in the space include pan-regional mobile banking platform YellowPepper (which raised $39 million), pan-regional digital banking solution Technisys (which raised US$14m), and Brazilian online personal finance solution BankFacil (which raised $4.4 million)."

> **"Fintech is a hot market right now in Latin America, and we expect to see accelerated growth in the coming years."**
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> **— Ariel Muslera**

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Juan Mazzini, senior analyst at Celent: "Spending on financial services information technology in Latin America is increasing every year. In just insurance, IT spending was estimated at $5.3 billion for 2015 with a projection to reach $6.7 billion by 2017. Insurers in Latin America continue to dedicate more of their budgets to IT. However, IT spending ratios have seen an adjustment downward from the previous year's estimates due to moderate economic and sector growth perspectives in the region. Our research shows that digital transformation projects and IT-enabled innovation stand as the top priorities for insurance CIOs, followed by core-system replacement as well as data mastery and analytics. Rather than specific technologies, financial firms need first to define the customer experience they plan to deliver, which will lead to prioritizing the technologies they need to incorporate. The fintech ecosystem has been evolving and maturing in Latin America for the last three years mainly due to the effort of participants to connect all key players of the fintech ecosystem. In the United States, there are geographical pockets of innovation, such as Silicon Valley, that the actors together based on proximity. However, nothing like this exists in Latin America so it is essential to work an ecosystem, a network of participants, regardless of their geographic location. I do not foresee a sustained and increasing development of fintech start-ups and initiatives in the region without the existence of such an ecosystem. Insurers are also participating in the fintech space by funding accelerators, creating innovation labs or establishing funds to invest in fintechs. However, innovation is often difficult for established players. Our research indicates that in Latin America, 41 percent of insurers have a formal innovation program which has been running for at least two years, and 35 percent indicate they don't have a formal program yet. The fact that only eight percent of them are focusing on disruptive innovation leads us to think that change will be slow, mostly based on incremental innovation, unless some external factor can accelerate change."

> **"The financial services industry will experience a big disruption in the next decade in Latin America."**
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> **— Marco Camhaji**

Marco Camhaji, partner at RedPoint eventures: "The financial services industry will experience a big disruption in the next decade in Latin America. Following the path observed in the United States, the unbundling of the traditional bank model is creating numerous opportunities. This phenomenon is even more relevant in Latin America given the macroeconomic conditions of several countries that have high interest rates and transaction costs, and relatively low penetration of mobile. We have identified a significant increase of financial services startups coming through our pipeline and we hold a good exposure to the industry, with an eagerness for further investments. At Cubo (our most recent tech hub initiative), we have very interesting financial services startups, and we definitely envision this segment as a very promising focus of investments in the coming years."

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