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FEATURED Q&A

Are Mexico's Banks Doing Enough to Fight Cybercrime?



The frequency of cyberattacks has been increasing in Mexico's banking sector. The country's central bank, headed by Alejandro Díaz de León, is creating a new cybersecurity unit in an effort to prevent future incidents. // File Photo: Bank of Mexico.

Q Mexican banks have been seeing an unprecedented level of cyberattacks in recent weeks, central bank chief Alejandro Díaz de León said May 14. The attacks have included incidents in which thieves siphoned as much as \$20 million out of the country's banks. How prone is Mexico's banking system to such attacks, and what are the system's main vulnerabilities? What more must the country's banks do in order to protect themselves? What actions should Mexican government agencies and lawmakers take to strengthen the country's electronic banking system?

A Jarrett Benavidez, vice president of sales for Central U.S. and Latin America at BeyondTrust: "After last week's attack on the SPEI platform in Mexico, where multiple banks reported non-authorized transfers of as much as \$20 million, the banking industry has responded by using alternate channels to avoid these transfer 'delays.' The resulting lack of trust of this very important platform will result in the unprecedented resignation of several top-level executives in Mexico, and will surely drive mandatory security requirements to protect this core of the Mexican banking system, rather than allow for nondisclosure and other confidentiality agreements to suffice as protection as before. The vulnerability that allowed for the successful attack on the transfer system was located in middleware, or software that acts as a bridge between an application and a critical system such as a database or operating system. The risk posture of middleware is often overlooked, as the focus of these programs falls on functionality instead of security. They are often developed by third parties and by internal

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TOP NEWS

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Banesco Chair Calls Venezuela's Takeover Unjustified

Juan Carlos Escotet, the chairman of Venezuelan bank Banesco, blasted the government's 90-day takeover of the bank and arrests of 11 executives.

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FINANCIAL SERVICES

Scotiabank Spends \$101 Mn for Stake in Peruvian Lender

The Canada-based bank is buying a majority stake in a Peru-based lender associated with retailer Cencosud.

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FINANCIAL SERVICES

Cayman Islands, Bermuda Blast Transparency Law

The British overseas territories lashed out at a new transparency law approved by the United Kingdom's Parliament. Alden McLaughlin, the premier of the Cayman Islands, said his territory was considering all options.

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McLaughlin // File Photo: Government of the Cayman Islands.

FINANCIAL SERVICES NEWS

Hackers Steal More Than \$15 Mn From Mexico Banks

Hackers stole millions of dollars' worth of pesos from Mexican banks in recent weeks, Reuters reported May 14, citing sources close to the investigation. The criminals, who remain at large, allegedly created phantom orders that transferred funds to fake accounts that were quickly withdrawn at brick-and-mortar bank branches. Banorte and four other banks not named in the Reuters report were apparently targeted. Local newspaper El Financiero reported that pesos worth more than \$15 million were stolen. Lorenza Martínez, director of the payments system at the Bank of Mexico, told Reuters that interbank transfers began to suffer delays last month, sparking concerns among authorities. The central bank in April asked several commercial banks to take emergency measures to fortify the country's electronic payments network following a cyberattack that disrupted some transfers, Bloomberg News reported. Martínez said that the central bank's SPEI interbank transfer system, which operates a network similar to the SWIFT global messaging system, was not compromised, but that the problem had to do with the software developed by external institutions or providers to connect to the payment system. In addition, the criminals may have had help from employees operating within the bank branches in order to conceal a series of such unusually large transfers, according to the report.

Banesco Chairman Blasts Venezuelan Gov't Takeover

The chairman of Venezuelan bank Banesco on May 4 decried the government's 90-day takeover and arrests of 11 executives on charges of criminal association and money laundering, Reuters reported. "There are no financial reasons

to justify an administrative intervention—not for one day, much less for 90," wrote Banesco Chairman Juan Carlos Escotet in a letter posted on Twitter. Escotet said he had flown from Spain, where he resides, to Caracas in order to help free the 11 executives, who include Executive President Oscar Doval García. President Nicolás Maduro said last week that regulators were cracking down on banks for currency manipulation and accused Banesco of speculating on the exchange rate and smuggling paper money out of the country. Authorities froze about 1,000 accounts at the bank, which has eight million clients, Bloomberg News reported. Many Venezuelans worry the government wants to gain control over remittances sent home by Venezuelan migrants, who have fled the country by the hundreds of thousands in recent years. Escotet urged customers to continue banking at Banesco despite the takeover. Hyperinflation has diminished the value Venezuelan banks' holdings to a total of \$40 million, according to Reuters.

Cayman Islands, Bermuda Blast New Transparency Law

The Cayman Islands and Bermuda, British overseas territories, have lashed out at a new measure approved in the United Kingdom's parliament on May 1 under which the Caribbean territories will be compelled to reveal the ownership of companies based there, the Financial Times reported. The new rules, which would take effect by the year 2020, are aimed at tackling money laundering and corruption. Alden McLaughlin, the premier of the Cayman Islands, said his territory was keeping all options on the table, including a legal challenge, saying the decision was "reminiscent of the worst injustices of a bygone era of colonial despotism," the Guardian reported. David Burt, the premier of Bermuda, said the new rules would violate 50 years of "constitutionally sanctioned self-government." The United Kingdom has 14 overseas territories, many of which have come under regulatory scrutiny for secretive financial systems that have been used as tax havens.

NEWS BRIEFS

Zurich Insurance Reports Business Up in Latin America 14 Percent

Zurich Insurance Group grew its gross written premiums, or GWP, in Latin America to \$684 million in the first quarter, up 14 percent as compared to the same period in 2017, Intelligent Insurer reported May 9. The Swiss insurer's overall GWP fell, however, as it cut back premium-writing in North America to focus on profitability. Last month, Zurich bought the personal and group life insurance operations of Euroamerica in Chile.

Brazilian Banks Allowed to Close for World Cup Games Next Month

Brazilian regulators on May 10 declared that banks nationwide can change the opening hours of their branches on the days when the Brazilian soccer team plays matches at the World Cup in Russia, Agence France-Presse reported. The usual mandatory minimum of opening for five hours will be reduced to four, the central bank said. The World Cup, which Brazil has won five times, kicks off next month.

Brazil Banks Lower Rates for Real Estate Financing

Three leading Brazilian banks have reduced their interest rates for real estate financing following a similar move by government-owned bank Caixa Econômica Federal, Brazilian daily newspaper O Globo reported May 8. Banco do Brasil, Bradesco and Santander have each reduced their rates by between 0.4 and 0.8 percent. After keeping rates steady for more than a year, Caixa reduced its minimum lending rate from 10.25 percent to 9 percent on April 16. According to specialists cited by O Globo, Caixa's reduction in the number of contracts has incentivized the move among private banks and Banco do Brasil.

Two years ago, Mossack Fonseca, a Panama-based law firm, suffered a data breach that shed light on how the world's wealthy exploit financial secrecy laws to hide assets. [Editor's note: See related [Q&A](#) in the April 4 edition of the biweekly Financial Services Advisor.]

Scotiabank Spends \$101 Million for Peruvian Lender

Bank of Nova Scotia has struck a deal to buy a majority stake in a Peru-based lender associated with retailer Cencosud, the Financial Post reported May 10. Scotiabank, as the Canadian financial services company is known, said in a statement that its Peruvian subsidiary had agreed to pay around 130 million Canadian dollars (\$101 million) for a 51 percent interest in Banco Cencosud, which offers credit cards and consumer loans in Peru. The company has more than 315,000 active clients and around 240 million Canadian dollars in outstanding loans in the country, Scotiabank added. The acquisition would make Scotiabank the second-largest issuer of credit cards in Peru when the transaction closes, if regulators approve it. The deal also includes a 15-year partnership between the two companies to manage the credit card business and provide other products and services, similar to arrangements that Scotiabank and Cencosud already have in Chile and Colombia. In the first quarter of 2018, Scotiabank's Peru unit posted a 4 percent increase in profits over the same period last year, El Comercio reported.

Credicorp Reports Profits Up 16 Percent in First Quarter

Peru's Credicorp, the country's largest financial holding company, on May 3 reported a 16.7 percent increase in net profit for the first quarter, as compared to the same period a year ago, Reuters reported. The company posted 1.04 billion soles (\$317 million) in profit for the

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resources that aren't required to follow security best practices when writing code. Lack of attention to secure coding often makes middleware an easy target for hackers, as it goes into production riddled with security vulnerabilities. Activity between systems is hijacked, and legitimate credentials are stolen, allowing hackers to act as company employees and, in this case, disperse funds, in what appears to be a valid transaction. Mexican government agencies should mandate controls that improve security standards of middleware and other software, including secure-coding best practices, vulnerability identification and remediation, as well as management, auditing and recording of all access to critical financial applications. With 80 percent of cyberattacks involving stolen credentials obtained by leveraging vulnerabilities in the IT ecosystem, it is crucial to address the attack chain from beginning to end."

A **Melissa Díaz and Paola Sánchez Torres, attorneys at Díaz, Reus & Targ:** "According to the World Bank, Mexico is the second largest economy in Latin America. Yet, its cybersecurity programs and technologies are outdated, and the country lacks a cybersecurity culture. These vulnerabilities leave Mexico's banking system very prone to cyberattacks. Both Mexico's banks and the Mexican gov-

ernment must enact immediate measures to prevent future cyberattacks like the recently discovered hacking and transferring of more than \$15 million from Mexican banks such as Banorte to dummy accounts in other banking institutions. Mexico's banks should implement enterprise-wide security policies that take into account all regulatory and enterprise compliance requirements and protect personal data. Once a security policy is in place, banks should enforce their security policy and constantly monitor their network to ensure that any changes to configurations within the network have been approved and are compliant with the policy. Banks should also screen all candidates and employees, and should conduct regular mandatory employee training on their security policies. Currently, Mexico does not have a dedicated law that regulates cybersecurity. As such, it is imperative that Mexican lawmakers create effective legislative frameworks that hold entities and their management responsible for poor cybersecurity practices and that allow for the prosecution of individuals responsible for cyberattacks. The Mexican government should incentivize a culture of cyber hygiene with effective communication and participation among participants, such as banks and other financial institutions. If Mexico and its banks do not make critical changes to their cybersecurity culture, the public is likely to lose trust in the Mexican

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quarter, the company said. Credicorp added that it saw a 7 percent expansion in its average daily loan balances in the quarter, year-on-year.

Argentina Enacts Capital Market Reforms

Argentina's Congress passed a law on May 9 reforming its capital markets in an effort to boost foreign investment into the country, Ar-

gentine daily newspaper Clarín reported. President Mauricio Macri's Cambiemos coalition has long pressed for the reforms, saying that they will deliver much-needed financing to small- and medium-sized enterprises. Small businesses "generate 70 percent of employment in the country and never have the opportunity to access capital markets," said Eduardo Amadeo, a deputy for Cambiemos, going on to call the law "one of the most transcendent projects in the past two years." The law also has features that will permit banks to issue more mortgages and tie mortgage securities to inflation,

Reuters reported. The proposal, which had already passed the Argentine Senate, was held up in the Chamber of Deputies until it passed on a vote of 158 to 70 with notable support from some opposition Peronist lawmakers. Market capitalization in Argentina stands at just 18 percent of GDP, far below the rates of some of its neighbors. Market capitalization is 46 percent of GDP in Brazil and 112 percent in Chile, according to Clarín. Still, many opposed the change as a way to benefit the international elite while weakening regulatory oversight. "The neoliberal platform is responsible for this situation," said opposition deputy and former Economy Minister Axel Kicillof. "We don't need to reinforce our direction, we need to change it."

ECONOMIC NEWS

Argentine Central Bank Rolls Over Billions in Debt

Argentina's central bank on May 15 rolled over billions of dollars' worth of short-term debt in a move that boosted confidence following several weeks of volatility in the South

“I want you to feel calm that this is the right path.”

— Mauricio Macri

American nation's economy, The Wall Street Journal reported. The central bank refinanced \$26 billion in peso-denominated securities that were to expire this week. The decision by holders of the notes, known as Lebac's, to roll over their investments was seen as an important test of the central bank's authority and helped the country avoid capital outflows that have eroded the value of Argentina's currency over the past three weeks, the Financial Times reported. "This could be a turning point," Marcos Wentzel, a partner at local investment bank



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Silvia Pavoni

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To learn more about the conference and to register, click [here](#)

NEWS BRIEFS

Guatemalan Authorities Announce New Details in Probe Against Morales

Investigators in Guatemala on May 15 said they had found evidence that President Jimmy Morales had purportedly received illegal campaign funds from businesspeople during his presidential run in 2015, the Associated Press reported. Prosecutor General Thelma Aldana made the charges just two days before the end of her term. The decision on whether to pursue the case will be up to her successor María Consuelo Porras, who was appointed by Morales. Morales has declined to comment.

New Poll Shows Brazil's Bolsonaro Still in the Lead

A new poll released May 14 shows that controversial right-wing Brazilian presidential candidate Jair Bolsonaro has held onto his lead ahead of October's elections, with the most market-friendly candidates losing ground to leftist Ciro Gomes, Reuters reported. The MDA poll showed 18.3 percent of voters backing Bolsonaro, 11.2 percent for former environment minister Marina Silva and 9.0 percent for Gomes. São Paulo Governor Geraldo Alckmin slipped from third to fourth place, behind Gomes, polling with only 5.3 percent support, as compared to 8.6 percent in the same poll in March.

Business Leader Picked as Ecuador's New Finance, Economy Minister

Ecuadorean President Lenín Moreno on May 14 named Richard Martínez his new economy and finance minister, replacing María Elsa Viteri, who assumed the position in early March, El Comercio reported. An economist, Martínez had been serving as president of the Ecuadorian Business Committee since 2015. He has also served as president of Ecuador's National Federation of Chambers of Industries.

Puente, told the newspaper. The amount of securities in Tuesday's auction was nearly half of Argentina's \$53 billion in foreign exchange reserves. The monetary authority agreed to pay interest rates of 40 percent on the notes. A failure by the central bank to roll over the notes would have placed even more pressure on the battered peso, according to economists, The Wall Street Journal reported. The peso rebounded against the U.S. dollar on Tuesday, with the greenback losing 3.7 percent against the Argentine currency. So far this year, the dollar has risen 29 percent against the peso. Argentina's economy has teetered on a crisis as the country's stocks, bonds and currency have plunged since mid-April amid growing concern from investors about the government's deficit and inflation. On Tuesday, the government's statistics agency, Indec, said consumer prices rose 2.7 percent in April, bringing annual inflation to 26 percent. Among the price increases, the country has seen higher costs for gas and electricity. Also placing pressure on Argentina's economy are rising interest rates in the United States, which have led to money outflows from emerging markets. Argentina's central bank has sought to support the peso by selling billions of dollars in reserves in the spot market and also hiking the benchmark interest rate to 40 percent. President Mauricio Macri sought to calm fears about the economy on Tuesday, saying Argentina was not entering a new crisis. "We are advancing with firm steps toward this Argentina that we want to live in," he said, The Wall Street Journal reported. "I want you to feel calm that this is the right path." [Editor's note: See [Q&A](#) on Argentina's economy in the May 11 issue of the daily Advisor.]

NAFTA Talks Likely to Miss U.S. Congress Deadline: Ross

The three member countries of the North American Free Trade Agreement have not resolved any of the "big hot topics" in renegotiations and are unlikely to reach a deal before the United States' May 17 target, Wilbur Ross, U.S. Secretary of Commerce, said in Wash-

ington at the National Press Club on May 14, Reuters reported. The comments came as lead negotiators for the three countries have canceled meetings in Washington and are not scheduled to meet on a trilateral basis this week, according to Bloomberg News. Ross said rules of origin for North American automobiles, labor provisions, and changes to the dispute settlement system had become major sticking points in the talks. House Speaker Paul Ryan had cited the May 17 deadline because the Trade Promotion Authority, which allows the executive branch to negotiate on the country's behalf, requires that Congress be given several months' notice.

POLITICAL NEWS

Ecuador Reportedly Spent \$5 Million to Protect Assange

Ecuador's government spent \$5 million to protect WikiLeaks founder Julian Assange through intelligence and counterintelligence efforts, The Guardian reported May 15. The report, citing unspecified financial documents, says Ecuador contracted a security company and a team of hackers, and even deployed undercover agents to ensure Assange's security. The purchases were authorized by Ecuador's national intelligence agency, Senain, in what was first labeled "Operation Guest" and later "Operation Hotel." Ecuadorean President Lenín Moreno shut down the agency in March. Also, Assange reportedly compromised the embassy's network by intercepting staff communications, a charge that WikiLeaks denied. Assange has lived in the Ecuadorean Embassy in London since 2012. He had previously been wanted on charges of sexual assault in Sweden, though that case was dropped last year. Assange has denied the allegations and has remained in the embassy for fear that he'll be charged by British or U.S. authorities. Ecuadorean authorities cut off Assange's Internet access in March, saying he neglected to abide by an agreement not to interfere in the affairs of other countries.

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banking system, which could substantially harm its economic growth.”

Alejandro Buschel, information security professional and founder at ProGloBix: “Banks around the world are targeted with cyberattacks. The level of investment needed to build, operate and maintain cyber defenses keeps growing, with scarce personnel available to innovate and implement scalable solutions. The complexity of banking systems has grown significantly in the last decade, and it will continue to grow in order to better serve customers, reduce operating costs and increase efficiency. These goals are achievable when cyberse-

“The level of investment needed to build, operate and maintain cyberdefenses keeps growing...”

— Alejandro Buschel

curity is a fundamental part of the design and operation of systems. Mexico’s banking system should operate systems that foster collaboration and sharing of indicators of compromised systems among its members. They should have processes in place to react automatically to certain events. Automation is needed to distribute information and act accordingly. Sophisticated attacks are planned in advance and executed with precision. Cyber defenses should account for this kind of attacker with full awareness of all the critical systems required to operate, visibility of all applications flows, and mechanisms for detecting fraudulent activities. The banking system should be considered as important as critical infrastructure at the national level. Banks should be required to demonstrate adequate security to their regulator by implementing cyber stress tests of all critical applications, both for inter-bank transfers and internal systems. A past

history of limited attacks does not imply the future will be the same.”

Adalberto Palma Gómez, member of the Financial Services Advisor board and president of the Union of Mexican Financial Institutions (UNIFIMEX): “When it comes to cyberattacks, there are two kinds of financial institutions in the world: those that have already been attacked and those that don’t know it yet. Mexico’s financial system is no exception. The constant cyberattacks do not constitute the main problem, but rather the increasing sophistication with which they are carried out, as financial transactions are increasingly executed online. Condusef, the local authority that protects financial service users, said that in 2017 there were more than four million cases of cyberfraud and that two of every three client complaints had to do with this growing problem. Even Condusef itself suffered hacking attempts, impeding it from attending to thousands of client complaints. Recently, electronic payment system SPEI suffered a saturation attack through the Bank of Mexico, impeding operations at certain financial institutions. The attack exposed the lack of efficient response protocols, and that is what is being worked on today to prevent future failures. In a recent meeting with the National Banking and Securities Commission, the members of UNIFIMEX were informed that the body will soon release rules that will allow a joint reaction between financial institutions and authorities in order to prevent, and in some cases react, with measures appropriate for the problem in order to preserve the health of financial institutions, protect clients and reduce the risk to financial institutions’ reputations. The imminent next step for Mexico is the adoption of a framework for national cybersecurity covering all kinds of transactions, and communication between private and public institutions—for which the financial system is the lifeblood—to guarantee the continuation of necessary economic functions that society demands.”

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