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FEATURED Q&A

Are Venezuela's Banks at Risk of Collapsing?



Venezuela's government this month announced a 90-day takeover of Banesco, whose headquarters in Caracas is pictured above. // File Photo: Banesco.

Q Banesco CEO Juan Carlos Escotet on May 4 blasted Venezuela's imposition of a 90-day government takeover of the bank, writing in a letter posted to Twitter that there are "no financial reasons to justify" the move. Venezuelan officials imposed the ban after accusing the bank of running a clandestine currency operation and undermining the government, arresting 11 Banesco executives in connection with the investigation, Reuters reported. The moves followed a separate report that the value of the country's entire banking sector had been reduced to just \$40 million, due to hyperinflation and currency controls. What is behind the Banesco controversy? How troubled is the banking sector in Venezuela? What effects did the May 20 presidential election have on the situation? What will it take to get Venezuela's financial services sector back on track?

A Mark Naron, director for Latin America Financial Institutions at Fitch Ratings: "The government's 90-day intervention of Banesco Banco Universal, Venezuela's largest private bank, was carried out in response to allegations of illegal exchange rate transactions. However, government officials have publicly raised the idea of nationalizing Banesco for years. For example, last December, a high-level official proposed nationalization in response to the bank's offer to buy back the government's 2.3 percent stake. In addition, the small size of the alleged illegal transactions, compared to more serious incidents of noncompliance at other institutions that received no regulatory response, plus the highly public nature of the actions during the presidential election campaign, warrant skepticism not only about the government's

Continued on page 3

TOP NEWS

FINANCIAL TECHNOLOGY

Study Calls for Wider Adoption of Contactless Payment

The study by Americas Market Intelligence for Visa called for wider adoption of the payment method.

Page 2

REMITTANCES

Honduras Sees 8.8% Rise in Remittances

Transfers to the Central American country rose to \$1.78 billion for this year through May 17, according to Honduras' central bank. Eighty percent of the remittances to Honduras originate in the United States.

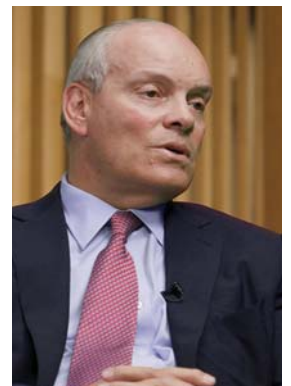
Page 2

BANKING

Latin America Fuels Profits at Scotiabank

Scotiabank's Latin American units helped drive the Canadian bank's quarterly profits. Acquisitions in Chile, Colombia and Peru will help grow the bank's customer base, said CEO Brian Porter.

Page 2



Porter // File Photo: Scotiabank.

BANKING NEWS

Latin America Helps Boost Earnings at Scotiabank

Scotiabank's international operations across Latin America fueled an increase in the Canadian bank's second quarter results this year, the bank announced May 29. Surpassing market expectations, the bank earned a net income of 2.18 billion Canadian dollars (\$1.6 billion), compared to 2.06 billion Canadian dollars last year. The earnings per diluted share amounted to 1.70 Canadian dollars, compared to 1.62 Canadian dollars last year. At the same time, Scotiabank CEO Brian Porter said the bank's operations in Mexico, Chile, Colombia and Peru, which continued to report strong results of double-digit earnings growth, contributed to its overall performance. "Recently announced acquisitions in Chile, Colombia and Peru, all expected to close in the second half of this fiscal year, will further grow our customer base and improve our presence in the Pacific Alliance region," Porter said. Since 2013, Scotiabank has been following a strategy that strengthens its ties to the four members of the Pacific Alliance, in an attempt to take advantage of the regional economy's growing middle class, rapid economic growth and low levels of banking penetration, according to Chilean online newspaper El Mostrador.

El Salvador's Banco Cuscatlán Implicated in Graft Scandal

The final part of the judicial investigation into a corruption scandal relating to former Salvadoran President Tony Saca began May 16 with testimonies that largely implicate Banco Cuscatlán, El Faro reported. Court documents show an interview prosecutors had with an unnamed former secretary to the late Mauricio Samayoa Rivas, then-president of Banco Cuscatlán. The former secretary alleges Samayoa gave direct

orders to discard any reports of suspicious operations after a series of weekly transactions occurred in the first six months of the Saca administration. In the case file, prosecutors also claim Banco Cuscatlán failed to uphold its due diligence when it allowed checks to be cashed without following the correct identification process regarding the individual carrying out the



Saca // File Photo: Salvadoran Government.

transaction. In a statement in April, the bank affirmed that these operations were undertaken by "the old Banco Cuscatlán," which was sold to Citibank in 2006 and then to the "new Banco Cuscatlán" in 2016. Saca has been awaiting trial in prison since 2016 in connection with the alleged embezzlement of \$300 million of public funds, EFE reported.

FINANCIAL TECHNOLOGY NEWS

Study Calls for Wider Adoption of Contactless Payment

A new study by Americas Market Intelligence for Visa, published on May 11, explores the benefits of contactless payment in Latin America, suggesting that the region must more widely implement this method as the market continues moving toward a contactless card system. Contactless payment, a secure method that uses radio frequency technology, near-field communication or magnetic secure transmission to conduct purchases, aims to reduce the use of cash through quick and safe transactions that require consumers to just tap their card to contactless readers at points of sales, the study says. Contactless purchases

NEWS BRIEFS

Mexican Lawmakers to Discuss Cyberattacks With Attorney General's Office

Mexican legislators are planning to meet with officials from the central bank, ministry of finance and attorney general's office to discuss cyberattacks at Mexican banks, El Financiero reported May 24. The meeting, with representatives of numerous political parties, including the PAN, PRI and Morena, will cover the security of Mexico's electronic banking system and the attorney general's ongoing investigation into the theft of \$15 million worth of pesos from Mexican banks by hackers. [Editor's note: See related Q&A in the May 16 edition of the Financial Services Advisor.]

PGIM Inks Partnership With Banchile

New Jersey-based asset manager PGIM, a unit of Prudential Financial, on May 17 announced a partnership with Banchile, one of Chile's leading asset management companies, to offer investors access to some of its UCITS funds and real estate services through PGIM Real Estate. In a statement, Kimberly LaPointe, executive vice president for PGIM Investments, said the company wants to expand elsewhere in Latin America through strategic relationships.

Honduras Sees 8.8% Rise in Remittances

The amount of money Hondurans sent home from abroad amounted to \$1.78 billion this year as of May 17, according to the Honduran central bank data. The figure represents an 8.8 percent increase as compared to the same period last year, or a total increase of \$157 million. On a daily basis, \$13 million in remittances enters Honduras, with 80 percent coming from the United States. The growing number contradicts analysts' predictions of a deceleration in international remittances due to recent U.S. policies, La Tribuna reported.

have the additional benefit that there is no need to swipe, provide a signature or use a PIN number, Ricardo Tafur, vice president of consumer products for Latin America and the Caribbean at Visa, told EFE in an interview. Contactless payments are usually used for low-value purchases across the region, capped at \$25 or \$50, depending on each country's regulations. Costa Rica, Colombia and Chile are the strongest markets for contactless card issuing, the study reported. However, data shows that Latin America lags behind in the use of contactless payments, where less than 1 percent of transactions are done using this method, compared to around 90 percent of card payments in Australia, 60 percent in Singapore and 50 percent in China.

Companies Form Blockchain Group in Colombia

Six Colombian companies involved in cryptocurrency in Latin America have formed a new partnership called Blockchain Colombia, EFE reported May 17. The association has been created to support, develop and improve Colombia's crypto and blockchain systems, Cointelegraph reported. Both private and public companies make up the association, including Buda Colombia, Bitcoin Colombia, Cajero.co, IntiColombia, Panda Group and RSK. "It's very important that Colombia quickly includes itself

The association aims to serve as an advisor for the government with respect to regulations governing cryptocurrencies.

[in blockchain technology] to take advantage of the opportunities... Our foundation wants to be an actor that articulates the whole system and finds solutions to adopt this technology," Mauricio Tovar, co-director of IntiColombia, told reporters at the group's launch event, accord-

FEATURED Q&A / Continued from page 1

motives, but as to whether the 90-day horizon will be honored, and whether other banks could be targeted. The banking system has been much weakened by monetary expansion, capital and interest rate controls, and compulsory lending requirements. Under rapidly accelerating inflation, the system has contracted significantly in real terms, raising questions about banks' capacity to finance an economic recovery when the current economic crisis comes to an end. As of March, Venezuela's banking system assets totaled \$3.5 billion at the black-market exchange rate (\$16.5 billion at the official DICOM exchange rate). In comparison, in 2008, banking system assets were \$49 billion at the black market exchange rate (\$130 billion at the official exchange rate), providing some dimension to the scale of the system's contraction. The May 20 re-election of President Maduro suggests that policy actions to correct the severe imbalances in the economy, which would be necessary to get the financial services sector back on track, will not be coming soon."

A **Jaime Martínez Estévez, partner at Rodner, Martínez & Asociados in Caracas:** "The Banesco affair is one of many examples of the regime's violent and dubious actions. Once again, the regime has violated human rights, disregarded constitutional and legal provisions and presented fallacious motivations. Due process and presumption of innocence were again obviated. The broad supervision and regulatory powers of the superintendency of the banking sector institutions and the central bank, which

ing to EFE. Tovar said the association aims to promote educational initiatives and serve as an advisor for the government with respect to regulation and other policies governing cryptocurrencies, while still maintaining the decentralized nature of the blockchain ecosystem. The United Nations' Economic Commission

could have prevented or stopped the alleged wrongdoing, if they were honest claims, were not used in a timely way. Such omissions, as well as the form and timing of the announcement of the action against Banesco's

“The Banesco affair is one of many examples of the regime's violent and dubious actions.”

— Jaime Martínez Estévez

management, suggest other motivations. One could speculate they could just be a distraction in a dire environment or coercion. Fear of the regime by financial institutions and depositors has grown. New investment in the sector is less likely, and this will further debilitate the system, which suffers the pains of operating with absurd regulated rates, mandatory lending and rapidly increasing operational costs. Hyperinflation and currency scarcity are causing more trouble in the payments system. Exchange controls, which are at the root of the problems, are now just delaying a collapse. Recovery plans will only be viable after a change of government. Shock and progressive measures will be needed, within a comprehensive plan for the whole economy, with a major financial rescue package from the IMF and others. Mergers and acquisitions and consolidation of the system should be promoted."

Continued on page 6

for Latin America and the Caribbean released a report last year suggesting that blockchain technology could help banks address the de-risking trend that has been hitting Latin America and the Caribbean. [Editor's note: See related Q&A in the May 2 issue of the Financial Services Advisor.]

POLITICAL NEWS

Duque, Petro to Face Off in Colombia's Presidential Runoff

Right-wing former Senator Iván Duque and leftist Gustavo Petro, a former mayor of Bogotá, emerged May 27 as the top vote-getters in the first round of Colombia's presidential election and will face each other in a second round June 17. Duque won the largest share of the votes, 39.1 percent, while Petro finished second, garnering 25.1 percent, *El Tiempo* reported. A candidate would have had to win 50 percent in order to win the election in the first round. Centrist Sergio Fajardo, a former governor of Antioquia and former mayor of



Duque // File Photo: Inter-American Dialogue

Medellín, narrowly missed winning a spot in the runoff, coming in third with 23.7 percent of the vote. It is unclear who Fajardo might endorse ahead of the runoff, but such an endorsement could prove valuable to Duque or Petro in the second round. The other presidential candidates in the race received percentages in the single digits, with center-right former Vice President Germán Vargas Lleras receiving 7.3 percent, and former Vice President Humberto de la Calle, who served as President Juan Manuel Santos' chief negotiator with the Revolutionary Armed Forces of Colombia, or FARC, receiving just 2.1 percent. The presidential vote was the first since Santos' government signed its peace accord with the FARC in November 2016. Under the peace deal, the FARC agreed to lay down their weapons, end their more than five-decade conflict against the government and pursue their objectives through politics rather than through violence. Santos won the

ADVISOR Q&A

Who Will Be Colombia's Next President?

Q Right-wing candidate Iván Duque, a former senator and opponent of Colombia's peace accord with the FARC rebels, and leftist former mayor of Bogotá Gustavo Petro were the top vote-getters in the first round of the country's presidential election on Sunday. The two candidates will face each other in a June 17 runoff. What factors will decide the election between now and then, and which of the two candidates is most likely to receive the votes of the third-place finisher, Sergio Fajardo? Will either Duque or Petro take the country in a radically different direction in terms of economic policy or the business environment? What will be the future of the country's peace deal with the FARC, and peace talks with the ELN rebels, under a Duque presidency versus under a Petro presidency?

A Fernando Cepeda Ulloa, professor of political science at Universidad de los Andes in Bogotá and a former Colombian interior minister: "The opposition won. Iván Duque is in opposition to the government, and Gustavo Petro is in opposition to the system. On June 17, voters will choose one of those two options. Although it seems that Duque has a significant advantage over Petro, the political dynamics of these three weeks can change expectations. Duque will have to work hard to consolidate his victory.

2016 Nobel Peace Prize for his efforts, but the peace deal has cost him politically with many Colombians viewing his government as having been too soft on the FARC, which long terrorized Colombia with kidnappings, killings, bombings of pipelines and infrastructure, as well as involvement in drug trafficking. Duque has taken tough stances against the FARC and opposes the peace agreement. After the election results were announced, Duque elaborated

There was also greater voter participation in a country with a high level of abstentionism. The issue of the peace accord, which Duque has criticized, is not an overriding issue. The issue of Venezuela, which every day is more present and oppressive for Colombia, also can become more acute, which would boost Duque. As for the two major traditional parties, the Conservative Party didn't have a candidate and instead was divided between two candidates, Duque and Vargas Lleras; and the Liberal Party had the worst performance in its history, with Humberto de la Calle garnering less than 400,000 votes. The candidates who had claimed to have the most experience, Vargas Lleras and de la Calle, came in fourth and fifth, respectively. Meanwhile, the candidate who was accused of not having experience, Duque, was the top vote getter with nearly 40 percent. Spanish magazine *Cambio 16* on its February cover proclaimed Duque the Latin American Emmanuel Macron. The electoral data show a new political map in which traditional forces and conventional power factors were destroyed. It is a sign of strong winds of change in Colombian society."

EDITOR'S NOTE: More commentary on this topic appears in the May 29 issue of the Latin America Advisor.

on his opposition to the peace accord. "We do not want to tear up agreements," he said, CNN reported. "What we want is to make clear that a peaceful Colombia is a Colombia where peace is found through justice, where there is truth, there are reparations, and punishments are served." Former President Álvaro Uribe, a conservative and fierce opponent of the peace deal, has endorsed Duque. Santos has not endorsed a candidate.

NEWS BRIEFS

Truckers' Strike Enters Second Week in Brazil

A weeklong truck driver strike continued across Brazil as the Financial Services Advisor went to press, as union leaders refused to accept a sweetened offer from the unpopular government of Brazilian President Michel Temer, Folha de S.Paulo reported. Temer offered to cut the price for diesel fuel more than the 10 percent offered earlier and extended the term from 30 to 60 days. Dozens of flights have been canceled since the strike began due to a lack of fuel, and fresh food supplies in supermarkets have started to disappear, as millions of chickens and pigs have been culled because of a lack of animal feed, The New York Times reported.

Mexican Economy Gains Strength in First Quarter

Mexico's economy saw a seasonally adjusted 1.1 percent uptick in gross domestic product in the first quarter of 2018, compared to the previous quarter, the National Statistics Institute announced May 26. The figure represents the largest increase in GDP that Mexico has experienced in a year and a half, according to The Wall Street Journal, though it still lags behind the 1.3 percent growth estimated by Bloomberg analysts earlier this year.

Jamaica's Poverty Rate at Six-Year Low: Gov't

Jamaican Finance Minister Nigel Clarke said May 22 that the island's poverty rate had fallen to 17.1 percent, a six-year low, the Jamaica Gleaner reported. A combination of rising employment, higher agricultural output and lower consumer prices has brought the poverty rate down 19 percent since 2015, according to the report. Poverty in rural Jamaica has fallen by 30 percent. Jamaica's economy expanded 1.2 percent in the first three months of this year.

Mottley Becomes First Female Prime Minister of Barbados

Mia Mottley was sworn in as the first female prime minister of Barbados on May 25 after a sweeping victory by the opposition Barbados Labor Party (BLP), Reuters reported. Mottley's party overwhelmingly defeated Prime Minister Freundel Stuart's Democratic Labor Party (DLP), winning all 30 seats of the island's House of Assembly and marking BLP's first presidential win in a decade. DLP previously held a slight majority with 16 parliamentary seats. Mottley, 52, called for transparency and humility in her victory speech in Bridgetown, telling supporters that giving the people back their government and governance "must be our legacy to the people of Barbados," according to Reuters. The Caribbean nation's economy became a major issue during the campaign, as the island continues to struggle to recover from a sharp contraction in 2009 after the global financial crisis, which put strains on the island's public debt, reducing foreign exchange reserves and leading to recurrent downgrades on Barbados' credit rating.

Nicaragua Using Excessive Force in Protests: Report

Authorities in Nicaragua have used excessive force, extrajudicial executions, enlisted pro-government armed groups and controlled media outlets in order to crush ongoing protests in the Central American country, Amnesty International said in a report released May 29. "The Nicaraguan authorities have turned on their own people in a vicious, sustained and frequently lethal assault on their rights to life, freedom of expression and peaceful assembly," the human rights group's Americas director, Erika Guevara-Rosas, said in a statement. "The government of President Ortega has then shamelessly tried to cover up these atrocities, violating the victims' rights to truth, justice and

reparation." In the 34-page report, Amnesty International said at least 83 people have been killed since April 18, when a wave of anti-government protests began in response to government reforms that increased employer and worker social security contributions while reducing benefits. Nicaragua's government puts the death toll at 15, CNN reported.

OAS Panel Accuses Venezuelan Officials of Rights Abuses

A panel of international experts enlisted by the Organization of American States released a report May 29 finding that Venezuelan officials in the government of President Nicolás Maduro have committed crimes against humanity, Agence France-Presse reported. The three-member panel, which included Santiago Canton of Argentina, Irwin Cotler of Canada and Costa Rica's Manuel Ventura, asked that Luis Almagro, the secretary general of the Organization of American States and a vocal critic of Maduro, forward its 400-page report to the International Criminal Court for prosecution. The report documents 131 alleged murders at the hands of security forces or pro-government civilian groups during street protests in 2014 and 2017, as well as 8,292 executions outside of the judicial process since 2015. Maduro won a second, six-year term in elections held May 20, which opposition parties boycotted as fraudulent. While allies such as Cuba and Bolivia congratulated Maduro, more than a dozen Latin American countries, along with the United States and the European Union, have rejected the vote, accusing Maduro's government of mass bribery to use food to buy votes from the poor. European foreign ministers on May 28 called for a new presidential election in Venezuela, threatening to levy a new round of sanctions targeting people close to Maduro, the Associated Press reported. Maduro lashed out at the ministers, suggesting further sanctions will only further hurt Venezuelans. "This is the European Union that arrogantly wants to put its nose in Venezuela's business," Maduro said. "Enough of this old colonialism."

FEATURED Q&A / Continued from page 3

A **Beatrice Rangel, director of AMLA Consulting in Miami Beach:** “The Banesco conundrum exposes the absence of rule of law in Venezuela as well as the political ties between financial institutions and government officials. To be sure, it is impossible for any banking institution compliant with the United Nations Conventions against Transnational Organized Crime (the Palermo Convention) to operate in Venezuela. A test of this was a television appearance by Diosdado Cabello announcing the government’s acquisition of the bank for \$5 million,

“**The Banesco conundrum exposes the absence of rule of law in Venezuela...**”

— **Beatrice Rangel**

weeks before the intervention. Yet another proof was the incarceration and sudden freeing of the bank’s executive team without charges, convening of an investigation or even the issuance of a fine. As to the size and worth of the entire financial system in Venezuela, the issue seems irrelevant under current circumstances in which the state is collapsing and thus there is no single market operating normally. All values are thus subjective. The May presidential election is a clear signal that the government leadership will continue on its path of destruction as long as it can hold on to power, even if it is a death sentence to a sizable proportion of the population.”

A **Carlos de Sousa, senior economist for Latin America at Oxford Economics in London:** “The Venezuelan government’s move to intervene in Banesco is unrelated to financial stability. It’s an attempt by the regime to force Venezuelans abroad to send remittances through the official exchange rate (supporting the balance of payments and the regime’s external liquidity conditions) rather than through the much weaker black-market rate as almost everyone does, as you can obtain at least 13 times more bolívares per dollar by using the black-market rate. That said, hyperinflation has reduced the Venezuelan financial system to a minimum. The reason for this goes beyond simply having hyperinflation. Rather, Venezuela has the most stringent financial repression imaginable. All interest rates in Venezuela are regulated, and none of these rate caps have been updated in almost a decade, when the country had high but reasonable inflation rates (25-30 percent). As a result, credit intermediation has been reduced to a minimum. Maduro’s unsurprising re-election doesn’t change anything. On the contrary, it will result in more radical interventionism by the regime. The financial sector will only be restored to health if there is regime change and a radical switch to more conventional economic policies, including the elimination of currency controls and financial repression, and the end of hyperinflation—whether that’s achieved through dollarization as proposed by presidential candidate Henri Falcón or by a more traditional monetary reform, like occurred in Brazil in the early 1990s, that’s yet to be seen.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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