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FEATURED Q&A

What Will Duque's Policies Mean for Colombian Banks?



Colombian President Iván Duque, who took office Aug. 7, has fueled optimism in the financial services industry. Javier Coronado and Marcela Blanco say below. // File Photo: Colombian Government.

Q Iván Duque, who took office Aug. 7 as Colombia's president, has vowed to boost the country's economy with tax cuts and also improve security and fight inequality, among other aims. Banking groups had endorsed Duque's candidacy during the campaign, saying that his business-friendly policies would benefit the sector. Duque has also tapped Alberto Carrasquilla, who served as finance minister under former President Álvaro Uribe, to again run the finance ministry. What will Duque's policies mean for the country's financial services industry? What does Carrasquilla's presence as finance minister mean for Colombian banks? Will Duque's policies foster better banking sector regulation in Colombia, where BBVA research last year said "much remains to be done" in order to improve the industry and promote greater financial inclusion?

A Javier Coronado and Marcela Blanco, associate attorneys at Diaz, Reus & Targ LLP in Bogotá: "The financial industry is optimistic about Duque's tenure due to his plans to boost the private sector of the Colombian economy and bring new foreign investment into the country. Duque has also fueled the financial industry's optimism by announcing his intent to update Colombia's banking and securities regulations, some of which date back to the early 2000s, pursuant to the new market needs and trends. Likewise, President Duque has made public his interest in conducting a review of Colombia's anti-money laundering and corporate governance regulations to verify that they are not negatively affecting legitimate businesses. Similarly, for the private sector, Carrasquilla's designation as finance minister

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TOP NEWS

BANKING

Brazilian Firms Will Need to Tap Markets: Study

Brazilian companies will need to consider borrowing through bonds and other debt instruments instead of traditional banks for a significant portion of their funding needs, according to Itaú Unibanco's asset management unit.

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INSURANCE

CNP, Caixa Reach Life Insurance Sales Deal

France-based insurer CNP Assurances and Brazil's Caixa Econômica Federal have reached a deal to sell life insurance from the state-run lender's branches.

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INSURANCE

Mexico Will Look to Fintech to Boost Inclusion: Official

Mexico's incoming presidential administration will look to financial technology in order to boost inclusion, said Arturo Herrera, one of two incoming deputy finance ministers.

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Herrera // File Photo: LinkedIn.

BANKING NEWS

Brazilian Firms Will Need to Tap Capital Markets: Study

Brazilian companies will have to consider borrowing through bonds and other debt instruments instead of traditional banks for a significant part of their funding needs next year as international rules drive lenders to reduce their balance sheets, a recent study conducted by the asset management unit of local bank Itaú Unibanco found, Reuters reported Aug. 27. By January, Brazilian banks will have to



Alckmin // File Photo: Alckmin Campaign.

abide by the new Basel III capital requirements, drafted after the 2008 global financial crash, which instruct banks to hold more capital reserves. Corporate borrowing will have to grow by between 2 and 4.8 times the current level over the next four years to make up for the reduction in traditional bank lending, according to the research. "Under Basel III, banks will turn to loans that require less capital expenditure, such as mortgages and payroll-backed credit, leaving companies to seek more financing in the capital markets," said Gerson Konishi, Itaú's asset management portfolio specialist, who led the study. As a result of the changes next year, Brazil's corporate debt load is expected to grow between 343 billion reais (\$87.67 billion) and 799 reais by 2022 from 165 billion reais this year, the study found. If the companies do not borrow through the capital market, whose accessibility would require keeping benchmark interest rates and inflation low, the economy could slow, according to the analysts. Investors have been hammering Brazil's real currency as

well as local stocks amid continued uncertainty over the outcome of October's presidential election. Market-favorite candidate Geraldo Alckmin has failed to gain much traction among voters, rating near the bottom with numerous other candidates in recent polls. The South American nation's currency plummeted 4.7 percent in mid-August to its lowest level since early 2016, the worst performer among emerging markets worldwide, Bloomberg News reported. [Editor's note: See related [Q&A](#) in the Aug. 29, 2017 issue of the daily Latin America Advisor.]

Santander Unit Helps Develop Loan Plan for Brazilian Farmers

The Brazilian unit of Spain's Banco Santander, global agricultural giant Bunge and The Nature Conservancy on Aug. 29 said they had jointly developed a financing mechanism for soy farmers in the Brazilian Cerrado designed to promote agricultural production without further deforestation or destruction of native vegetation. The "first-of-its-kind" plan provides long-term loans to farmers willing to commit to more sustainable farming practices. Most of the loans currently available to soy farmers are for less than a year to finance their annual crop costs, but the new mechanism will offer loans

The new mechanism will offer loans of up to 10 years.

of up to 10 years "recognizing that investments in land acquisition and preparation have a long-term payback," Bunge said in a statement. The financing program will be piloted with \$50 million in capital for loans to farmers in eligible locations. In 2015, Bunge committed to eliminate deforestation from its agricultural supply chains globally, but critics say the practice has continued to flourish in Brazil despite public

NEWS BRIEFS

French Insurer Reaches Deal With Brazil's Caixa

French insurer CNP Assurances has reached an agreement with the insurance division of Brazilian state-owned bank Caixa Econômica to sell life insurance across the lender's branches in the South American country, Insurance Business magazine reported Aug. 30. According to a company statement, the agreement creates a joint venture that can sell life insurance products until February 2041. Caixa will own 60 percent of the business, while CNP will acquire a 40 percent stake for 4.65 billion reais (about \$1.12 billion).

Remittances From Brazil Surge as Migration Rises

Remittances from Brazil to other countries exceeded \$1 billion in the first half of this year, the highest figure ever recorded since the country's central bank began tracking the transfers in 1995, Folha de S.Paulo reported Aug. 22. The surge in remittances has occurred as more Brazilians have been immigrating from their home country or leaving to study. Perceptions of a lack of public security, Brazil's recession and uncertainty over the country's October presidential election have also reportedly contributed to the trend.

Former Swiss Banker Pleads Guilty in PDVSA Money Laundering Case

Matthias Krull, a former Swiss banker, on Aug. 22 pleaded guilty to laundering \$1.2 billion embezzled from Venezuelan state oil company PDVSA in a case that involves close relatives of an uncited Venezuelan official, who sources familiar with the case say is President Nicolás Maduro, The Wall Street Journal reported. As part of his plea, Krull agreed to cooperate in the investigation that would implicate Maduro's three stepsons, who allegedly received \$184 million from the scheme.

pressure and government regulations. Soybean production in Brazil nearly tripled between 2001-2017, with nearly 10 million new hectares planned in the Cerrado, a vast tropical savanna overlapping five Brazilian states.

FINANCIAL TECHNOLOGY NEWS

Mexico Will Look to Fintech to Boost Inclusion: Official

Mexican President-elect Andrés Manuel López Obrador's government will bet on fintech companies and large corporate banks to boost financial inclusion in the country, Arturo Herrera, one of the two incoming deputy finance ministers told Reuters in an interview Aug. 23. "We will still have to create, or help create, a basic infrastructure that enables transactions between people, or between people and financial institutions, in some of the most rural, most disconnected areas of the country," Herrera said. Only one-third of adults in Mexico have a bank account, Reuters reported. Moreover,



López Obrador // File Photo: López Obrador Campaign.

Herrera's team is assessing the possibility of developing digital banking services, he said, adding that they could also revisit Mexico's fintech law. Current President Enrique Peña Nieto in March signed a new measure to regulate the country's fintech sector, seeking to prevent money laundering and establish stability, Notimex reported. López Obrador, who is to take office Dec. 1, has said the fight against poverty and inequality will be one of the cornerstones of his government. Gerardo Esquivel, the other future deputy finance minis-

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reassures the country's pro-growth and business-friendly atmosphere. Particularly, Carrasquilla's appointment has received positive reviews from foreign investors, who value his experience in dealing with Colombia's monetary and tax issues. The government also expects that Carrasquilla's reputation will foster Congress' approval of bills the government will present to further

“President Duque has made public his interest in conducting a review of Colombia's anti-money laundering and corporate governance regulations...”

— Javier Coronado & Marcela Blanco

its agenda. The new government expects to find in the financial industry an ally to implement measures to promote social inclusion in Colombia. For instance, it expects the banking industry's support in offering lines of credit to new business entrepreneurs (for example, in technology and robotics) and financial incentives to Certified B Corporations. Additionally, the government would like to work with the financial industry in

ter, said López Obrador's administration would carry out "deep reforms" in social programs to reduce poverty and inequality more efficiently, Reuters reported.

Itaú Unibanco, PayPal to Offer Online Services in Brazil

Brazil's largest private bank, Itaú Unibanco, and U.S.-based digital payments company PayPal Holdings on Aug. 29 announced a partnership

expanding the use of fintech in the Colombian financial market as well as designing and implementing initiatives for promoting financial literacy in the country."

A Wally Swain, managing editor at Hydrocarbons Colombia in Bogotá: "President Duque and Finance Minister Carrasquilla were the star attractions at the recent annual conference of the Colombian banking association, Asobancaria, in Cartagena. They received a strong endorsement from the audience, and the association's president went on the record endorsing the government's plan to cut corporate taxes and pay for it by raising the sales tax burden on individuals. His comments were widely broadcast on television news programs. Colombian banks are profitable so they will benefit from the cuts. However, the middle class, the banks' principal customers, will be the most affected so it took courage on the part of the industry to be so effusive with its praise. The banks must be sufficiently confident that the other policies of the president and finance minister will be in their long-term interests (and confident of their grip on the Colombian financial market) that they are willing to risk short-term pain over some unpopular measures. The tax rebalancing proposal (an OECD recommendation) is just one plank in

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to offer online services, Valor Econômico reported. Under the agreement, Paypal will offer its online digital account to the bank's card clients, as well as merchants who use Itaú's card processing unit, Rede, which the private lender expects will boost Brazil's online retail sales. Around 3000,000 merchants in Brazil currently use PayPal. The payments company hopes to reach at least one million more customers in the South American country over the next two years, up from its current 3.8 million client base, said Paula Paschoal, general director for PayPal in Brazil, Reuters reported. Paschoal added that the company is open to new

agreements with other financial institutions in the country. E-commerce revenue in Brazil increased by 24 percent in the first half of this year, as compared to the same period last year, according to Marcos Marglhães, president of Redes, Valor Econômico reported. Itaú is also considering launching online banking services in Argentina to expand its client base there, Eduardo Vassimon, CEO of Itaú BBA, which handles the bank's business outside Brazil, told Reuters Aug. 29.

ECONOMIC NEWS

U.S., Canada to Resume NAFTA Renegotiation Talks

U.S. and Canadian negotiators plan to resume talks over the renegotiation of the North American Free Trade Agreement on Sept. 5, following the two sides' failure to reach an agreement by Aug. 31, Reuters reported. The Trump administration had earlier set that date as a deadline for Canada and the United States to work out a deal, less than a week after U.S. and Mexican negotiators reached a preliminary agreement on the three-country trade pact. However, the administration eased off on the deadline after four days of marathon negotiating sessions in Washington. "Today the president notified the Congress of his intent to sign a trade agreement with Mexico—and Canada, if it is willing—90 days from now," U.S. Trade Representative Robert Lighthizer said Aug. 31 in a statement, The New York Times reported. The U.S. Congress has authority over trade deals, and lawmakers have told the White House that any deal to revise NAFTA must include Canada and Mexico. Canada is the top destination for the exports of 36 states, and congressional Republicans could sink any deal to revise NAFTA that excludes Canada. On Sept. 1, U.S. President Donald Trump tweeted that Canada would be left out of the trade accord if a "fair deal for the U.S." isn't reached, and he warned members of Congress that he would scuttle the deal entirely if they "interfere"

in the negotiations. "There is no political necessity to keep Canada in the new NAFTA deal," Trump said in a posting on Twitter. "If we don't make a fair deal for the U.S. after decade[s] of abuse, Canada will be out. Congress should not interfere with these negotiations or I will simply terminate NAFTA entirely & we will be far better off." Trump and other top U.S. officials have expressed willingness to proceed with a bilateral U.S.-Mexico deal that leaves Canada out, The Wall Street Journal reported. While Trump does have the power to terminate NAFTA, it is unclear whether such a termination could withstand legal challenges. In response to Trump's

tweets, a spokesman for Canadian Foreign Minister Chrystia Freeland said "a win-win outcome is achievable" and that the country would only sign a deal "which is good for Canada."

Argentine President Unveils Emergency Austerity Measures

Argentine President Mauricio Macri announced in a televised address on Sept. 3 that his government would be taking emergency measures

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in Latin America and the Caribbean

SPEAKERS

Jaana Remes

Senior Economist & Partner,
McKinsey Global Institute

Mauricio Bouskela

Senior Specialist, Housing
and Urban Development
Division, Inter-American
Development Bank

Guillermo Areas

Head of Government and
External Affairs for Latin
America and the Caribbean,
BMW Group

Jeffrey H. Dygert

AVP, Public Policy, AT&T
Services

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NEWS BRIEFS

Ninety Percent of Artifacts Feared Lost in Brazil Museum Fire

Officials fear that some 90 percent of the artifacts in the 200-year-old National Museum of Brazil may have been lost following a devastating fire on Sept. 2 that gutted the building, The Guardian reported. Senior museum staff, politicians and protesters have blamed the fire on years of government underfunding and neglect.

Whereabouts of Two Former Leaders of FARC Unknown

Colombian authorities said Aug. 31 that the location of two former leaders of the Revolutionary Armed Forces of Colombia, is unknown, the Associated Press reported. Luciano Marín, commonly known as Iván Márquez, and Henry Castellanos, who helped negotiate the peace deal with the government in 2016, have disappeared, raising fears about the future of the agreement. President Iván Duque, who has fiercely criticized the peace process, has said he would welcome a United Nations mission to track the implementation of the deal.

Artificial Intelligence to Boost Latin America Economic Growth: Study

Artificial intelligence can facilitate commerce and add one additional percentage point of growth to Latin American and the Caribbean economies, according to a study by the Inter-American Development Bank released Aug. 30. In the mid-term, gains in productivity from artificial intelligence could boost regional GDP to 4 percent from current 3 percent projections. The economies of countries in the region that embrace artificial intelligence could grow 25 percent higher, on average, than those that do not, the report found.

to deal with the country's economic crisis as its currency plummets, Clarín reported. Macri said he would reduce his cabinet to just 10 ministers and implement a new tax on exports to ease the budget deficit. "What we have to face is a basic problem, which is we cannot



Macri // File Photo: Argentine Government.

spend more than we have," the president said, The New York Times reported. He added, "This is not just another crisis. It has to be the last." The announcement came days after the central bank raised Argentina's benchmark interest rate to 60 percent from 45 percent. Despite Macri's announced measures, the Argentine peso continued to fall. The currency has lost almost 50 percent of its value this year.

POLITICAL NEWS

Guatemala's Morales to Shut Down U.N. Commission

Guatemalan President Jimmy Morales announced in a televised address on Aug. 31 that the government would no longer recognize the decisions of the United Nations Commission Against Impunity in Guatemala, or CICIG, and will not renew the anti-graft agency's mandate when it expires a year from now, Prensa Libre reported. The agency, which was set up in 2006, has been investigating Morales for allegedly receiving upwards of \$1 million in illicit financing during his 2015 campaign, allegations Morales has denied. Earlier in August, the Supreme Court had accepted CICIG's request to strip Morales of his immunity from prosecution. With a flank of military officers

beside him during his announcement, Morales said he had asked the agency to begin to cede its authority to local prosecutors, although CICIG's mandate does not officially expire until September of next year, The Wall Street Journal reported. Officials from the United States and the European Union, the main funders of CICIG, criticized Morales' decision. In the past 12 years, the agency has investigated a number of crimes, brought prosecutions to Guatemala's attorney general's office and locked up dozens of high-level officials, including former vice presidents, heads of the central bank, the head of congress and former President Otto Pérez Molina. Last year, Morales tried to expel the CICIG's head, Iván Velásquez, from the country, but a top court blocked the move.

Nicaraguan Gov't Expels U.N. Rights Team After Report

Nicaraguan President Daniel Ortega's government has expelled a United Nations human rights team two days after a U.N. report blamed the government for violent repression of protesters, the Associated Press reported Aug. 31. "We put forward the report not to polarize, but rather to make known what we had seen," Guillermo Fernández Maldonado,



"We only did our job."

— Guillermo Fernández Maldonado

the head of the United Nations' human rights mission in Nicaragua, told reporters Aug. 31. "This has had a lot of media coverage and we did not expect the government's reaction in this sense. We only did our job." Fernández said his team would leave Nicaragua on Sept. 1. In a statement, the U.N. human rights regional office for Central America said it would continue reporting remotely on the situation in Nicaragua, where more than 300 people have been killed since a wave of violent anti-government protests began in mid-April.

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the president's platform. The other is slashing bureaucracy and simplifying procedures. That could have a huge impact on the banks and their customers, but only if financial institutions' internal procedures transform at the same rhythm as regulation. I have long suspected that much of the Colombian banking sector's appalling bureaucracy was internal, not imposed by regulation. Now we will have the opportunity to find out."

A **Andrés H. Márquez Mora, director for financial institutions at Fitch Ratings Colombia:** "In Fitch's opinion, the Colombian financial authorities have a high degree of independence and credibility, which is seen as a credit strength. The new government of President Duque and the appointment of Minister Carrasquilla should not result in material changes in this regard. Although the government just took office a few weeks ago, it has made announcements to highlight its aim of continuing the process of improving fiscal accounts and inequality, among others, in addition to promoting entrepreneurship and creative industries. All these are factors support a benign operating environment for the financial sector. Fitch doesn't expect important changes that negatively affect the financial sector, and on the contrary, positive developments could arise

over time. Regarding regulation, for instance, the recently signed Basel III decree is viewed by Fitch as a credit positive, although still one step behind the frameworks in some other regional peers. This regulation is already in the implementation period, and

“Positive developments could arise over time.”

— Andrés H. Márquez Mora

therefore the banks are working on fulfilling the requirements. However, the plans for entrepreneurship, and the aim to increase technological tools and payment platforms (fintech in general) could provide additional opportunities for banks and other intermediaries to increase efficiency and financial penetration in the country. Limited loan growth and certain corporate events recently contributed to asset quality deterioration. However, Fitch Ratings believes that asset deterioration peaked around mid-2018, expecting a mild improvement over the next 18 months. But the effects of the new government's policies are yet to come."

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org

**Michael Shifter**, President

Genaro Arriagada, Nonresident Senior Fellow

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