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FEATURED Q&A

What Changes Will Help Mexico Fight Money Laundering?



Santiago Nieto, who was previously Mexico's top electoral crimes prosecutor, will head the country's Financial Intelligence Unit. // File Photo: Notimex.

Q The incoming head of Mexico's Financial Intelligence Unit, Santiago Nieto, said Sept. 18 that the unit had been misused for political purposes and also vowed to re-examine the Odebrecht bribery case. His comments followed promises by President-elect Andrés Manuel López Obrador to fight financial crimes and money laundering and tighten other regulations in the banking sector. What types of reforms are needed to fight financial crimes in Mexico? Has the Financial Intelligence Unit operated effectively, or does it need changes? Is Nieto the right person to head the unit, and what will he bring to it?

A José Carlos Rodríguez Pueblita, senior director at Monarch Global Strategies: "One of the biggest challenges to reinforce anti-bribery policies is having timely access to comprehensive data from different public and private sources. Even if there is political willingness to prosecute crimes, the investigation teams need detailed data of the operations and transactions, information owned by financial institutions and diverse government agencies, such as the National Banking Commission, the Financial Intelligence Unit, the Revenues Agency (SAT) and the Federal Prosecutor (PGR). Without the full set of information, no intelligence work can be performed. There are no protocols to efficiently share information between agencies themselves and with financial institutions; at best, the information is shared in paper or in electronic format that make it difficult to exploit. The new government must undertake at least three steps to succeed: 1.) legal reforms to oblige relevant actors to share information as requested in a

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TOP NEWS

FINANCIAL SERVICES

Moody's Sees Stable Outlook for Brazilian Banks

Brazil's economic recovery is helping to strengthen the country's banking sector, Moody's Investors Service said in a report.

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REMITTANCES

Remittances to Mexico Grow 9.12% in August

In August, recipients in Mexico received \$2.86 billion in remittances, a 9.12 percent increase as compared to the same month in 2017, according to the country's central bank. For the first eight months of the year, remittances to Mexico totaled approximately \$21.97 billion.

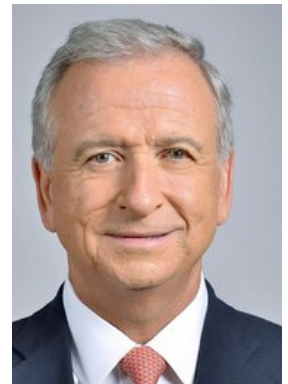
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FINANCIAL SERVICES

Chilean Senate Approves Banking Reform Measure

Chile's Senate on Sept. 25 approved legislation to reform the country's banking sector. Finance Minister Felipe Larrain said the measure ultimately is intended to prevent banks' insolvency.

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Larrain // File Photo: Chilean Government.

FINANCIAL SERVICES NEWS

Chilean Senate Approves Banking Reform Legislation

Chile's Senate on Sept. 25 approved a banking reform bill that seeks to modernize the country's legislation in order to meet Basel III standards, *El Mercurio* reported. The initiative seeks to update banking laws that date back to 1997, with the ultimate goal of preventing banks' insolvency, according to Finance Minister Felipe Larraín, *Teletrece* reported. The legislation would integrate the government's

The legislation seeks to prevent banks from becoming insolvent.

banking oversight agency, the Superintendency of Banks and Financial Institutions, or SBIF, and the Financial Market Commission, or CMF, which oversees the development and stability of the country's financial market. "This is good news for Chile," Mario Farren, the head of SBIF, said in a statement following the Senate's vote. The integration of the two agencies will bring "more stability and cohesion to regulation and oversight policies, reducing the probability of arbitrations derived from regulatory asymmetries," he added. Farren also said the measure "will strengthen financial stability, institutional oversight and the protection of depositors," which will allow for a more robust national banking system and better competitiveness, and reduce the impact of future banking crises, SBIF's statement said. Opposition senators criticized the bill's banking reserves and secrecy, which they argued was stronger in former President Michelle Bachelet's proposal, *Teletrece* reported. The initiative will now go to the lower house of Congress for approval, the last legislative process before being implemented.

Brazil's Grupo XP Reluctantly Enters Crypto Market

Brazil's Grupo XP will join the cryptocurrency market in coming months, CEO Guilherme Benchimol said Sept. 20, *Bloomberg News* reported. The independent brokerage firm will be launching a Bitcoin and Ethereum trading exchange, although Benchimol said he would have preferred not to. "I must confess, this is a theme I'd rather didn't exist, but it does," he said in a public event in São Paulo. "We felt obligated to start advancing in this market." Roughly three million Brazilians have Bitcoin, while just 600,000 invest in stocks, Benchimol added. The exchange will be called XDEX and will be run separately from Grupo XP's XP Investimentos, Brazil's largest investment firm, *Bloomberg News* reported. Brazil's antitrust regulator, known as CADE, launched a probe on Sept. 18 into six of Brazil's major banks, including Banco do Brasil and Itaú Unibanco, in relation to alleged monopolistic practices in the crypto market, *O Estado de S.Paulo* reported. CADE will investigate whether the banks closed accounts of local brokerages trading in Bitcoin. The major banks are "imposing restrictions or even prohibiting ... access to the financial system by cryptocurrency brokerages," according to CADE, *Reuters* reported. Banco do Brasil told the wire service it is committed to "competitive practice based on ethics and respect for free competition," while Itaú said it was confident "its conduct will be considered legitimate."

Moody's Sees Stable Outlook for Brazil's Banking System

Moody's Investors Service said Sept. 26 that it has a stable outlook for Brazil's banking system due to the country's economic recovery, which will support risk metrics at banks as well as their profitability amid increasing business volumes over the next 12 to 18 months. "While

NEWS BRIEFS

A Third of Latin American, Caribbean Banks Hit by 'Successful' Cyber Attacks

Nine out of 10 banks in Latin America and the Caribbean experienced "cyber incidents" during the last year, the Organization of American States said in a research report released Sept. 26 in Washington. Thirty-nine percent of the incidents were not reported, although in the case of the largest banking entities that number goes down to 19 percent. More than a third of the banks in the region suffered "successful attacks," according to the study.

Mexico's Play Business to Partner With Crowdcube

Mexican fintech company Play Business, which helps startups get collective financing, will partner with U.K.-based equity crowdfunding platform Crowdcube, opening the door for British investors to tap into Mexico's fintech startup market, *El Financiero* reported Sept. 25. Joan Carles Segura Oyamburu, Play Business' chief executive, said the company was looking to "explode the joint venture market," lifting investment in Mexican startups through the partnership, the newspaper reported.

IDB Plans to Collateralize Mortgage-Backed Bonds in Trinidad, Caribbean

The Inter-American Development Bank is in talks to collateralize mortgage-backed bonds in Trinidad and Tobago as part of a larger effort to attract investment in the Caribbean and Latin America more broadly, *LatinFinance* reported Oct. 1. According to Fabio Fagundes with the bank's financial products and services division, the multilateral lender will observe the regulatory framework used in European nations such as Spain and Germany, which allows issuance of mortgage-backed bonds as a model. Currently, only Brazil's legal framework allows for covered bonds in the region.

we expect only modest economic growth and a gradual improvement in the labor market, consumer and business confidence is improving slowly, and household and corporate leverage continues to decline,” Ceres Lisboa, a senior vice president at the ratings agency, said in a report. “The economic recovery, low inflation and low interest rates create opportunity for banks to expand lending, in line with the GDP growth.” Brazil’s banking sector is seeing improving credit conditions, with borrowers’ repayment capacity strengthening and banks shifting toward asset classes that have lower levels of risk, Lisboa added. “Sustainably low interest rates will strain margins in the coming quarters. Profitability, however, will remain stable as the cost of risk declines from previous years and helps to compensate for lower rates,” she said. “Ongoing cost cuts related to the use of new technologies, as well as strong fee-based activities and higher business volumes will also mitigate low interest rates.” Moody’s expects Brazilian banks to continue steadily generating earnings, leading to adequate capital levels. Meantime, “reserves will remain high until macroeconomic and political uncertainties dissipate,” the ratings agency added. Ample liquidity in the sector and funding conditions will also support growth on Brazilian banks’ balance sheets, Moody’s added. [Editor’s note: See [Q&A](#) on Brazil’s bank lending rates in the Sept. 6-19 issue of the Financial Services Advisor.]

REMITTANCES NEWS

Mexico’s Remittances Grow 9.12% in August

Mexico’s level of remittances grew 9.12 percent in August as compared to the same month last year, to \$2.86 billion for the month, the country’s central bank announced Oct. 1. The total amount was 0.4 percent less than July. For the year through August, remittances to Mexico totaled approximately \$21.97 billion, an increase of 11.1 percent as compared to the first eight months of 2017, the Bank of

FEATURED Q&A / Continued from page 1

timely manner, 2.) generate interdisciplinary teams of investigators with proficiency on law and novel data analysis techniques, and 3.) establish a proper network or interfaces using existing proved technology (for instances, APIs or microservices) that allow them to safely circulate information in digital formats that facilitate its analysis. Nieto has the experience, capacity and willingness needed; he must be backed by the proper legal framework and a capable team.”

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:**

“Mexico has had favorable reviews from the IMF and FATF regarding rules and regulations that control money laundering. However, they have noted that there have been very few cases of actual prosecution. In the Odebrecht case, Mexico and Venezuela are the only countries where the named guilty parties of accepting bribes have not been prosecuted. The last governor of the state of Veracruz siphoned off more than

Mexico added. In August, the average amount of money transferred to recipients in Mexico was \$324, the same as July and slightly lower than the June average of \$343. Factoring in the depreciation of the peso against the dollar, remittances to Mexico rose 15.3 percent year-on-year in August, Goldman Sachs said in a note. “We expect workers’ remittances to remain solid in the near term—given healthy employment growth in the U.S.,” analysts Alberto Ramos and Gabriel Fritsch said in the note. “We expect remittance growth in dollar terms to stabilize at around 6 percent to 7 percent [year-on-year.]” They added that remittance flows to Mexico have been strengthening private consumption in Mexico particularly because of transfers to low-income families, “who have a high propensity to consume and are the overwhelming recipients of such transfers.”

\$2 billion abroad. No red flags were raised during the operations. The famous drug lord ‘El Chapo’ Guzmán was listed by Forbes

“The FIU has been a gigantic failure in Mexico.”

— Tapen Sinha

as a billionaire. Yet, not a penny has been recovered from any of his operations in Mexico so far. These three facts tell us that the FIU has been a gigantic failure in Mexico. For the 12-month period ending in June, the Mexican government managed to confiscate just under \$50 million. This is in an economy with a GDP of more than \$1 trillion. While regular banks have been under reasonable control, other financial institutions have not been. For example, many real estate transactions under false names (prestanombres) go under the radar. The problem of corruption

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MOBILE BANKING NEWS

Jamaica’s NCB Launches Mobile Point-of-Sale Service

Jamaica’s National Commercial Bank has launched a new mobile point-of-sale service, which the bank says will boost opportunities for small- and medium-sized businesses across the island, the Jamaica Observer reported Sept. 30. The new services uses a point-of-sale machine that uses WiFi or data service and will allow businesses such as food trucks and repair services to accept payments by debit or credit card, the newspaper reported. “More and more we see businesses popping

up that need mobility," said the bank's agile marketing manager, Sade Powell, the Observer reported. "Businesses are not what they were 10 years ago. Convenience is the name of the game in the 21st century, so we are trying to offer products and services that give both our individual and business customers an extraordinary service." The new mobile point-of-sale machines accept more card brands than other NCB terminals that are currently in use. Among them are Visa, Mastercard and China UnionPay, according to Gregory Peart, NCB's sales and relationship manager of acquiring businesses.

POLITICAL NEWS

U.N. High Court Rejects Bolivia's Ocean Access Case

Bolivia cannot force Chile to the negotiating table over granting the landlocked country access to the Pacific Ocean, judges at the International Court of Justice ruled on Oct. 1, La Razón reported. Bolivian President Evo Morales flew to The Hague to attend the court session, telling reporters he would keep fighting for sea access following the decision. "Bolivia will never allow itself to be kept from the sea," he said, Reuters reported. "The Bolivian people and the people of the world know that through an invasion, sovereign access to the Pacific Ocean has been taken away." Bolivia surrendered most of its former coastline to Chile in a 1904 treaty after the War of the Pacific. The neighboring countries have held talks regarding a possible corridor to the sea for Bolivia, but judges ruled that did not create an obligation for Chile to negotiate one. "The demand by Bolivia's government had no foundation, neither historical, political or legal, and that is why it was categorically rejected," Chilean President Sebastián Piñera said, the wire service reported. The court rejected all eight grounds Bolivian lawyers had presented, in a blow to Morales, who has used the issue to boost his popularity ahead of next year's presidential election.

Colombia's Duque Bars Carrying Small Amounts of Drugs

Colombian President Iván Duque on Oct. 1 signed a decree that outlaws the possession of any amount of marijuana or cocaine in public, enabling police to conduct searches

and confiscate the drugs, the Associated Press reported. Those found to be carrying even small amounts of marijuana and cocaine can also be fined under the new decree. The sale and export of drugs have long been illegal in Colombia, but high court rulings have permitted Colombians to carry small amounts of marijuana and cocaine. Duque signed the order, saying that it will help protect children from drug dealers who sell near schools. However, critics say

ADVISOR Q&A

Why Are Electoral Reforms a Priority for Paraguay?

Q Paraguay's government sat down with political parties and civil society organizations last month in the first of a series of scheduled meetings to discuss the possibility of an electoral reform before the 2020 municipal elections. Proposed measures include establishing an electronic voting system and stricter campaign finance rules, with the left-leaning Guasú Front suggesting a full structural overhaul that includes the replacement of the judges on the country's electoral court. Is an electoral reform urgent in Paraguay? What are the most important proposals, and what are the reasons behind them? How likely is it that the reform will take place before 2020?

A Sebastián Acha, former legislator and executive director of PRO desarrollo Paraguay: "Electoral reform in Paraguay is urgent. The electoral laws from the 1990s have effectively strengthened civic participation. However, they have three big weaknesses. The first weakness is the use of party lists that are 'closed and blocked,' especially for Senate elections, which consist of one single national list. It is referred to as a 'sheet' because it 'hides' candidates that are included among the first slots only because of their economic contributions during the

campaign: the more money you contribute, the higher up your name will be on the list. Voters should be able to select candidates through plurinomial lists. The second weakness, somehow linked to the first one, is control over dirty money in campaigns. There is no control over the sources of such contributions and this has facilitated narco-traffickers' access to politics. One senator and one deputy have been dismissed and are currently in prison in connection to money laundering and drug trafficking. The third necessary reform lies in the composition of voting stations. Electronic ballots can help transparency in the electoral process, especially since the composition of voting stations is currently based on parliamentary majorities in Congress, which allows traditional parties to control most voting stations and manipulate electoral records in their favor. The government has not really acted clearly yet. President Abdo himself must sit down at the negotiating table, not simply send some of his ministers. Otherwise, the reform will not be viable."

EDITOR'S NOTE: More commentary on this topic appears in the Oct. 1 issue of the Latin America Advisor.

NEWS BRIEFS

Poll Shows Growing Support for Bolsonaro Ahead of Brazil Election

Brazil's far-right presidential candidate, Jair Bolsonaro, increased his lead over leftist Workers' Party candidate Fernando Haddad less than a week before the first-round vote on Oct. 7, with 31 percent of voter support to Haddad's 21 percent, according to a new Ibope poll released Oct. 1, Reuters reported. The survey also shows Bolsonaro closing in on Haddad in the expected case of a runoff. The two candidates tied with 42 percent support. Last week, Haddad had 42 percent against Bolsonaro's 38 percent in a second-round scenario.

China, Argentina Near Deal on \$9 Billion Currency Swap

Argentina's central bank on Sept. 30 said it has "nearly closed" a new currency swap deal with China that will add the equivalent of \$9 billion to the South American country's reserves, Reuters reported. The amount under negotiation is more than twice the \$4 billion figure reported by local media in August. Argentina's central bank has struggled to contain a more than 50 percent slide in the peso's value and inflation on track to rise 40 percent this year.

Colombia May Spend More Than \$300 Mn on New Anti-Aircraft System

Colombia's government is considering spending more than \$300 million on a new system of anti-aircraft missiles, Reuters reported Sept. 27, citing military sources. Manufacturers from the United States, France and Israel are reportedly in the running to provide the system. In 2005, Colombia bought 25 planes from Brazil's Embraer for \$234 million, its largest-ever military purchase. In 2015, the country added 32 Canadian-made armored vehicles to police its border with Venezuela at a cost of \$84 million.

it will restrict personal freedoms. "This opens the door to more police abuse," said Eduardo Vélez, a spokesman for marijuana legalization group Yes to Personal Consumption Collective.

ECONOMIC NEWS

Canada, U.S. Reach Deal on NAFTA

Facing a midnight deadline, Canada agreed Sept. 30 to sign on to a trade deal between the United States and Mexico, CNN reported. The agreement, which provides greater access for U.S. farmers to Canada's dairy market, overcomes the last remaining hurdles after more than a year of talks to revamp the three-country North American Free Trade Agreement. In a joint statement from United States Trade Representative Robert Lighthizer and Canadian Foreign Minister Chrystia Freeland, the countries re-branded NAFTA as the United States-Mexico-Canada Agreement, or USMCA. "USMCA will give our workers, farmers, ranchers and businesses a high-standard trade agreement that will result in freer markets, fairer trade and robust economic growth in our region," the statement said. The two also thanked Mexican Economy Secretary Ildefonso Guajardo by name "for his close collaboration over the past 13 months." The new agreement will require U.S. Congressional approval. Senate Finance Committee Chairman Orrin Hatch (R-Utah) said he is pleased Canada will remain in the new trade deal, The Hill reported. "NAFTA is a proven success for the United States, supporting more than two million American manufacturing jobs and boosting agricultural exports to Canada and Mexico by 350 percent," Hatch said. However, AFL-CIO President Richard Trumka said after reading the text that "too many details still need to be worked out before working people make a final judgment on a deal," according to the report. U.S. President Donald Trump previously threatened to push Canada out of the deal. In the end, the United States reportedly gained ground on its demands for intellectual property protections, environmental regulations and rules of origin

terms for automakers. U.S. negotiators also reportedly managed to keep a version of its sunset clause, meaning the agreement will come up for review every six years. However, the contentious Chapter 19 dispute resolution system will remain the same.

Venezuelan Migrants Costing Colombia Billions: Duque

Colombian President Iván Duque said Sept. 28 that Venezuelan migrants fleeing economic hardship and political repression are costing his country about \$1.5 billion each year, a figure equivalent to 0.5 percent of its annual gross domestic product, Reuters reported. "The fiscal impact that the migration crisis has could be about 0.5 percent of GDP; obviously we want to look at how that's reflected in health,



Duque // File Photo: Colombian Government.

in education, in infrastructure, in lots of public assets," said Duque after a meeting with World Bank officials. The World Bank is planning to release a report in the coming weeks assessing the fiscal and social consequences of the crisis on Colombia, according to the report. Speaking at the United Nations General Assembly in New York on Sept. 26, Duque said Latin American countries needed the world's help to deal with the millions of Venezuelans who have fled the country since 2015, the Miami Herald reported. "The world must act and come together so that this tragic exodus comes to an end and so that hope can flower again [in Venezuela]," he said. Among the solutions that the Colombian president offered is the establishment of a multinational fund to support the countries that are absorbing the migrants.

FEATURED Q&A / Continued from page 3

permeates the entire government of Mexico, at the federal, state and municipal levels. The problem is more acute at the local level. It is impossible to root out corruption by appointing one single person—no matter how honest that person might be. Given the past bad judgments displayed by Santiago Nieto, it is unclear whether he will be able to make a dent in the situation.”

A **Jan Smith, partner at KoreFusion in Mexico City:** “Public safety and fighting corruption are two of the highest-ranking planks that elected Andrés Manuel López Obrador president. To this end, Santiago Nieto and Mexico’s Financial Intelligence Unit are checking the right boxes. The Financial Intelligence Unit will be attached to the Ministerio de Hacienda (SHCP), something that is stipulated in various international treaties to which Mexico is a signatory. On paper, this may grant the unit greater (and badly needed) political independence. There will be closer cooperation with the National Banking Commission (CNBV) and the tax authorities (SAT), providing better tactical control on regulation and insight into money flows. There is an intent to modify both Article 19 of the Constitution and the Federal Law for Fighting Organized Crime, giving more teeth to pursuing electoral crimes. The last two points are key and illustrate Nieto’s

thesis that political money laundering is the main enemy to attack because it enables organized crime to exist. It also heralds a departure from the past two administrations that regarded organized crime as a force

“This may grant the unit greater (and badly needed) political independence.”

— Jan Smith

infiltrating politics. Previously, the unit may have been used for political purposes, or rather, not allowed to act freely because of political motives. As of 2019, the unit will report directly to the president. This highlights the urgency of public security but is also a Diomedean necessity. In Mexico, historically, a closer relationship with the president persuades bureaucracy in favor of partisan interests. Hopefully, both López Obrador and Nieto will place national interests above partisanship.”

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

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A Conversation with Carlos Calleja

An Inter-American Dialogue Discussion with Carlos Calleja
Business leader and candidate for president of El Salvador

View a webcast of the Sept. 27 discussion.

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