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FEATURED Q&A

Will Remittances to Latin America Keep Growing This Year?



Last year saw the highest growth rate in remittances to Latin America and the Caribbean in five years. // File Photo: Carlos Slim Foundation.

Q Remittances that workers sent home to families in Latin American and Caribbean countries grew by 9.3 percent in 2018 to an estimated \$87 billion, the World Bank said in a report last month. The growth rate in 2018 was the highest of the past five years. What factors led remittances to grow in Latin America and the Caribbean last year, and how do rates compare to other parts of the world? What is the regional outlook for money transfers in 2019 and beyond? What are the biggest trends shaping the sector's business climate and prospects in Latin America and the Caribbean?

A Mario Trujillo, member of the Financial Services Advisor board and chairman, president and CEO of DolEx Dollar Express, Inc. in Duluth, Ga.: "Family remittances continue to flow into Latin America and the Caribbean, reflecting the resilient and 'basic needs' worldwide migration trends. Most of the remittances to the region come from the United States. In this corridor, we have both positive and negative forces affecting these trends. On the positive side, the United States has recently experienced some of the lowest unemployment rates in decades, providing fertile employment opportunity for all, including immigrants. In Latin America and the Caribbean, social and civil unrest are also fueling higher growth rates. When countries in the region experience unusually high levels of crime and violence (such as Venezuela, El Salvador and Guatemala), it promotes migration spikes. U.S. immigration policies have been incoherent and full of division and

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TOP NEWS

FINANCIAL SERVICES

Chilean Banking Regulator Fines Itaú Corpbanca

Chile's Superintendence of Banks and Financial Institutions, or SBIF, has fined lender Itaú Corpbanca \$8.8 million for exceeding loan limits to shareholders of lithium producer SQM.

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ANTI-MONEY LAUNDERING

U.S. DEA Agent Being Probed in Laundering Case

A U.S. Drug Enforcement Administration agent is under investigation in connection with a scheme to launder millions of dollars for Colombian drug traffickers.

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FINANCIAL SERVICES

Clarien Bank Nearly Doubles Profit After Acquisition

Bermuda-based Clarien Bank nearly doubled its profit following NCB Financial Group's majority acquisition of its operations. Clarien's CEO, Ian Truran, said the bank has a positive outlook.

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Truran // File Photo: LinkedIn.

FINANCIAL SERVICES NEWS

Chilean Banking Regulator Fines Itaú Corpbanca

Chile's Superintendency of Banks and Financial Institutions, known as SBIF, has fined lender Itaú Corpbanca \$8.8 million for exceeding loan limits to three shareholders of Chilean lithium producer SQM, the securities regulator said on Jan. 8, La Tercera reported. SBIF had opened an investigation in 2017 into accusations that Itaú Corpbanca had granted excessive loans to Norte Grande, Potasios de Chile and Pampa Calichera, three companies that control the lithium company, Reuters reported. In a statement, SBIF said that two of three fines it had charged the commercial bank were revoked following a court ruling, but it kept one charge in connection to loans Itaú Corpbanca granted in 2013. "Itaú Corpbanca reiterates its firm convictions that it acted in compliance with the law in respect to the credit lines subject to these charges," the lender, which is the fourth-largest commercial bank in Chile, said in a statement, the wire service reported. Itaú Corpbanca, which was created through a merger of Brazil-based Itaú Unibanco and Chile's Corpbanca, added that it was considering further legal avenues. Chile's banking laws do not allow financial institutions to lend more than 10 percent of a company's equity.

Brazilian State Banks to Depend Less on Treasury for Funds

Brazilian state banks under far-right President Jair Bolsonaro will depend less on the Treasury Ministry for funding, the new heads of two state lenders said Jan. 7, Reuters reported. The strategy differs from the economic models of previous left-wing administrations in Brazil, which used public funds to build up state development bank BNDES and other state banks. At his swearing-in ceremony as BNDES' new

president, Joaquim Levy said the state bank is overly dependent on the treasury ministry, adding that the bank's lending activity should be in line with the equity of the federal government, Valor Econômico reported. The new administration will also require BNDES and mortgage lender Caixa Econômica Federal to repay their



Levy // File Photo: Brazilian Government.

Treasury loans at a faster rate, officials said, Reuters reported. BNDES' financial director, Carlos Thadeu de Freitas, told O Estado de S.Paulo that the bank is planning to repay as much as 100 billion reais, or \$27 billion, in loans they owe to Treasury by the end of the year. "The BNDES has to reinvent itself," Freitas added, the Brazilian newspaper reported. "It cannot compete with private banks, providing working capital to companies which have other means to access such lines."

Clarien Bank Nearly Doubles Profit After Acquisition by NCB

Bermuda-based Clarien Bank Limited said it had nearly doubled its year-end profits following NCB Financial Group's majority acquisition of its operations, The Jamaica Gleaner reported Jan. 11. Profits for the first nine months of last year amounted to 7.3 million Bermudan dollars, or \$7.3 million, up from the \$3.9 million the bank had registered during the same period in 2017. NCB, which is based in Jamaica, acquired a 50.1 percent equity stake in the Bermudan bank in December 2017. Edmund Gibbons Limited retained 31.98 percent of the shares, and Portland Private Equity holds the remaining 17.92 percent, the Jamaica Observer reported. "The continuing improvement in the

NEWS BRIEFS

Citigroup Sees Latin America Revenue Up 7 Percent in 2018

New York-based Citigroup on Jan. 14 said its revenue from Latin America rose 7 percent in 2018, surpassing \$10.2 billion last year, up from \$9.6 billion in 2017. In its Global Consumer Banking unit, Latin America revenues of \$1.4 billion "remained largely unchanged," the company said, increasing 7 percent, excluding revenues associated with an asset management business in Mexico that was sold in the third quarter of 2018. Retail banking revenues from the region grew 6 percent, while revenue from cards grew 8 percent.

Latin American Banks Less Risky Than European Lenders: Bond Traders

International investors are viewing Latin American banks as less risky bets than European lenders for the first time since the eurozone crisis in 2012, Bloomberg News reported Jan. 14. Investors are demanding higher premiums for Europe's riskiest bank bonds than those for Latin American lenders amid fears over a possible German recession and a no-deal Brexit, according to the report. Alberto Gallo, a partner at Algebris Investments in London, told Bloomberg News that the situation is an opportunity for buyers of European bonds.

New CEO Says He Won't Seek Privatization of Brazil's Caixa

The new chief executive of Brazil's Caixa Econômica Federal, Pedro Guimarães, on Jan. 7 said he would not seek to privatize the state-controlled bank, but added that he would pursue the sale of some of its units, Reuters reported. At an event officially inaugurating his tenure as CEO, Guimarães said the profitability of the bank's insurance operations could double in two years after an initial public offering.

bank's financial performance was driven by Clarien's strategic partnership with majority shareholder NCB Financial Group," Clarien said in a note to investors. During the past year, the Bermudan financial institution launched its mobile banking application, introduced more competitive interest rates for long-term saving products and added fraud detection monitoring for credit cards, The Jamaica Gleaner reported. "The outlook for Clarien Bank is extremely positive," Ian Truran, chief executive officer of Clarien, said in a notice to shareholders. "The consolidation of our partnership with NCB continues to present opportunities for revenue growth and optimized performance."

ANTI-MONEY LAUNDERING NEWS

U.S. DEA Agent Under Investigation in Laundering Case

An agent of the U.S. Drug Enforcement Administration, or DEA, is under investigation for alleged links to a scheme to launder millions of dollars for Colombian drug traffickers, CNN reported Jan 8. The government official's name is not specified, but the agent is described as a "co-conspirator" in a case that "involved the

The agent is accused of receiving cash payments from an account that stored hundreds of thousands of dollars from illegal drug sales.

use of undercover accounts controlled by the DEA," according to court papers filed in the U.S. District Court in Tampa, Fla. The agent is accused of receiving cash payments, some of which were re-directed to family members, from a bank account that stored hundreds of thousands of dollars from illegal drug sales, CNN reported. A spokeswoman for the DEA in

FEATURED Q&A / Continued from page 1

fear, as evidenced by the current Trump shut-down of parts of the government over immigration. These policies have created great fear and pain for immigrants in the United States, both legal and undocumented. The prospects for 2019 and later will continue to be very positive. However, it is impossible to find workers today in many industries, and the United States will be unable to grow its economy to desired levels unless comprehensive immigration policies are implemented in order to allow immigrant labor to be part of the solution. Unfortunately, Latin America and the Caribbean will continue to struggle with social and civil issues that will continue to drive these migration trends."

A **Laura Porras and Julia Yansura, associates in the Migration, Remittances & Development Program at the Inter-American**

Dialogue: "Remittances continued a growth pattern in 2018, driven by double-digit expected growth for some of the biggest recipients, including Mexico, Central America's Northern Triangle, the Dominican Republic and Colombia. Growth in remittances is typically explained by increases in migrant populations, the number of migrants from a fixed population sending, and amounts and frequency of sending. Mexico and El Salvador are seeing increases in remittances, even as migrant populations stall or decrease. Thus, increases in frequency, amounts and percentage of migrants sending are defining factors. For Guatemala, our studies show increases of 30 percent in principal sent as well as a growing population of migrants. Thus, it's expected that Guatemala will have one of the region's highest growth rates. In 2018, political crises in Venezuela, Nicaragua and Haiti, among others, resulted in increases in migration and remittances. For Venezuela, the use of informal transfers is a major hurdle, but a lifeline for Venezuelans at home. As outgoing remittances from Panama and Chile demonstrate, south-south

flows have continued to increase in importance. More than 100,000 Haitians currently remit from Chile. The role of remittances in the region remains crucial, especially for countries whose economic growth is otherwise sluggish. The most remittance-dependent countries are among those with the largest remittance growth. One example is Haiti, where remittances represent more than 20 percent of GDP and increased by more than 10 percent in 2018, while its GDP is expected to grow less than 2 percent. For 2019, we expect ongoing political challenges in countries such as Venezuela, Nicaragua and Haiti, as well as U.S. immigration policy and enforcement actions, to have major impacts. While policies may decrease migrant populations or their income through deportation or loss of legal status, such as TPS, they may also create a sense of urgency among migrants to increase remittances while still in the United States."

A **Pascale Siegel, managing director at Ankura:** "The World Bank is projecting that remittance inflows to low- and middle-income countries will increase almost 11 percent to a new record of \$528 billion for 2018, \$87 billion of which went to Latin American countries. This makes the region the third-largest recipient of remittances following East Asia/Pacific (more than \$130 billion) and South Asia (more than \$120 billion). Mexico and other Central American states led with a 9.3 percent annual growth rate—the highest in the last five years. The primary drivers of this unexpected rise are a strong U.S. economy running at full employment, tighter immigration enforcement in the United States and economic recoveries in Italy and Spain, where Latin American immigration has increased. This growth is likely to continue in 2019 but will decelerate. Slowing global economic growth, the de-synchronization of growth in developed markets, harsher migration policies in

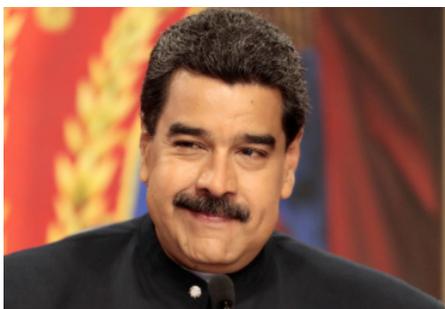
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Washington declined to comment to the cable network. At least \$7 million in “illegal funds” passed through a business account belonging to one co-conspirator, according to the court document, a plea deal between federal prosecutors and Gustavo Yabrudi, a former Venezuelan informant for the DEA. Court records show that the agent instructed Yabrudi to open a bank account under a false name in Miami in 2015. Yabrudi was charged with money laundering last September, pleading guilty the same month. Yabrudi’s defense attorney told CNN he could not discuss the case at this time, since it is “still active.”

POLITICAL NEWS

Tensions Between Brazil, Venezuela Continue to Grow

A diplomatic spat between Venezuela and Brazil became increasingly personal on Jan. 14, when Venezuelan President Nicolás Maduro called Brazilian President Jair Bolsonaro a “Hitler of the modern era,” Reuters reported. The remark came as Maduro was making his



Maduro // File Photo: Venezuelan Government.

state of the nation speech. The latest dustup between the two ideological opponents stems from Brazil’s recent declaration that it will not recognize Maduro as Venezuela’s legitimate president following disputed elections last year. Before taking office Jan. 1, far-right Bolsonaro pledged to act “within the rule of law and democracy” to oppose the governments of Venezuela and Cuba, a complete reversal of foreign policy from Brazil’s governments

THE DIALOGUE CONTINUES

What Can Brazilian Banks Expect Under Bolsonaro?

Q **HSBC is reportedly planning to re-establish its presence in Brazil and bolster its São Paulo-based investment banking business, while Citigroup is looking to step up hiring in Brazil and Itaú Unibanco is eyeing looser credit standards in the South American country. The reports came ahead of Jair Bolsonaro's inauguration as Brazil's president on Jan. 1. What are the most important policies that Brazil's banks, insurance companies and other financial services providers can expect from the country's new president? What do Bolsonaro's cabinet picks and statements he has made since his election foretell about his policies for the financial services sector? What are the biggest risks such companies face in Brazil in the year ahead?**

A **lone Amorim, economist at the Brazilian Institute of Consumer Defense (IDEC):** “The return of HSBC, just three years after it left its local operation to concentrate efforts in countries with higher profitability, reinforces the market’s expectations for the adoption of measures to contain state expenses and to foster greater competitiveness of the Brazilian domestic market. Banks’ expectations are high in relation to proposals to reduce the fiscal deficit, through public spending cuts, privatizations and pension reform. However, there is much uncertainty

under the leftist Workers’ Party, which ruled from 2003 to 2016 and had warm relations with the socialist countries. In addition to rejecting Maduro’s legitimacy, Bolsonaro said Brazil now recognizes Juan Guaidó, a 35-year-old industrial engineer who has taken over the opposition-controlled and now-powerless National Assembly, as Venezuela’s leader. On Jan. 13, Guaidó was on his way to a rally just

about the new economic team’s statements, which did not detail how policies will be implemented and the challenges with states and municipalities in a difficult financial situation. There are many doubts as to how the new government will consolidate these measures. Most members of the economic team are composed of professionals with no political experience. With a new Congress, but one that is still highly fragmented and has new parties, the challenges to approving measures will require a great deal of political articulation. The announced measures indicate an action with minimal state intervention, following a model of economic liberalism. Nevertheless, the urgency of reducing the size of the state and reducing the public deficit faces other challenges, such as keeping campaign promises, guaranteeing labor rights, promoting social development and assuring access to the health, education and security system without raising taxes. For the banking sector, observing profits of the last years, with or without crisis, the financialization of the market prioritizing rentism instead of productivity favors performance in any scenario.”

EDITOR’S NOTE: The comment above is a continuation of the [Q&A](#) published in the Nov. 29-Dec. 12 issue of the *Financial Services Advisor*.

outside Caracas when he was intercepted by the intelligence police, forced into a van and detained for about 45 minutes, The Washington Post reported. He was released unharmed. In related news, Colombian President Iván Duque said Jan. 14 he is talking with like-minded conservative leaders to create a regional bloc that would replace the Venezuelan-influenced Union of South American Nations, or Unasur, the

NEWS BRIEFS

Former FARC Leader Reappears in Video, Denounces Government

Iván Márquez, the former leader of the Revolutionary Armed Forces of Colombia, or FARC, rebels, appeared in a video released Jan. 12 and denounced the government, saying it has failed to abide by the terms of its 2016 peace accord with the guerrillas, *El Tiempo* reported. Márquez, who led the FARC in the four-year-long peace talks, went into hiding six months ago. In the video, he said 400 community leaders and 85 former rebels have been killed since the accord was signed. He said the rebels made a mistake by disarming before “securing an agreement on the political, economic and social integration of the fighters,” *BBC News* reported.

Chile Considering 19% Tax on Digital Commerce Companies

Chile is eyeing proposals for a new tax of up to 19 percent on multinational digital commerce companies with operations in the country, including Amazon, Netflix and Uber, *Finance Minister Felipe Larraín* said Jan. 10, *Reuters* reported. The tax rate, which would match the value-added tax paid by Chilean companies, is nearly double what the government had originally proposed at 10 percent. [Editor’s note: See related [Q&A](#) in the Sept. 4 issue of the *Latin America Advisor*.]

Brazil Withdraws From U.N. Migration Pact

Brazil has officially withdrawn from the United Nations pact on global mass migration, an unnamed Brazilian diplomat told *Reuters* on Jan. 8. Foreign Minister Ernesto Araújo said last month that the country would pull out of the initiative after President Jair Bolsonaro took office Jan 1, but he has said that Brazil will continue to take in Venezuelan refugees.

Associated Press reported. In a radio interview, Duque said the proposed group, called *Prosur*, would focus on defending democracy and free-market economies. Duque announced Colombia’s withdrawal from *Unasur* in August, and another five countries have suspended their membership to protest Maduro’s government.

Pentagon Extends Troop Mission to Mexico Border Areas

The U.S. military will extend its mission to support security along the border with Mexico through Sept. 30, the Pentagon said Jan. 14, *Reuters* reported. President Donald Trump ordered the deployment in October to deter waves of Central American migrants arriving in border cities such as Tijuana. The Pentagon said it was “transitioning its support at the southwestern border from hardening ports of entry to mobile surveillance and detection, as well as concertina wire emplacement between ports of entry,” according to the report. About 2,350 troops have been assigned to the border mission. Meanwhile, a high-stakes stalemate over border security continues in the U.S. Congress. [Editor’s note: See related [Q&A](#) in the Dec. 20 issue of the *Latin America Advisor*.]

Guatemala’s High Court Blocks Expulsion of CICIG

Guatemala’s Constitutional Court on Jan. 9 suspended President Jimmy Morales’ decision to withdraw from and expel the United Nations-backed International Commission Against Impunity in Guatemala, or *CICIG*, *EFE* reported. Four of the justices voted to reverse Morales’ decision, and one opposed the measure, which ordered Guatemalan authorities to “facilitate the proper functioning of *CICIG*.” On Jan. 7, Morales announced his government was ending the agreement it had struck with the United Nations to create *CICIG* and ordered

the anti-corruption body’s officials to leave Guatemala within 24 hours. It was Morales’ latest move against *CICIG*, after announcing in August he would not be renewing the commission’s mandate when it expired in September 2019 and later barring the agency’s head, Iván Velásquez, from re-entering the country. *CICIG* had been investigating Morales’ government for alleged violations of campaign finance laws. The president, who denies wrongdoing, has accused the commission of overstepping its bounds. *CICIG* officials have reportedly started leaving Guatemala to ensure their security, two sources told *Prensa Libre* on Jan. 8.

ECONOMIC NEWS

Argentina to Join Extractive Industries Transparency Group

Argentina is expected to join an international initiative for managing oil, gas and mineral resources, the Extractive Industries Transparency Initiative, or *EITI*, officials with the group said Jan. 11, *Reuters* reported. The initiative, which former British Prime Minister Tony Blair launched in 2002, enforces transparency standards that require member countries to report how they allocate licenses in extractive industries and how much they receive from companies in tax and royalties, the wire service reported. It also demands governments disclose beneficial ownership of companies in order to curb tax avoidance. “We are foreseeing that Argentina can come close to applying to become a member,” *Fredrik Reinfeldt*, *EITI*’S chairman and a former Swedish prime minister, told journalists in Oslo, Norway. The move, could help boost investment in the South American country, which some mining companies see as having murky regulations, according to the report. Fifty-one countries from around the world are part of *EITI*, though heavyweight oil, gas and mineral producers such as Russia and China have not joined, and the United States pulled out of the transparency initiative in 2017, *Bloomberg News* reported.

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the United States and Europe and stricter anti-money laundering regulations will all impede further growth. Interestingly, we expect to see the continued rise of cryptocurrencies to send remittances. Less regulated than

“This growth is likely to continue in 2019 but will decelerate.”

— Pascale Siegel

traditional means, these transfers can more easily escape state scrutiny and taxation. Less costly than traditional transfers (which yield a 5 to 6 percent fee per transaction), they offer customers a greater bang for the buck. Cryptocurrency transfers will likely be most popular in authoritarian states and in countries with large unbanked populations. However, estimating the value of these crypto transfers will be challenging.”

A Hugo Cuevas-Mohr, director of Mohr World Consulting and IMTC Conferences: “Before we forecast the future, it is important to state that, in my view, unreported remittances to Latin American and the Caribbean grew in 2018 and will continue to do so for the next year or so, due to the sustained derisking problem that the region is still experiencing, especially in the flow of south-to-south remittances. Many intra-regional remittances flows are being settled in new and creative ways to bypass U.S. banks, and a large portion of them are not being formally recorded. Informal remittances to Venezuela from all countries in the region, including from the United States

and Europe, where Venezuelans are arriving, are not being recorded; these large volumes are very difficult to estimate. But overall, recorded and unrecorded flows will continue to grow in the next year or so. However, with great instability in the world today and some politicians’ stoking a fear of migrants, there could be new measures to stop the movement of money across borders. Thus, it is difficult to predict if flows will continue to grow 8-10 percent per year past 2020 and beyond. Remittances from the United States are strong due to the country’s robust employment market. It is important to state that the increased use of remittance channels to transfer funds that are not ‘family remittances’ per se are also contributing to the overall

“Unreported remittances to Latin American and the Caribbean grew in 2018 and will continue to do so for the next year or so.”

— Hugo Cuevas-Mohr

increase in the flow of money. The increased use of virtual currencies by the money-transfer industry are also contributing to a diversity of movement of funds, and not all of them are being recorded. These trends lead me to believe that the sector’s business climate is very positive and that the prospects are encouraging for the traditional and the growing fintech sector.”

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

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