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FEATURED Q&A

Is Mexico's New Payments System a Big Improvement?



Many companies have expressed interest in CoDi, Mexico's new payments system, said central bank chief Alejandro Díaz de León. // File Photo: Bank of Mexico.

Q Several companies, including Uber, have expressed interest in the Mexican central bank's new mobile payments system, bank chief Alejandro Díaz de León said March 22. What are the biggest benefits that the new platform, known as CoDi, offers to businesses, banks and consumers? Is CoDi on track to be rolled out this year, and will the platform be widely accepted? Do any parts of the system need improvement? To what extent will the new system promote financial inclusion in Mexico, where more than half of the population lacks formal bank accounts?

A David Ross, global fund manager at La Financière de l'Echiquier in Paris: "Cobro Digital, or CoDi, is a government-backed payments system that uses QR codes and mobile phones. Fighting poverty is a priority for this administration. Given the unbanked, which accounts for half of the Mexican population, access to the formal financial system is an important first step. A second priority is to reduce the role of cash circulating in the economy, which currently accounts for 90 percent of all transactions. This is of great importance to Mexico as the government combats illegal drug trafficking, money laundering, government corruption and tax evasion. One of the major implementation obstacles for CoDi is that the people it is most designed to benefit, the unbanked, tend to be in poor and rural areas, precisely where the mobile service coverage is often substandard. The system is designed for both parties of a transaction to connect with the central bank to receive decryption keys. Latency in the system could make CoDi too frustrating to use and hinder large-scale adoption.

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TOP NEWS

REMITTANCES

Remittances to Latin America, Caribbean Reach \$85 Billion

Money transfers to the region grew 10.2 percent last year, according to a report released by the Inter-American Dialogue. Haiti, Colombia and Guatemala saw the largest increases.

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INSURANCE

Grupo Sura Aims to Reduce Debt by 10% This Year

The Colombia-based conglomerate, which offers insurance, investment banking and asset management, wants to lower its debt by some 450 billion pesos (\$141 million), said its chief executive officer.

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BANKING

Santander Taps Brazil Chief as Regional Head

Spain-based Banco Santander has named Sergio Rial, the chief executive of its Brazil unit, as its regional head for South America.

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Rial // File Photo: Banco Santander.

BANKING NEWS

Acquisition Brings Santander Chile Into Auto Financing

Banco Santander Chile has made a deal with SKBergé Financiera to acquire its 49 percent stake in Santander Consumer Chile for 59 billion pesos (\$89 million), Santander Chile said in a statement April 3. Santander Chile's parent company, Spain-based Banco Santander, owns the other 51 percent stake in Santander Consumer Chile. At the end of last year, Santander Consumer Chile had net profit of 11 billion pesos, giving it a market share of 8.2 percent in new car financing in the country. It is Chile's second-largest lender for new vehicle financing. The company's return on equity was 20 percent last year, and it had a total loan book of 388.4 billion pesos. Banco Santander Chile is the South American country's largest lender in terms of loans and assets. The acquisition is subject to regulatory approval and the completion of contractual agreements.

Santander Brasil Chief Tapped as Regional Head

Banco Santander has tapped the chief executive of its Brazil unit, Sergio Rial, as its regional head for South America, the Spain-based bank announced April 3, Reuters reported. Rial has overseen strong growth at Santander Brasil and will now assume more responsibilities as head of the bank's Andean operation as well as its units in Argentina, Uruguay and Chile, the bank said. Banco Santander is also working to better integrate its operations. Part of that integration will be an effort to turn GetNet, its Brazilian card processor, into a global business. The bank plans to launch the processor in Mexico and also in the rest of Latin America and Europe. Last December, Santander bought an outstanding 11.5 percent stake in GetNet for 1.43 billion reais, making it the processor's

sole owner. The bank also holds a 14-percent market share in Brazil, twice the size of its share in 2014. Its retail business has experienced particularly fast growth in market share. Last year, South America contributed 35 percent of Banco Santander's profit, and most of the profit from the continent came from Brazil, Reuters reported. Rial, who is an attorney and an economist, became Santander Brasil's chief executive officer in January 2016. He has presided over a rise in the unit's profitability since then. Santander's Brazil operation has seen its loan book grow by a faster pace than its competitors. Also on April 3, Banco Santander named new heads for its European and North American operations. Gerry Byrne of Santander's Poland unit will head the bank's operations in Europe, while Héctor Grisi and Scott Powell will lead the bank's operations in North America while also heading its businesses in Mexico and the United States, respectively.

REMITTANCES NEWS

Remittances to Latin America, Caribbean Reach \$85 Bn in 2018

Remittances to Latin America and the Caribbean grew to \$85 billion in 2018, a 10.2 percent rise from 2017, according to a [report](#) released April 4 by the Inter-American Dialogue's Migration, Remittances and Development Department. The countries with the highest growth rates in family remittances last year included Haiti, which had a 17.2 percent year-on-year increase; Colombia, where remittances grew 15.3 percent; and Guatemala, where they rose 13.4 percent, according to the report. "It reflects, I think, one of the most important trends that is happening in the Western Hemisphere and is the substantive growth and relevance of human mobility in the Americas," Manuel Orozco, the director of the program, said in releasing the report. "There are important trends taking place that signify the human dimension of international migration, but also how mobility is becoming a really important piece of the

NEWS BRIEFS

Amazon Accepting Cash Payments at Oxxo Stores in Mexico

Online retailer Amazon.com has started accepting cash payments at Oxxo stores in Mexico, Reuters reported April 1, citing the two companies. Amazon's acceptance of cash payments at the convenience store chain will allow it to reach more of the approximately 60 percent of the country's population that lacks bank accounts. Oxxo stores already accept payments for online retailer MercadoLibre.

Police Kill 11 Assailants Seeking to Rob ATMs in São Paulo State

In a shootout on April 4, police shot and killed 11 alleged robbers who were preparing for an ATM heist in São Paulo State, authorities said, Reuters reported. Another two men were arrested in connection to the plan to blow up machines at two locations to steal the cash inside. The alleged assailants drove up to the banks in the city of Guararema in five armored cars and carried high-caliber rifles and body armor, authorities said. The assailants and police exchanged fire, with the would-be robbers leading officers in a shootout through the city. No money was stolen, and no police or bystanders were reportedly injured.

Banks Top LinkedIn's List of Top Employers in Brazil

Banks are at the top of a list, compiled by professional-networking site LinkedIn, of the best employers to work for in Brazil, CNBC reported April 3. Heading the list is lender Itaú Unibanco, which also came in first in LinkedIn's ranking last year of best companies to work for. In second place this year was Banco Santander, which moved up in the ranking from 21st place last year. Also in the top 10 are venture capital company Movable, pharmaceutical company Bayer and energy company Raízen.

pie of the integration of Latin America into the global economy.” The drivers of the growth in remittances vary by country, but wider trends include increases in the amount of remittances, new migration flows to the United States and a higher level of migration within Latin America that is largely due to political instability in some parts of the region. “At the same time, the ways that people are sending money are evolving as the marketplace for money transfers becomes increasingly competitive and digitalized,” the report said. “Because migrants who send through digital channels have different sending behaviors, digital participation in the marketplace also affects overall growth.” Among the key findings, the report said remittances to Mexico are increasing even though net migration from that country is declining. This is mainly due to increases in the amounts of money sent and a higher percentage of Mexicans abroad who are sending remittances back home. Also, the report said there are approximately three million Venezuelan migrants abroad, and they sent \$3.4 billion to Venezuela in 2018. However, because of difficulties in sending money to Venezuela and the country’s currency devaluation, “in-kind remittances play an important role as well,” the report said.

INSURANCE NEWS

Grupo Sura to Reduce Debt by 10% This Year

Colombia-based investment holding company Grupo Sura, which offers insurance, investment banking and asset management, is planning to lower its debt by 10 percent this year, the conglomerate’s chief executive officer said March 29, Reuters reported. The amount of the debt reduction will be approximately 450 billion pesos (\$141 million). “We do have a plan to reduce our debt level, which isn’t worrying or excessive, but we do want to lower it a bit,” CEO David Bojanini told the wire service in an interview. “It’s a gradual process where we are taking more efficiencies into account, obvious-

FEATURED Q&A / Continued from page 1

Encouragingly, the government is willing to partner with technology companies such as Uber, MercadoLibre and Amazon. For these companies, the attractiveness of expanding their businesses through a more accessible payments system in a country where less than 4 percent of retail transactions last year occurred online is easy to see. Ultimately, wherever successful phone-based banking has occurred, such as in China or Kenya, private sector champions such as Alibaba, Tencent and M-Pesa have led to widespread adoption. This willingness of Mexico to partner with the private sector bodes well for CoDi’s future.”

A **Greg Ahlgren, partner at Diaz, Reus & Targ LLP:** “The Mexican government’s new electronic payments system, known as CoDi (cobro digital), is intended to bring the enormous informal sector of the Mexican economy into the cashless era, but its ultimate success remains to be seen. The system’s architecture is intended to replicate the SPEI system of electronic transfers, which has become ubiquitous in transactions in the formal economy. As a means to slowly cleanse the country of its pervasive culture of tax evasion, the SPEI system reduced the barriers to secure electronic transfers to anyone using a bank account, developing a very useful system of electronic transfers that is user-friendly, cheap and fast. Yet, despite the fact that the SPEI system has been embraced nationally in the formal economy, the vast informal and cash-based economy has persisted in Mexico, and the government’s goal of shrinking the informal economy (and boosting tax revenues)

ly getting out of minor assets that aren’t part of the core of the business, but in general it’s about optimizing our use of funds.” The debt of the company, which is headquartered in Medellín, amounted to some five trillion pesos at the end of last year. Grupo Sura has no plans to

is not likely to come to fruition in the near term, simply due to inertia. Participants in the Mexican informal economy largely want

“**Participants in the Mexican informal economy largely want to remain outside the parameters of the financial system...**”

— Greg Ahlgren

to remain outside the parameters of the financial system, notwithstanding the CoDi system’s availability, even if it does prove to be efficient, secure and user-friendly.”

A **Jan Smith, partner at KoreFusion in Mexico City:** “CoDi is more than mobile payments. The system may transform electronic payments in Mexico, increase financial inclusion and serve as a global example. CoDi disrupts the four-party debit card model by offering lower fees to merchants. It does this running on faster payment rails and using QR codes and NFC technology. The latter two eliminate steep point-of-sale hardware investments and leverage the ubiquity of mobile phone penetration. It is free to consumers, and payment and settlement happen in seconds because the payment runs on Mexico’s already well-used SPEI RTP platform. All of this facilitates crossover to peer-to-peer (P2P) transfers. CoDi is therefore a way to finally get more than one million small establishments to accept electronic payments in a way that is easy and practical for most

Continued on page 6

expand its operations through acquisitions this year, Bojanini added. He declined to estimate the company’s profit for this year, though he did say it would likely have a projected 10 percent growth in operating income as compared to the 19.5 billion pesos it reported last year. In 2018,

Grupo Sura's net profit declined 7.7 percent as compared to the previous year to 1.34 trillion pesos. The company sustained losses because of the sale of its Chilean life insurance business and its move not to participate in an insurance bidding process in Colombia, as well as lower yield income. "Last year capital markets were not so good and that really affected our income. This year the markets have behaved better, but it's very difficult to risk saying how much we're going to have in profits," Bojanini told Reuters.

POLITICAL NEWS

Judge Blocks Policy Keeping U.S. Asylum Seekers in Mexico

A U.S. federal judge on April 8 blocked a Trump administration policy that has kept migrants seeking asylum in Mexico while their cases are processed in U.S. immigration courts, *The Washington Post* reported. In the ruling, District Judge Richard Seeborg in San Francisco halted enforcement of the Migrant Protection Protocols policy just days after



Nielsen // File Photo: Department of Homeland Security.

Homeland Security Secretary Kristjen Nielsen, who resigned on April 7, vowed to strengthen it. The White House implemented the policy in January at the San Ysidro port of entry in California and then expanded it to the border crossings at Calexico, Calif., and El Paso. Under the program, hundreds of migrants have been sent back to Mexico after declaring their desire to seek asylum in the United States. In the decision, the judge ruled in favor of 11

ADVISOR Q&A

Can Uruguay Get its Rising Homicide Rate Under Control?

Q **Homicides in Uruguay, while still relatively low among Latin American countries, increased by 45.8 percent in 2018 as compared to a year earlier, according to Interior Ministry figures. What's behind the jump in the homicide rate? Will security play a big role in Uruguay's upcoming presidential election in October, or are other issues more important to voters? To what extent could the rise in the murder rates affect the ruling Broad Front Party's chances of re-election?**

A **Diego Sanjurjo, lecturer and postdoctoral fellow at the Institute of Political Science at Universidad de la República in Montevideo:** "Since records began, Uruguay has been part of a select group of countries in Latin America with relatively low levels of crime. This has changed in recent years, however, as homicide rates increased from 5.9 murders per 100,000 population in 2011 to the current record of 11.8 murders per 100,000 population in 2018. This is the fourth-highest in South America, since only Venezuela, Colombia and Brazil have higher killing rates. There are three probable causes behind such a sharp increase. The

first is the rise of property crime and illicit markets, which have been growing steadily in the country since the 1990s. The second is closely related and is the progressive establishment of organized crime and drug trafficking groups. Lastly, a much more lenient penal code was approved at the end of 2017 and spread the idea that criminals who got caught would not be sent to prison. Unsurprisingly, more than 70 percent of Uruguayans consider insecurity the country's main problem, and the issue is already at the center of the 2019 presidential election campaign. In fact, Uruguayans will be voting the same day on a referendum on a number of security measures, including on the possibility of instituting life imprisonment and the creation of a special military unit that could collaborate in the fight against crime, among others. Undoubtedly, insecurity has turned into the toughest nut to crack for the ruling Broad Front Party and for its chances of re-election."

EDITOR'S NOTE: More commentary on this topic appears in the April 9 issue of the Latin America Advisor.

plaintiffs—11 migrants from Guatemala, El Salvador and Honduras—and ordered that they be allowed to enter the United States within two days, *USA Today* reported. The ruling, which takes effect on April 12, also prevents the Trump administration from sending any asylum seekers back to Mexico in the future. The policy was not properly put into effect and violates U.S. law and the 1951 United Nations Convention on Refugees, to which the United States is a signatory. In Mexican border towns, asylum seekers "face undue risk to their lives and freedom," Seeborg wrote. Trump reacted

to Seeborg's ruling by tweeting, "A 9th Circuit Judge just ruled that Mexico is too dangerous for migrants. So unfair to the U.S. OUT OF CONTROL!" The flow of Central American migrants attempting to cross the southern U.S. border has reached decade-long highs, maddening Trump. The White House recently rescinded the nomination of Ronald Vitiello to lead U.S. Immigration and Customs Enforcement, a move that preceded Nielsen's resignation, *The Washington Post* reported. The Justice Department declined to comment on the judge's decision. The Trump administration can still appeal the

NEWS BRIEFS

Mexico Eyes Taxing Digital Platforms: Deputy Finance Minister

Mexico will aim to tax digital platforms such as Netflix in its budget plan for next year, Deputy Finance Minister Arturo Herrera said April 8, adding that the country's total tax take was too low relative to those of other Latin American countries, Reuters reported. Herrera recognized there is no broad consensus on how to tax digital services but said the government should be able to levy "interim" taxes on such companies while an international agreement is established. [Editor's note: See related [Q&A](#) in the March 27 issue of the daily Latin America Advisor.]

Piñera Wants 'More Ambitious' Commitments on Climate Change

Chile will seek "more ambitious" commitments to mitigate climate change at the United Nations COP-25 conference, President Sebastián Piñera said April 8, Reuters reported. The 2015 Paris agreement, which aims to keep temperature increases this century below 2 degrees Celsius, is not enough to "prevent the world from continuing on a path that could end in tragedy," the president added. Chile is scheduled to host the conference in December.

Some 1.1 Million Children Affected by Venezuela Crisis: UNICEF

The number of Venezuelan children who are affected by the country's economic and political crises and who will need humanitarian aid is expected to more than double to reach 1.1 million, the United Nations children's agency, UNICEF, said April 4. The number includes children who have been uprooted from Venezuela as well as those who have returned to the country.

ruling to the U.S. Court of Appeals for the 9th Circuit. The American Civil Liberties Union was among the groups that filed the lawsuit against the policy. It called the ruling a "very important decision" on the White House's "unprecedented" attempt to keep asylum seekers out of the United States.

Colombia's Lower House Rejects Peace Accord Changes

The lower house of Colombia's Congress on April 8 rejected President Iván Duque's proposed changes to the tribunal tasked with handling war crimes as part of the country's peace accord with the former Revolutionary Armed Forces of Colombia, or FARC, rebels, El Tiempo reported. Duque had asked Congress to review six parts of the law that regulates the Special Jurisdiction for Peace, or JEP, court, which was created to investigate, hear prosecutions and sentence those responsible for massacres, sexual violence and other crimes during the 50-year war between the guerrillas and the government, Reuters reported. The president asked for better clarification on extradition rules, FARC repayment of conflict victims and to toughen sentencing, as well as to exclude sexual crimes from the court's responsibility. Duque has long argued that the peace deal is too lenient toward the FARC. Lawmakers rejected the proposal, with 110 voting against the modifications and only 44 in support. Duque's proposals had been widely expected to be defeated because the peace accord is already enshrined in the country's Constitution, and changes to it would require a two-thirds majority in the legislature, Reuters reported. Duque's coalition has less than half of the seats in the lower house and a slight majority in the Senate. It is the latest congressional defeat for the Colombian president, who took office in August, following a severely diluted tax reform bill last year, the scrapping of proposed justice legislation and a pension reform delayed until next year. [Editor's note: See related [Q&A](#) in the March 29 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

Economic Policies 'Bearing Fruit' for Argentina: IMF

The International Monetary Fund's executive board on April 5 released its third review of Argentina's economic progress under its \$56 billion standby financing deal with the country, unlocking another \$10.8 billion in funds, the international lender said in a statement. "The authorities' policies that underly the Fund-sup-



Lagarde // File Photo: International Monetary Fund.

ported arrangement are bearing fruit," IMF Director Christine Lagarde said in the statement. "The high fiscal and current account deficits—two major vulnerabilities that led to the financial crisis last year—are falling." She said there are economic signs that the country's recession "has bottomed out," adding that the IMF expects a gradual recovery in the coming quarters. Argentine statistics institute Indec in recent weeks has published downbeat economic indicators, including a report that the country's GDP shrank 6.2 percent in the fourth quarter of last year, the worst quarterly performance since 2009, La Nación reported. According to the IMF report, Argentina's economy will likely contract 1.2 percent this year, an improvement of the previous forecast of 1.7 percent contraction. It estimates that inflation will be 30.5 percent this year. An Argentine Treasury official, who asked not to be named, said the IMF program was going as expected and that no further major spending cuts were planned, Reuters reported. [Editor's note: See related [Q&A](#) in the Feb. 19 issue of the daily Latin America Advisor.]

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consumers. All merchants need is a bank account and a QR code printout. To sweeten opening an account, the government will offer business credits paid and collected via CoDi. Fast-moving consumer goods suppliers may use CoDi to reduce cash payments in their supply chains to small merchants. By

“The system may transform electronic payments in Mexico, increase financial inclusion and serve as a global example.”

— Jan Smith

running on SPEI, CoDi has deep data payload that improves settlement and reconciliation processes and is why Amazon and Mercado-Libre are exploring CoDi QR for imports and e-commerce. Card models are vulnerable in the long term, despite ample retail experience and APIs, because CoDi solves what banks struggle with: onboarding the long tail of small merchants, ubiquity and agile crossover to P2P payments. CoDi is nascent and faces headwinds but heralds a new era in payments.”

A José Carlos Rodríguez Pueblita, CEO and founding partner of Pondera Lab: “Financial inclusion is one of Mexico’s pending tasks. There are many hypotheses about the causes behind the phenomenon: one is high transaction costs, namely, tight regulation and supervision; a second is a costly payments system called SPEI; a third are low levels of trust of financial institutions, a consequence of the banking crisis of the late 1990s. The Mexican government has actively tried to breach the gaps. The brand new fintech law reduces regulation and facilitates innovation under a sandbox scheme, and it will allow the creation of new financial intermediaries that will hopefully gain the trust of consumers. The recently launched CoDi payment system might help to facilitate access to easy-to-use and cheaper payment methods. Nevertheless, while one still needs a traditional bank account to make electronic payments, not all financial institutions are permitted to receive deposits from the public due to strict regulations. Any further effort will be futile to generate a financial revolution.”

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

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Advisor Video

Remittances to Latin America and the Caribbean in 2018

An Inter-American Dialogue discussion with Manuel Orozco, Inter-American Dialogue; Gene Nigro, Remitly; Akinyi Ochieng, WorldRemit; Usman Ahmed, PayPal



View a webcast of the April 4 discussion.

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