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FEATURED Q&A

Can the Region Get its Pension Systems on Track?



Governments in several countries in Latin America are weighing changes to pension systems.
// Image: Rawpixel.com.

Q Dissatisfaction with pension plans—sometimes leading to violent protests and social unrest—stems largely from a mismatch between what plan participants expect in benefits and what governments or pension systems can provide, World Bank economist Truman Packard said at a recent event on Chilean pension reforms at the Inter-American Dialogue. Why have governments and companies fallen short in providing financial education and literacy? What are some best practices from Latin America or elsewhere in financial literacy? What stakeholders should be accountable for ensuring individuals have accurate expectations and responsibility for planning for longer retirements?

A Fernando Larraín, director general of the AFP Association of Chile: “Defined contribution and defined benefit pension systems assume that participants contribute during their whole working career. Some international organizations say that in order to have a complete pension, you must contribute for more than 30 years. For individuals to have accurate expectations, it is important for all stakeholders to be involved. All the participants in a pension system should plan for a long retirement. For example, pension plan providers must give accurate information; they might provide simulations for future pensions given different assumptions and in different stages of life. Individuals need to be aware that the amount of their savings and contributions directly affect the pension they will receive. Governments must give information through different channels to try to reach the entire population in providing financial literacy and raising awareness about

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TOP NEWS

BANKING

New York Fed Cracking Down on Puerto Rico Banks

The Federal Reserve Bank of New York is cracking down on banks in U.S. territories over alleged violations of sanctions against Venezuela.

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Pagseguro to Offer Merchants Instant Payments

The Brazilian card processor said it will start offering instant payments to merchants who use its machines. Itaú Unibanco recently said it would offer payment to merchants within two days.

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BANKING

Regulators Eye Scotiabank's Plan to Sell Assets in Caribbean

Caribbean regulators are scrutinizing Scotiabank's plan to sell some of its assets in the Caribbean. Scotiabank CEO Brian Porter said recently that the asset sales are part of the bank's derisking plans.

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Porter // File Photo: Scotiabank.

BANKING NEWS

New York Fed Cracking Down on Puerto Rico Banks

The Federal Reserve Bank of New York is cracking down on the offshore banking industry in Puerto Rico and the U.S. Virgin Islands over alleged violations of sanctions on Venezuela, Reuters reported April 19. The government agency, which acts as a financial supervisor for several mid-Atlantic states as well as Puerto Rico and the U.S. Virgin Islands, has halted approval of new accounts for offshore banks and other financial institutions “in light of recent events, including the expansion of U.S. economic sanctions relating to Venezuela,” according to the report. The action will prevent the offshore banks from opening accounts with the Fed that give them direct access to the U.S. financial system. The move follows two Puerto Rican offshore banks that have accounts open with the New York Fed being mentioned in federal investigations into money laundering and sanctions evasion related to Venezuela. Sixteen of Puerto Rico’s 80 offshore banking and financial services firms are owned by Venezuelan individuals or companies, according to Reuters. Recent rounds of U.S. sanctions on Venezuela have posed new compliance risks for banks and international financial institutions as they seek to understand how to comply with fast-evolving requirements. [Editor’s note: See related [Q&A](#) in the Feb. 28-March 13 issue of the biweekly Financial Services Advisor.]

Regulators Scrutinize Scotiabank’s Plan to Sell Caribbean Assets

Previously announced plans by Canada’s Scotiabank to sell some of its Caribbean assets are facing scrutiny from regional regulators over potential “anticompetitive effects,” the Financial Post reported April 9. Scotiabank

said last November that it had struck a deal to sell banking operations in nine “non-core” Caribbean markets to Trinidad and Tobago-based Republic Financial Holdings. The bank also said that it was selling insurance subsidiaries in Jamaica and Trinidad and Tobago to Barbados-headquartered Sagicor Financial Corporation. However, the competition commission of the Caribbean Community (or Caricom) last month completed a preliminary review finding

“The proposed transaction or parts thereof could possibly have anticompetitive effects in at least three ... Member States.”

— Caricom’s competition commission

that “the proposed transaction or parts thereof could possibly have anticompetitive effects in at least three (3) Member States in the Community.” Scotiabank told the Financial Post that it “acknowledges the Caricom Competition Commission’s contribution to the regulatory approval process, and continues working closely with Republic and all applicable regulatory authorities to provide all needed information related to this transaction.” Republic Financial previously said the purchase price on the Caribbean bank assets was approximately \$123 million, while the purchase price on Scotiabank’s insurance operations in Jamaica and Trinidad is around \$240 million. Speaking to shareholders at their annual meeting on April 9, Scotiabank CEO Brian Porter cited recent divestiture plans, such as those in the Caribbean, as evidence of efforts to derisk the bank. “Within our strategic footprint, we have a particular focus on Canada, the United States, and the high-growth and stable countries of the Pacific Alliance trading bloc,” he said. “Broadly speaking, the Pacific Alliance countries have business-friendly environments, healthy democracies and a commitment to good governance, above-average economic growth and, most importantly, a rapidly expanding middle class.”

NEWS BRIEFS

Liberty Mutual Insurance Acquiring Some Units of AmTrust Financial

Liberty Mutual Insurance said it plans to acquire AmTrust Financial Services’ global and credit reinsurance operations, Insurance Journal reported April 15. Under the terms of the agreement, Liberty Mutual is to take control of units including AmTrust Insurance Spain, which offers surety bonds in Spain and Latin America. The deal includes three other AmTrust businesses—AmTrust Surety, Nationale Borg and Nationale Borg Reinsurance. Liberty Mutual said it is using the acquisition to help grow its operations, while AmTrust said it is strengthening its focus on local markets.

Pagseguro to Offer Instant Payments to Merchants for Card Transactions

Brazil-based Pagseguro Digital said April 22 that it will start offering merchants instant payment for transactions with credit and debit cards, the card processor said in a securities filing, Reuters reported. Pagseguro made the announcement after the card-processing unit of Itaú Unibanco said it would repay merchants who use its machines within two days.

Head of TransRe’s Latin American & Caribbean Business Unit Retiring

New York-based TransRe said April 10 that Javier Vijil will retire in the third quarter of this year after 26 years with the insurer. Vijil founded TransRe’s Latin America and the Caribbean division when he opened the company’s Miami office in 1993. He will hold a new position as non-executive chairman of TransRe Latin America. Moving ahead, TransRe will merge its North America and Latin America divisions into TransRe Americas, led by Ken Brandt. Former Validus Re executive Jorge Beltran has been hired to lead the Latin America business.

Antitrust Regulator Investigating Four Brazilian Banks

The Administrative Council for Economic Defense (CADE), Brazil's antitrust regulator, said April 22 it is investigating four banks for allegedly creating competition hurdles to digital banking newcomer Nubank, Reuters reported. Some of the largest banks operating in the country, such as state-run Banco do Brasil and Caixa Econômica Federal and private banks Santander Brasil and Bradesco, have been denying requests to schedule automatic payments from Nubank clients who also were account holders at those banks, according to the filing. In a statement, Nubank said it hoped "regulatory authorities will continue to protect and stimulate industry competitiveness by ensuring that new entrants will continue to have room to innovate." CADE said the banks would be given a chance to defend themselves ahead of a final ruling. Last year the Brazilian Blockchain and Cryptocurrency Association (ABCB) filed a complaint with CADE over banks blocking new fintech, cryptocurrency and other new market entrants from doing business. Established banks maintain that they are concerned about the origin of money that flows through accounts, and that their motivations are to comply with anti-money laundering regulations, not curbing competition. Regulators across Latin America have been experimenting with ways to address new market entrants.

DIGITAL CURRENCY NEWS

Rising Inflation Leads to Higher Trading in Bitcoin: Report

Economic uncertainty and rising inflation have led to a flurry of digital currency trading that has reached an all-time high in several South American countries, particularly Brazil, The Rio

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longer retirement. Employers should work with their employees in providing financial literacy. Independent workers and entrepreneurs also must be aware that their future pension is related to their contributions and savings. Associations and chambers should work with them. Countries must start working on a protection system for the elderly; the quality of life of retired people cannot depend entirely on the amount of pension benefits they receive. There is an opportunity for different public policies to be designed and implemented, taking an older population into account. When it comes to saving for the future, individuals have cognitive biases that make traditional financial teaching hard to implement. Therefore, it is important to use tools related to psychology and behavioral economics to design plans, teaching materials and other components to reach individuals. In the case of Chile, Ahorra desde Ahora, a program developed by the association of pension funds, showed positive results in an impact evaluation by the Inter-American Development Bank."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** "The lack of financial literacy is a global phenomenon—especially in the matter of retirement. Most people 'live for the moment' and do very little planning for the future—especially far into the future. For example, Shlomo Benartzi and Richard Thaler have demonstrated that even in Western countries, people spend

more time planning their next vacation than planning their retirement year after year. In Mexico, we found that even those who say they want to save for retirement do very little when it comes to actually saving for retirement. A large proportion of respondents to

“**Most people 'live for the moment' and do very little planning for the future...**”

— Tapen Sinha

a survey declared that 'God will provide' for their retirement. A survey in Mexico also showed that the vast majority of recent retirees found that they were getting a smaller state pension than they had expected. There are several ways that the agenda can be moved forward. First, any pension system should aim for a floor value of the pension. For example, it can aim to provide a full-time worker with 30 years of work history to get at least 30 percent of the last drawn salary. This kind of information should be provided to all employees the day they start working. It should also be reinforced through future communications to the affiliates. It should raise red flags if they are lagging behind. Second, governments could levy a small fee on privatized funds and use that money to educate affiliates about their future benefits. Some attempts have been made in Chile and Brazil in the past. But they have not been enough to make much difference. Voluntary saving has never been high."

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Times reported April 16. The recorded trading volume in the country surpassed 100,000 Bitcoins earlier this month to reach a new Latin American record, according to data from the CoinTrader Monitor. Argentina's trading volumes in bitcoin have also spiked higher recently, according to the report. Blockchain advocates have been calling for Argentina's

government to adopt alternative currencies such as Bitcoin as a way to overcome traditional problems with inflation. U.S.-based venture capital investor Tim Draper, an advocate for digital currencies, reportedly met with Argentine President Mauricio Macri last month, advising him to embrace emerging technologies such as blockchain and cryptocurrencies

as a means of improving problems in Argentina's economy, including the devaluation of the Argentine peso, Cointelegraph reported. A Bitcoin's value peaked at nearly \$20,000 in December 2017 but has since plummeted, closing April 22 at \$5,381.

POLITICAL NEWS

Mexican Authorities Detain Migrants

Mexican authorities on April 22 detained hundreds of Central American migrants in the southern state of Chiapas in the largest raid on a migrant caravan since the groups began moving last year through the country toward the United States, the Associated Press reported. Police and immigration agents forcibly pushed men, women and children who were in isolated groups at the end of a caravan containing 3,000 migrants into patrol vans and trucks, the wire service reported. Reporters on site heard screams from the group, and after the detained migrants were driven away, clothes, shoes, strollers and suitcases were left strewn at the scene. As many as 500 people were detained in the raid, which happened near the city of Pijijiapan. The agents encouraged migrants who had been walking in the heat for hours to stop and rest, and when they regrouped to continue trekking north, officers detained them. One migrant, 27-year-old Kevin Escobar, avoided being detained by fleeing onto private property nearby. A Honduran, Escobar vowed never to return to his hometown, San Pedro Sula. "The gangs are kidnapping everyone back there," he told the wire service. Officials of Mexico's National Human Rights Commission observed the raid from some distance away. "We cannot tell authorities in charge what to do, but yes, we are documenting and we will investigate," said commission official Jesús Salvador Quintana. The raid followed a series of detentions last Friday in which Mexican agents took migrants into custody as they awaited the normalization of their migration status in the town of Mapastepec. The detentions followed demands by U.S. President Donald Trump that Mexico



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To learn more about the conference
and to register, click [here](#)

NEWS BRIEFS

Twenty-Five Killed in Bolivia Bus Crash

Twenty-five people were killed in western Bolivia on April 21 when the bus they were traveling in crashed while trying to pass another vehicle and fell down a ravine. Writing on Twitter, President Evo Morales urged bus drivers to take more care, saying he was "very sad about the terrible accident." Some 1,000 people die and 40,000 are injured in accidents on Bolivia's roads every year, EFE reported. In Latin America, road crashes are the leading cause of death for people aged 15 to 44.

Venezuela's Maduro Calls for Massive May Day Counterprotests

Venezuelan President Nicolás Maduro on April 22 called for two marches to counter massive May Day rallies being organized by opposition leader Juan Guaidó, Agence France-Presse reported. One of the marches, on Saturday, will mark Venezuela's official exit from the Organization of American States, two years after Maduro made the decision to leave the bloc, accusing it of being a puppet of the United States. On April 9, the OAS recognized opposition leader Gustavo Tarre as Venezuela's representative to the group until new elections are held in the South American country.

Peru's García Led Crime Ring: Official

Former Peruvian President Alan García, who committed suicide April 17 after police arrived at his home to arrest him, led a criminal group that accepted millions of dollars in bribes from Brazilian construction conglomerate Odebrecht, said a top official in Peru's attorney general's office, The Wall Street Journal reported. Odebrecht has admitted to paying bribes to officials in several countries in order to acquire lucrative contracts. García had denied wrongdoing.

do more to stop migrants from trekking to the United States, where they have overwhelmed agents at some border crossings. Trump recently threatened to shut down the entire U.S.-Mexico border.

Ecuadorian Judge Orders Ex-Foreign Minister Detained

A judge in Ecuador has ordered former Foreign Minister Ricardo Patiño to be detained on a charge of "instigation," El Universo reported April 18. The order against Patiño, who served under former President Rafael Correa, came 22 hours after the former foreign minister left the country, and his whereabouts were unknown, the newspaper reported. In a video statement released via Twitter, Patiño said there was no order against him at the time that he departed from Ecuador and that he had no idea "what was about to happen." He said, "I left the country absolutely legally," and vowed to defend himself. The administration of current President Lenín Moreno has accused Patiño of involvement with WikiLeaks, Reuters reported. Moreno's government recently withdrew the asylum of WikiLeaks founder Julian Assange, who had been holed up in Ecuador's embassy in London since 2012, allowing police to arrest him. Moreno has accused Assange and the website of publishing private photographs of his family, violating his privacy. Moreno has also accused Correa of planting a hidden camera in his office in order to spy on him. WikiLeaks and Correa have denied the allegations, and the whistleblowing website has said Moreno is attempting to deflect attention from corruption allegations against him. An economist, Patiño has called on his supporters to engage in "combative resistance" against Moreno's government, Ecuador's attorney general's office said in a statement. "The attorney general's office began a criminal process against Ricardo Patiño for the alleged crime of instigation," the office said, adding that Patiño "had given a speech in which he instigated people to take over public institutions and close roads." Patiño has denied the allegations.

The former foreign minister is also accused of having ties to Ola Bini, a Swedish computer programmer whom Ecuadorean authorities arrested last week on hacking charges. Bini denies the allegations, the Washington Times reported. "I'm confident it will be obvious that there's no substance to this case, and that it will collapse into nothing," Bini said in a statement released by his lawyer. Moreno's government accuses Patiño and Bini of having taken trips to London to visit with Assange while he was taking refuge at the embassy, Reuters reported. Ecuador's interior minister has accused Patiño of trying to "destabilize" Moreno's government.

ECONOMIC NEWS

Brazil's Participation in Global Economy Falls to 38-Year Low

Brazil's level of participation in the global economy has fallen to the lowest level in 38 years, Folha de S.Paulo reported April 19. According to data from the International Monetary Fund, Brazil's share of the world's production of goods and services fell to 2.5 percent last year. The data marks the seventh consecutive year of loss for Brazil, South America's largest economy. One of the main reasons for the drop has been China's relative outperformance of other developing nations, according to the report. As with Brazil, other countries of Latin America have also been outrun by rising Eastern economies such as India, Turkey, the Philippines, Vietnam and Malaysia, which have increased their share of the global economy over the same period. Economists say one of the biggest factors behind Brazil's drop has been continued problems with growth, as repeated boom-bust cycles since the 1980s have proven difficult to break. After struggling with its deepest recession in history in recent years, Brazil's economic growth could accelerate to a 3.5 percent annual rate in the second half of the year with the approval of economic reforms, said Economy Minister Paulo Guedes.

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A Carmelo Mesa-Lago, professor emeritus of economics and Latin American studies at the University of Pittsburgh:

"In recent years, there have been public demonstrations against pension reforms in France, Greece (which almost toppled the government) and Russia. In Latin America, the Chilean government's delay in acting on the 58 recommendations in 2015 from President Michelle Bachelet's Presidential Commission on Pensions provoked national protests by as much as one million people demanding, among other things, the termination of private pension administrators (AFPs). In Nicaragua, facing the imminent bankruptcy of the public pension program, President Daniel Ortega enacted a decree in 2018, raising contributions by 1 percent and reducing pensions by 5 percent, which led to a popular rebellion that threatened his regime, forcing the withdrawal of the decree; after strong repression that partially controlled the situation, he enacted another even tougher decree in 2019. A major reason for pension problems is an aging population in developed countries, which now affects the oldest countries in Latin America: Cuba,

Uruguay, Chile, Argentina, Costa Rica and Brazil. As a result, many countries in the world have been increasing retirement ages, mainly for women, because they often retire five years younger and live five years longer than men. Most Latin American countries

“Most Latin American countries need to raise retirement ages, particularly for women...”

— Carmelo Mesa-Lago

need to raise retirement ages, particularly for women, and also confront strong opposition. This requires educational campaigns. If this is not done, actuarial deficits will worsen and some countries will face financial imbalances (the latter is already happening in some countries), the system will go bankrupt and won't be able to pay pensions."

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

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Advisor Video

A Conversation with Lenín Moreno

An Inter-American Dialogue discussion with Lenín Moreno, President of Ecuador

View a webcast of the April 16 discussion.



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