LATIN AMERICA ADVISOR

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

July 4-17, 2019

FEATURED Q&A

Why Is Panama Back on the FATF's 'Gray List'?

Panama, whose capital is pictured above, was returned last month to the Financial Action Task Force's "Gray List." // File Photo: Matthew Straubmuller via Creative Commons.

Q **The Financial Action Task Force (FATF) on June 21 placed Panama back on its international money laundering watch-list. The Central American nation was put on the so-called "gray list" in 2014 over flaws in the country's financial practices. It was removed in 2016 after changes to its legal and regulatory framework, but the FATF has now reversed that decision despite heavy lobbying from officials in Panama. Why has Panama been placed back on the FATF's gray list? What are the consequences of the decision for its business sector and economy? What needs to happen for Panama to be removed from the list?**

A **Carlos Berguido, executive president of the Panama Banking Association:** "Panama exited the previous version of the FATF list in record time, because of the strong commitment of the government, regulators and the financial services sector to promote the adoption of laws and regulation aimed at improving the country's capacity to fight money laundering. However, during the last three years, a political stalemate between the executive and legislative branches of government made it very difficult to timely adopt certain key pieces of legislation, such as the criminalization of tax fraud and making tax crime a predicative of money laundering. The National Assembly passed this very important legislation in January, and it took effect in March, making it almost impossible to show evidence of enforcement in such a short time. However, supervision of the vast regulated nonfinancial sector came under scrutiny. The newly created intendency is tasked with anti-money laundering/anti-terrorist financing supervision and law

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Chile's central bank is allowing Itaú Corpbanca to increase its stake in its Colombian subsidiary, Helm Bank, to 87.1 percent.

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People's Insurance Company of China could begin operating in Argentina as early as September.

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BANKING

Talks 'Positive' on Potential Purchase of Scotiabank Unit: Antigua's Browne

Antigua and Barbuda's prime minister, Gaston Browne, said his administration has engaged in encouraging talks regarding the government's potential purchase of a stake in Scotiabank's unit in the Caribbean nation.

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Browne // File Photo: Government of Antigua and Barbuda.

BANKING NEWS

Chile Allows Itaú Corpbanca to Boost Stake in Helm Bank

The Chilean central bank has given Itaú Corpbanca the green light to increase its stake in its Colombian subsidiary, Helm Bank, to 87.1 percent, Diario Financiero reported July 8. Itaú Corpbanca, which is controlled by Brazil's Itaú Unibanco and Chile's Corpbanca, currently has a 66.28 percent stake in Helm Bank, while Corpbanca owns 12.36 percent. "Itaú Unibanco could increase its participation in Itaú Corpbanca Colombia from 66.28 percent to 87.1 percent of the capital shares of said bank," the central bank said in the document, El Espectador reported. Itaú Corpbanca is Chile's fourth-largest commercial bank. Earlier this year, the International Court of Arbitration ordered Helm to offload the shares for $299 million following a legal battle between the Colombian bank and Itaú Corpbanca after Helm claimed Itaú Corpbanca had breached the terms of two agreements. The transaction still needs regulatory approval in Colombia and Brazil. Chilean financial services watchdog CMF has already approved the acquisition, on the condition that the transaction be finalized once the deadline for any legal challenge has passed. The acquisition of Helm Bank would have an impact of nearly 80 basis points on the bank's capital, according to Manuel Olivares, the chief executive officer of Itaú Corpbanca, Diario Financiero reported. "What we have to do is incorporate this impact into the balance and manage it," he said.

Antigua Says Talks 'Positive' on Potential Scotiabank Purchase

The government of Antigua and Barbuda said it has had "positive" talks with Trinidad-based Republic Financial Holdings regarding the government's potential purchase of as much as 40 percent of the Scotiabank unit in Antigua and Barbuda, the Caribbean Media Corporation reported July 8. Prime Minister Gaston Browne said his government has presented two possible options to Republic. "Our first position is that [an] Antigua and Barbuda consortium comprising the government and a group of domestic banks should be given the first option to buy the Antigua Scotia branch," Browne said on his privately owned radio station. "Our second option is to partner with Republic Bank and in that case we will take up to 40 percent [of the] shares. I can tell you that Republic Bank has indicated a willingness and in fact they said to us formally that yes they will cooperate. They will allow us to get the 40 percent shares, so we have to look at price." Toronto-based Scotiabank is selling its operation in Antigua and Barbuda, along with other units it owns in the Caribbean, to Republic. The Antigua and Barbuda government says it wants to be assured that local banks will have priority in purchasing Scotiabank's unit in the Caribbean nation and that locals' savings and investments will be protected. Browne said he has discussed the potential purchase with Bermuda's premier, David Burt, who expressed willingness to play a role in the Scotiabank sale. "He is quite sure that the pension fund in Bermuda would be happy to have a significant stake in the bank in the Caribbean," said Browne.

INSURANCE NEWS

China's PICC Seeking to Launch Services in Argentina

Chinese state-owned reinsurance company People's Insurance Company of China, or PICC, is seeking permission to launch its services in Argentina, Reinsurance News reported July 4, citing BNamericas. PICC could begin operating in the South American country in September as long as it receives approval from Argentina's insurance watchdog, SSN. It would be China's first reinsurance company to have a unit in Argentina. PICC is expected to work closely

NEWS BRIEFS

Peru's Intercorp Files for U.S. Initial Public Offering

Peruvian financial services firm Intercorp has filed for an initial public offering in the United States, where it hopes to raise as much as $423 million, Renaissance Capital said July 5. The firm, which is controlled by Intercorp Peru, currently trades on the Lima Stock Exchange. It plans to offer nine million shares at a price range of between $44 and $50 per share. At the midpoint of the proposed range for the offering, Intercorp would have a market value of $5.4 billion.

Itaú Taps Gailey as Chief Executive of Paraguay Unit

Brazil's Itaú Unibanco Holding has named André Gailey as the chief executive officer of its Paraguay unit, the bank said July 10, Reuters reported. Gailey, who has worked for Itaú Unibanco for two decades, is replacing Viviana Varas as chief executive. Gailey is currently the director of commercial banking at Itaú Unibanco's wholesale unit, Itaú BBA. As of March, Itaú Unibanco's loan portfolio in Paraguay amounted to approximately $2.12 billion. Gailey will report to César Blaquier, the chief executive officer of Itaú Argentina, who also oversees the bank's units in Paraguay and Uruguay.

Brazilian Antitrust Agency Approves Inbursa's Buy of Global Payments Stake

Brazil's antitrust agency, CADE, has approved the acquisition by Mexico-based lender Inbursa of a 33 percent stake in the Brazilian unit of Global Payments, Reuters reported July 11. Inbursa, which is controlled by Mexican billionaire Carlos Slim's family, wants to establish a card processing business in Brazil through Inbursa, the wire service reported. Inbursa informed CADE that Global Payments and the Brazilian unit of Slim's América Móvil may form a future partnership.

with Argentina-based brokerage Broker del Plata, according to the report. PICC and Broker del Plata have worked together previously, and the companies have a multi-year contract. The brokerage's president, Jorge Strika, told BNamericas that his company will be the exclusive local reinsurance representative for PICC, according to the report. The Argentine insurance watchdog has reportedly lowered barriers to entry to foreign reinsurance firms. In Argentina, PICC will initially focus on providing reinsurance to insurance companies that provide policies related to public works projects that have Chinese investment.

ANTI-MONEY LAUNDERING NEWS

Pan-American Life Using Fiserv to Prevent Laundering

U.S.-based financial services technology company Fiserv said July 15 that Pan-American Life Insurance Group is using Fiserv's products to boost its anti-money laundering and financial services compliance measures in several Western Hemisphere countries where it operates. The insurance provider, which is based in New Orleans, is initially deploying Fiserv technology for use in Panama, the Cayman Islands, Colombia and Costa Rica, and it plans to expand to more of the 22 countries where it has operations, according to the statement. Fiserv will provide anti-money laundering services that consider country-specific regulations and reporting requirements, which will allow Pan-American Life to monitor risk management processes in multiple countries through a single platform, the company said. "Effective risk

> **"Effective risk management is an important part of how we do business."**
> — Steven A. Friedman

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enforcement of very diverse activities, from casinos to attorneys to accountants and used car dealers. This needs some time and resources to evolve and build the necessary institutional capacity in order to develop the risk-based approach to effectively supervise and enforce the law. During the last review, which focused on enforcement of the existing legal framework, the FATF recognized the enormous efforts Panama has carried out to achieve technical compliance, but the enforcement component will require more time. Though there was no direct mention of any deficiencies in the banking or financial sectors, the Banking Association has pledged to support the government in its efforts to get the country out of this list and remain out of it."

A **Richard Fogarty and Larry Iwanski, managing directors at Alvarez & Marsal:** "Panama continues its off-again, on-again status with the FATF's lists as the country is named to the list of jurisdictions with strategic anti-money laundering/combating the financing of terrorism deficiencies. In its decision, FATF cited four areas (abbreviated here) in which Panama needs to improve: 1) assessing and understanding the money laundering/terrorist financing risks and mitigating those risks through national policy; 2) identifying unlicensed money remitters, applying a risk-based approach to supervision and taking action against violations; 3) verifying, monitoring, updating and granting timely access to beneficial ownership information; and 4) demonstrating the ability to investigate and prosecute foreign tax crimes, cooperating with foreign jurisdictions in the process and continuing its focus on money laundering investigations in high-risk geographies. The major impacts of this distinction may be felt in the financial services, trade finance and the shipping industries. Most immediately, financial institutions will feel direct pressure from its correspondent banking relationships and potentially face de-risking actions. This seems obvious. Less obvious may be the increased scrutiny from other regulators that are responsible for business passing by, with or through Panama. Once again, Panama becomes an extraterritorial focal point for criminal activity. Removal from the list may take Panama several years as it strives to implement changes in the law, remediate documentation supporting the law and demonstrate to FATF complete compliance. The differentiator will be the willingness and the commitment of the government, people and businesses (including the legal community) of Panama to repair the country's anti-money laundering and counterterrorism financing program."

> **"Financial institutions will feel direct pressure from its correspondent banking relationships and potentially face de-risking actions."**
> — Richard Fogarty & Larry Iwanski

A **José Montaño, vice president and senior analyst at Moody's Investors Service:** "The Financial Action Task Force (FATF) returned Panama to its list of countries with deficiencies in anti-money laundering and combating-terrorist-financing regimes. Panama's placement back on FATF's list is a negative development for offshore Panamanian banks funded mainly by foreign investors. These banks are more exposed to repricing and refinancing risk than banks with domestic operations that are funded by local clients. Panama's return to the list will increase scrutiny from the international financial community and its interactions with Panamanian financial institutions. The most affected will be the relationships these

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management is an important part of how we do business," said Steven A. Friedman, executive vice president and chief investment officer of the corporate development and strategy division at Pan-American Life. "Working with Fiserv will optimize our ability to manage risk in an increasingly complex world so we can continue earning our customers' trust," he added. The insurance company offers life, accident and health insurance as well as other financial services in the United States and throughout Latin America and the Caribbean.

POLITICAL NEWS

White House Seeks to Restrict Migrants' Asylum Claims

The administration of U.S. President Donald Trump on July 15 moved to end asylum protections for most Central American migrants, one of its most restrictive rules yet and a major escalation in Trump's crackdown on the number of people crossing the U.S.-Mexico border, CBS News reported. According to a new rule published in the Federal Register, asylum seek-

Trump // File Photo: White House.

ers who pass through another country in order to get to the United States will be ineligible for asylum at the U.S. southern border. Migrants coming from Central American nations such as Guatemala, Honduras and El Salvador would be ineligible after passing through Mexico or other countries to reach the U.S. border. The rule, which is set to come into effect July 16, has some exceptions, including if the asylum seeker has been trafficked. Shortly after the new policy was announced, the American Civil Liberties Union said it intends to challenge it in court. The Trump administration has also been pushing Guatemala, Mexico and other countries in the region to be designated as "safe third countries," which means migrants passing through must apply for protection there first. On July 14, Guatemala's government postponed a meeting between President Jimmy Morales and Trump scheduled for the following day to discuss the designation. Hours later, Guatemala's Constitutional Court blocked Morales from declaring the Central American nation a safe third country, Reuters reported. The court ruling

ADVISOR Q&A

What Would Joining the Pacific Alliance Mean for Ecuador?

Q **Ecuador will likely become the fifth member of the Pacific Alliance trade bloc by next year, Peruvian President Martín Vizcarra said July 6 at the group's summit in Lima. Peru, Mexico, Colombia and Chile created the Pacific Alliance in 2012 to promote free trade and strengthen ties in the Asia-Pacific region, but then-President Rafael Correa said Ecuador would not join the market-friendly group during his presidency. However, his successor, Lenín Moreno, last year submitted a request for Ecuador to be part of the bloc. Why did Correa refuse to join the Pacific Alliance, and why does Moreno now support Ecuador's potential membership? How likely is it that Ecuador will join the trade bloc within a year, and what are the next steps for that to happen? What advantages and disadvantages would membership in the Pacific Alliance bring for Ecuador, and what would Peru, Mexico, Chile and Colombia gain in return?**

A **Melissa Morris, director of Crowell & Moring International:** "The Pacific Alliance, formed in 2012 among Chile, Colombia, Peru and Mexico, has the potential to be the region's most forward-looking and outward-oriented regional trade agreement. The four original members all had negotiated comprehensive free trade agreements with the United States, and with one another. The alliance is extending relations across the Pacific and to other partners in Latin America. Although Latin America has been at the forefront of regional economic integration for decades (at least in name), the Pacific Alliance agreement has the depth and breadth to lead to true cross-border economic cooperation. Ecuador, as one of the region's smaller economies, could benefit substantially from establishing closer economic and trade relations with the members of the Pacific Alliance. In doing so, Ecuador should accede to the group on the basis of full parity and not be allowed prolonged transition periods ('special and differential' treatment) for adopting reforms. Ecuador should not enter the alliance as a 'second class' citizen but rather be expected to harmonize its laws and regulations with those of the other partners within clear timeframes. In this way, Ecuador can best gain the confidence of business and investors to show that it has genuinely 'turned a new leaf' and is prepared to adopt competitive policies. Limited transition periods of three to five years might be allowed in a few cases, but in general the intent should be that, within a specified and well-mapped out timeframe, Ecuador should implement the necessary changes to conform to the agreement."

EDITOR'S NOTE: More commentary on this topic appears in the July 16 issue of the Latin America Advisor.

NEWS BRIEFS

Protesters Demand Ouster of Puerto Rico's Rosselló, Police Fire Tear Gas

Protests called to seek Puerto Rico Governor Ricardo Rosselló's ouster turned chaotic on July 15 as police fired tear gas and pepper spray into a crowd of demonstrators outside the governor's mansion, The New York Times reported. The protest followed the leak of a private chat in which Rosselló used crude language in exchanges with top aides as well as arrests of former Puerto Rico officials in a corruption probe.

Venezuela Arrests Two Guaidó Security Guards

Venezuelan agents have arrested two security guards of opposition leader Juan Guaidó, the Associated Press reported July 13. Guaidó, whom dozens of countries recognize as Venezuela's legitimate acting president, said the two guards had been detained in Caracas while they were providing security for his family. Venezuelan Socialist Party leader Diosdado Cabello said the men planned to sell four guns to the government that were used during Guaidó's failed April 30 military uprising. The opposition said the allegation is false.

U.N. Security Council Voices Support for Colombia Peace Accord

The U.N. Security Council announced its "unanimous" support for Colombia's peace agreement with the former Revolutionary Armed Forces of Colombia, or FARC, guerrilla rebels, as well as its intention to extend the U.N. mission in the South American country, Semana reported July 12. Representatives of Security Council member countries recently visited Colombia, when President Iván Duque requested the U.N. mission that oversees the peace agreement's implementation remain in place for another year.

came after the government's human rights ombudsman and four former Guatemalan foreign ministers sought ways to stop Morales from signing a deal with Trump.

ECONOMIC NEWS

Cuba Expects Tourism to Fall 8.5 Percent This Year

Tourism to Cuba is expected to drop 8.5 percent this year in the wake of tighter U.S. travel restrictions to the Caribbean island, the Cuban government said July 11, Reuters reported. A boom in tourism in recent years has helped Cuba offset lower exports and a sharp decline in aid from key ally Venezuela, as the South

Marrero // File Photo: Radio Rebelde.

American country deals with its own economic crisis, which prompted Cuba's communist government to take austerity measures such as cutting imports. Last month, the administration of U.S. President Donald Trump banned cruise ships and private planes and yachts from traveling to the island and ended an educational category of travel that served as an exemption to the overall ban on U.S. tourism. "These measures sparked a 20.33 percent reduction in tourist activity," Cuban Tourism Minister Manuel Marrero said in a speech to the National Assembly, according to state-run newspaper Granma. Marrero estimated that 4.3 million people would visit Cuba this year, down from the 4.7 million registered last year. The Trump administration's decision to allow U.S. lawsuits against foreign companies deemed to be profiting from properties that Cuba nationalized after the 1959 revolution is also affecting the tourism sector, according to the report. Several hotel operators and a unit of online travel agency Expedia have been the targets of such lawsuits. [Editor's note: See related **Q&A** in the March 18 issue of the daily Latin America Advisor.]

Economists Cut Forecasts for Brazil Growth to New Low

Economists in a Brazilian central bank survey released July 15 cut their forecasts for the country's economic growth next year to a new low of 2.10 percent, Reuters reported. The 72 economists in the weekly "FOCUS" survey cut their average estimate from 2.20 percent the previous week. In March, they had predicted growth of 2.80 percent, on average. The lowered forecast came despite a breakthrough on pension reform in Brazil's Congress. The Chamber of Deputies recently advanced legislation that would save the treasury approximately 1 trillion reais ($267 billion) over the next decade. The measure is expected to boost investment in Latin America's largest economy. It may not be until August, however, that the full lower chamber gives its approval and sends the measure to the Senate. Also in the new survey, economists trimmed their growth forecasts for this year's growth in Brazil by a small

Economists now expect growth of 0.81 percent this year in Brazil.

amount—to 0.81 percent from 0.82 percent. Earlier in July, the government cut its forecast for this year's growth in half, to 0.80 percent. It also lowered its forecast for next year's growth to 2.20 percent from 2.60 percent. Brazil's economy contracted 0.2 percent in this year's first quarter and may have slipped into a recession in the second quarter, according to economic indicators.

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banks have with their correspondent banks, and the resulting increase in pressure on banks' operational costs. The FATF placed Panama back on the list after concluding that despite the country's recent efforts, more regulatory advances are necessary. In addition to increasing negative pressure on banks' profitability, Panama returning to the FATF list has the potential to eventually limit banks' business development efforts as some international financial institutions curtail their interactions with Panamanian banks and other financial companies. Because the Panamanian financial system is totally dollarized, a deterioration in banks' relationships with international financial institutions would have significant negative consequences on Panamanian banks' funding activities, particularly offshore institutions. Since 2014, Panamanian authorities have taken measures to strengthen the country's regulatory framework, particularly as it relates to financial and fiscal matters. Panama recently approved a new fiscal law and has improved the country's financial reporting standards. The country also works with international financial supervisors in an effort to avoid having a reputation of a country with weak regulatory standards."

A **Marco Gandásegui Jr., professor at the University of Panama and research associate at the Center of Latin American Studies (CELA):** "Top Panamanian officials were surprised—if not shocked—by the move to place the country back on the 'gray list.' One high-ranking officer at the Ministry of Economy and Finance said it was unfair and that the FATF was acting in vengeance. Others concluded that Panama was not complying with one key element. While the financial system and nonfinancial enterprises were acting as requested, the problem was placed at the doorsteps of law firms that were still doing business as usual. Panama has an outstanding system that shares information with all other countries."

A **Matías Mora, managing director for Central America at Berkeley Research Group:** "Despite the efforts on a regulatory and normative level, in regards to the preservation and implementation of a culture of preventing money laundering on a national level, we could observe that the weaknesses found are related to the design and implementation of controls in the nonfinancial sector (which has more than 25 industries). Part of the weaknesses found are based in the acculturation of each and every nonfinancial sector involved, as well as the lack of effective execution in the sanctions regime for these sectors. In the financial sector, consequences are more imminent because correspondent accounts and contingency lines at credit level could be lost. It is important to mention that the practice of de-risking could recover popularity between correspondents and the different local and international entities. At the state level, there should be publications or international-level sessions regarding models, controls, methodologies and procedures that have been effectively implemented and the effectiveness of the controls regarding the prevention of money laundering."

> **"The weaknesses found are related to the design and implementation of controls in the nonfinancial sector."**
>
> — Matías Mora

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

FINANCIAL SERVICES ADVISOR
is published biweekly by the
Inter-American Dialogue, Copyright © 2019

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Financial Services Advisor is published biweekly, with the exception of major holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
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www.thedialogue.org

ISSN 2163-7962

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