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FEATURED Q&A

Why Does Cash Remain King in Latin America?



The number of financial technology providers has soared in Latin America, but much of the region has continued to rely on cash. // File Photo: Pixabay.

Q Despite the growth of fintechs in Latin America, cash is still king in the region. Cash management company Brink's estimates that 85 percent of Brazil's market relies on cash, while in Mexico, the figure is 90 percent. Why is Latin America clinging to cash? How likely is it that cash will remain dominant despite the region's digitization and embrace of mobile technologies? How would wider use of credit cards and other financial technology in Latin America, and less of a reliance on cash, affect consumers?

A Julia Yansura, program associate in the Remittances and Development Program at the Inter-American Dialogue: "For consumers in Latin America, cash has two important advantages over digital: it doesn't require access to a bank account, and it is much more widely accepted by merchants. The first point is critical and often misunderstood. Although it is sometimes assumed that fintech can offer a shortcut to financial inclusion, the reality is more complicated. Many digital financial products require consumers to have a bank account as a starting point. According to 2017 data from the Global Findex, only 55 percent of adults in Latin America have any kind of account, only slightly up from 52 percent in 2014. Mexico is even lower than the regional average, just 37 percent in 2017. Digital products can contribute significantly to financial inclusion through greater accessibility, convenience, security and even lower costs, yet very rarely do they replace accounts, and rarely are they the first step taken toward financial access. With regard to the second point, consumers in the region will adopt cards and other digital payment methods to the extent that they

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TOP NEWS

CREDIT CARDS

Chile Warns of Increase in Credit Card Cloning

Chilean authorities have warned consumers about an increase in the number of credit card cloning incidents. So far this year, the number of cases reported has surpassed the total for all of last year.

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INSURANCE

Realphe Tapped as CEO of Zurich's Unit in Colombia

Insurance provider Zurich has named Juan Carlos Realphe as CEO of its operation in Colombia. He succeeds Victoria Bejarano in the position.

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INSURANCE

Caixa, CNP Reach Insurance Deal Worth \$1.7 Billion

Brazil's Caixa Econômica Federal, headed by CEO Pedro Guimarães, has agreed to allow France-based CNP Assurances to sell insurance in the Brazilian state-owned bank's branches.

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Guimarães // File Photo: Caixa Econômica Federal.

FINANCIAL SERVICES NEWS

Bayport Colombia Reaches Secured Credit Agreement

Payroll loan company Bayport Colombia has reached a secured credit agreement of as much as \$150 million with a syndicate including JPMorgan Chase, Cerberus Capital Management and a large Canadian institutional investor, Finance Colombia reported Sept. 18. "After a rigorous audit process, we demon-

South Africa-based Bayport has had a presence in Colombia since 2011 and has offices in 23 cities there.

strated the company's financial strength and reached this agreement, which will help us to leverage the growth we want to achieve during the next two years and continue to provide resources for Colombians to make their dreams come true," Lilián Perea, Bayport Colombia's chief executive officer, said in a statement. The resources will be used for providing loans for pensioners and employees of the armed forces and the education sector, according to the report. South Africa-based Bayport has had a presence in Colombia since 2011, with offices in 23 cities and covering about 94 percent of the population, according to Perea. The company's debt portfolio in the Andean nation surpasses 800 billion pesos and serves some 60,000 customers, she said. According to Colombia's finance regulator, Bayport has achieved annual growth of more than 37 percent on average over the past three years, and the country's payroll loans' portfolio, which represents 36 percent of the consumer debt portfolio, has increased 10 percent on average per year. In the region, Bayport also operates in Mexico.

CREDIT CARD NEWS

Chile Warns of Increase in Credit Card Cloning

Chilean authorities have warned of an increase in the number of credit card cloning incidents, CNN Chile reported Sept. 22. So far this year, 7,677 cases of credit card duplication have been reported, more than what was registered all of last year. The warning came as Chile celebrated its "fiestas patrias," a days-long commemoration of the anniversary of what marked the beginning of the country's independence process in 1810. "We are going to be in the presence of a considerable increase in payments through [credit cards], therefore it is strictly necessary for people to take this into account," said Cristian Lobos, who works with Chile's economic crimes investigation brigade, in reference to the hike in credit card cloning. "There are more incentives for people to use credit and debit cards rather than cash, and so there is this phenomenon in which criminals opt for these special dates, because there are more transactions per hour," said Pedro Huichalaf, a researcher at Universidad Mayor's cybersecurity center. A bill to regulate banking management is currently under review in the Senate, amid controversy regarding the client's responsibility in instances of credit card cloning, Prensa Libre reported. In 2005, a law came into effect that establishes that the customer must prove innocence to a bank when fraudulent use of a credit card in case of theft or loss is detected.

INSURANCE NEWS

Realphe Tapped as CEO of Zurich's Colombia Operation

Global insurance provider Zurich has named Juan Carlos Realphe as chief executive officer

NEWS BRIEFS

Ripple Forms Partnership With Peru's Interbank

Cryptocurrency platform Ripple has formed a partnership with Peru-based Interbank, Altcoin Buzz reported Sept. 21. The partnership with Interbank, and another with British financial services provider Vitesse, comes as Ripple has been working on promoting its xRapid tool for the transfer of funds internationally. The automated teller machines of Interbank, a 122-year-old Lima-based bank, will facilitate customers' purchase of cryptocurrency, according to Altcoin Buzz.

Sagicor Donates \$300,000 to Bahamas Relief Efforts

Sagicor Financial Corporation has donated \$300,000 to relief efforts in the Bahamas following Hurricane Dorian, which struck the country in early September, the Trinidad & Tobago Guardian reported Sept. 21. Sagicor, which is based in Barbados, is also matching cash contributions that its employees make to relief efforts, the newspaper reported. The company's contributions to the relief efforts will be coordinated through Family Guardian Insurance Company, an associated company of Sagicor's in the Bahamas, said Ravi Rambarran, Sagicor's chief operating officer.

Brazil's XP Investimentos Hires Banks to Handle Initial Public Offering

Brazilian financial services company XP Investimentos has hired investment banking units of JPMorgan Chase, Goldman Sachs and Morgan Stanley to handle an initial public offering in the United States, Reuters reported Sept. 12, citing two unnamed sources. XP had pursued an IPO in 2017 but then reached an agreement with Brazilian lender Itaú Unibanco, which acquired a 49.9 percent stake in the firm. XP, which declined to comment, reportedly plans to list its shares by January.

of its unit in Colombia, Reinsurance News reported Sept. 21. Realphe will assume the role Oct. 15 and succeeds Victoria Bejarano, who is expected to remain in place as chair of the Colombia unit's board of directors. Realphe has more than three decades of experience in



Realphe // File Photo: LinkedIn.

the insurance market and most recently was a general representative and country manager for Lloyd's in Colombia. Prior to that, Realphe was vice president of non-life at the Colombian unit of Mapfre. "Juan Carlos' experience and knowledge will allow us to continue transiting our growth in the Colombian market under our long-term aspiration to become a reference insured and focused on the customer," said Claudia Dill, Zurich's chief executive officer for Latin America and a member of the executive committee of the Zurich Group. Dill also lauded Bejarano, saying she "promoted the construction of our business in Colombia, developing a solid brand positioning in a market that was new to Zurich."

Caixa, France's CNP Reach \$7 Billion Insurance Deal

Brazil's Caixa Econômica Federal and France's CNP Assurances have reached a deal worth 7 billion reais (\$1.7 billion) for CNP to sell insurance in Caixa's more than 3,000 branches, Reuters reported Sept. 19. The companies' partnership will include a joint venture with Caixa's insurance arm, Caixa Seguridade, holding 60 percent of the venture and CNP owning the remainder, the wire service reported. The agreement includes life insurance plans, pensions and consumer credit life insurance,

FEATURED Q&A / Continued from page 1

are useful in everyday life. The reality is that most merchants in Latin America are not currently able to accept digital payments due to barriers such as cost, infrastructure, informality and limited access to business bank accounts. For those of us who are excited about fintech and optimistic about the benefits of digital, it's important to address some of these barriers through efforts that promote financial inclusion and increase merchant adoption of digital payment options."

A Luciana Resende Lotze, senior vice president of marketing for Visa Latin America & the Caribbean: "Latin America is clinging to cash for a few reasons: the high percentage of consumers who are underbanked and unbanked, the low acceptance of electronic payments in many parts of the region and consumers' habitual use of cash. We think the two will co-exist for some time, but we know that increasing access to digital payments changes people's lives, as well as businesses and economies. For instance, a woman who does arts and crafts in the interior of Brazil or Guatemala was confined to sell her pieces to buyers who had physical access to her work, and she had little bargaining power to negotiate the price of her pieces. Now, with access to the Internet and payment technology, she can better price her work and use digital payments to sell it directly to larger stores.

which will be sold through 2046, Caixa said in a filing. Last year, the two companies agreed

The new joint venture between Caixa and CNP will start operations in 2021.

to form a similar joint venture. In it, CNP would have paid 4.65 billion reais in order to

The proliferation of this is transformational. Collaboration among banks, merchants, government, fintech and start-ups is essential to solving these problems. We work

“Increasing access to digital payments changes people's lives, as well as businesses and economies.”

— Luciana Resende Lotze

with several governments in the region to design public policies that move consumers and merchants toward adopting digital payments. The gig economy is also driving change in consumer payment behavior, since it is digital by nature. Digital payments are fast, more secure than cash and give consumers instant buying power. Contactless payments are effective at converting cash to card-based payments, particularly in everyday spending. In Brazil, we launched our first major open-loop transit contactless solution in the region with MetrôRio, and in two months, it has seen more than 50,000 contactless transactions. We are working to expand this to other cities in Latin America as mass transit has become crucial to accelerating the adoption of digital payments and transform the way people pay."

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sell life insurance products at Caixa branches through 2041. The agreement has since been revised with new terms. The new joint venture will start operations in 2021, when a current agreement between the two firms expires. CNP will make its payment for the deal up front, and the agreement is expected to be finalized next year. Morgan Stanley has been advising Caixa to form partnerships in the insurance space, including through this agreement. JP Morgan Chase has been advising CNP Assurances, Reuters reported.

POLITICAL NEWS

Western Hemisphere Nations Invoke Treaty Against Venezuela

Sixteen Western Hemisphere nations voted Sept. 23 to activate a regional defense treaty against Venezuelan President Nicolás Maduro's government, accusing his administration of crimes including money laundering and drug trafficking, The Wall Street Journal reported. The vote, organized by the Organization of American States, happened in New York as world leaders arrived for the United Nations General Assembly meetings. Of the 19 signatories to the Inter-American Treaty of Reciprocal Assistance, also known as the Rio Treaty, only Uruguay opposed the resolution for coordinated action against Venezuela. Trinidad and Tobago abstained, and Cuba was absent from the meeting. The activation of the pact will allow for collaboration on law enforcement and economic sanctions against Maduro and his associates, The Wall Street Journal reported. Colombian Foreign Minister Carlos Holmes Trujillo chaired the session, saying member states approved the resolution by an "immense majority." The treaty's activation will allow member countries to "identify and designate persons and entities" of Maduro's government who are "involved in crime networks," said Holmes Trujillo, Agence France-Presse reported. Additionally, the treaty allows countries to extradite or prosecute individuals who are blacklisted and seize their assets. There was no immediate response from Venezuela's government.

Haitian Senator Shoots Two People Outside Parliament

Haitian Senator Jean Marie Ralph Féthière on Sept. 23 drew a gun and began shooting at bystanders outside the country's parliament in Port-au-Prince, wounding two people, The Guardian reported. Chery Dieu-Nalio, a

photographer with the Associated Press, was shot in the face, and Leon Leblanc, a driver and security guard, was also wounded. The injuries are reportedly not life-threatening. "I was shot in the jaw," Dieu-Nalio told the Voice of America Creole. Before leaving the scene of the shooting, Leblanc told reporters that Féthière drew the weapon as he attempted to leave the parliament through a group of protesters who had gathered outside as the Haitian Senate met for the second time in as many days to confirm the appointment of Fritz-William Mi-

ADVISOR Q&A

Is the Colombia-FARC Peace Deal Doomed to Fail?

Q Former commanders of the Revolutionary Armed Forces of Colombia, or FARC, rebel group on Sept. 4 launched a "clandestine political movement," a week after issuing a call to arms and vowing to return to war with the country's government. How significant are the former commanders' moves, and how would a "clandestine" political movement take shape? How should President Iván Duque's government respond? Is Colombia's peace deal doomed to fail?

A Humberto de la Calle, former Colombian vice president, interior minister and chief negotiator in the peace process with the FARC: "The bulk of the former combatants remain firm in compliance with the peace accord. According to official figures, this group constitutes more than 90 percent of former combatants. Additionally, the leaders of the new FARC party that emerged from the agreement have unanimously rejected Márquez and his companions' actions and have renewed their irrevocable decision for peace. The government, political forces and public opinion have indicated that we are not in the presence of a new guerrilla group,

but rather of deserters who have been left out of the agreement and must be met with all instruments that the rule of law provides. However, it is clear that there are some dangers: The project of unifying forces with the ELN that Márquez described, although it has been historically impossible, cannot be flatly ruled out. The announcement of continuing to collect 'taxes' on illegal activities causes concern, as well as the presence of urban terrorists in the group. The government's initial step is to prevent connections Márquez can establish with these groups and with FARC dissidents who came about earlier. All Colombians support the government. We recognize that while there is a clear commitment from the government to reinstate former combatants, their call to ignore other essential points of the accord may constitute an incentive for future dissidents. The road map is a judicial and military response, but also the integral preservation of the agreement to avoid further defections."

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

chel as prime minister, The Guardian reported. Video of the incident shows Féthière exiting a vehicle, drawing the weapon and shooting into the crowd. Féthière later justified his actions in an interview with Radio Mega. "I was attacked by groups of violent militants. They tried to get me out of my vehicle. And so I defended myself. Self-defense is a sacred right," said Féthière. "Armed individuals threatened me. It was proportional. Equal force, equal response." Michel's nomination has already led to violence in the country's parliament, with lawmakers

NEWS BRIEFS

Ex-Argentine President Fernández to Face Fourth Corruption Trial

Former Argentine President Cristina Fernández, who is running for vice president in the country's upcoming presidential election, is to stand trial for a fourth time on corruption charges, Agence France-Presse reported Sept. 21. Fernández is accused of pocketing \$160 million in bribes in exchange for public works contracts for businessmen close to her and her late husband, former President Néstor Kirchner. She has denied wrongdoing. A date for the trial has not yet been announced.

Peru's Government Deports 150 Venezuelans

Peru has deported 150 Venezuelans in its northern border region with Ecuador for entering the country illegally, Peru's immigration office said Sept. 19, Reuters reported. Peruvian authorities left the migrants in Ecuador and prohibited them from entering Peru for 15 years, the office said in a statement, which followed days of local television coverage of a murder involving Venezuelan gang members.

IMF, Ecuador Agree on Findings of Loan Review Program

A mission of the International Monetary Fund and Ecuadorean officials have agreed on findings related to the second review of a \$4.2 billion loan program, the Associated Press reported Sept. 23. The review will now be up for consideration by the IMF's executive board, and an approval would give Ecuador access to an additional \$250 million. The South American country has already received \$550 million from the lender. Anna Ivanova, the head of the IMF mission, said in a statement that Ecuador has achieved progress "in improving the country's fiscal position and strengthening its international reserves."

hitting each other with chairs and their fists on the floor of the assembly. Haiti has been beset by protests in which demonstrators have blocked roads, using rocks, cars, trucks and burning tires. Demonstrators have been angered by a shortage of fuel, a rising cost of living and inflation that stands at 19 percent.

Ex-FARC Rebels Ask Colombian Tribunal for Forgiveness

Former combatants of the Revolutionary Armed Forces of Colombia, or FARC, rebels on Sept. 23 asked a special tribunal for forgiveness for kidnappings and other crimes committed during the country's more than five-decade armed conflict, the Associated Press reported. "We are reflecting deeply over the acts of war so that we can ask for forgiveness for the errors committed," Rodrigo Londoño, also known as Timochenko, told the Special Peace Jurisdiction, which was set up by Colombia's 2016 peace accord with the FARC. Eleven former rebels gave the tribunal written testimony outlining the FARC's responsibility in abductions of politicians, civilians and soldiers. In August, a small group of former FARC combatants issued a new call to arms, saying the government has failed to live up to its obligations under the accord. [Editor's note: See related [Q&A](#) in the Sept. 16 issue of the Latin America Advisor.]

ECONOMIC NEWS

Brazilian Central Bank Cuts Interest Rate to Record Low

The Brazilian central bank's monetary policy committee, known as COPOM, on Sept. 18 cut its benchmark interest rate by a half percentage point, to 5.5 percent, a record low, state-run Agência Brasil reported. The decision to cut the Selic rate by 50 basis points was in line with analysts' expectations. The rate-setting com-

mittee said the cut was appropriate given the economy's rate of inflation. In the 12 months through August, consumer prices in Brazil rose 3.43 percent, well below the central bank's target of 4.25 percent, Reuters reported. The economy has also experienced weak growth and high unemployment. COPOM indicated that it is likely to cut interest rates again this year, bringing the benchmark rate to 5 percent by year's end. On Sept. 16, the Brazilian central bank's weekly survey of economists showed that the outlook for interest rates and inflation is at all-time lows. On average, economists in the survey said they expected inflation to end the year at 3.43 percent. [Editor's note: See related [Q&A](#) in the July 24 issue of the Latin America Advisor.]

Argentina's Economy Shrinks in Q2 as Compared to Q1

Argentina's economy shrank again in the second quarter as the country continues to struggle amid soaring inflation, government austerity measures and high interest rates, the national statistics agency said Sept. 19, The Wall Street Journal reported. Argentina's GDP contracted 0.3 percent from the first quarter in seasonally adjusted terms, the fourth contraction in five quarters. From the same period last year, the economy grew 0.6 percent. The country's unemployment rate rose to 10.6 percent in the second quarter, up from 10.1 percent in the previous quarter. Demand fell 18 percent year-on-year in the April to June period, while private spending and public spending both fell, 7.7 percent and 1.7 percent, respectively, La Nación reported. Exports declined 0.6 percent from the first quarter but increased 15 percent from a year earlier. "The third quarter will be very bad, especially this month and the next, until the elections," Gabriel Caamaño, an economist at consulting firm Ledesma, told La Nación. "With the jump in devaluation, consumption and investment will significantly drop as compared to the second quarter." [Editor's note: See related [Q&A](#) in the Aug. 14 issue of the Latin America Advisor.]

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Alejandra Ruales, manager for programs at the Financial Health Network: “Cash remains widely used in Latin America for two reasons: the high cost of using financial services and the size of the criminal economy in most countries in the region. The cost of using financial services is prohibitive for the majority of the population. The use of checks, debit transactions, service fees and transfers is expensive, prompting a heavy preference for cash. Additionally, corruption, contraband and a heavily informal economy

“The cost of using financial services is prohibitive for the majority of the population.”

— Alejandra Ruales

are important reasons for the prevalence of cash in the region. The size of informality stimulates a preference for cash because it does not leave a transaction record. Cash allows for anonymity and opportunity to conduct illegal activities, including money laundering, tax evasion and corruption; this disincentivizes people to use financial products that trace their money movements. The reliance on cash has caused severe issues with corruption in both the private and public spheres, which has permeated in the social structure. Mobile banking and fintech adoption by consumers will likely grow in the next few years with a growing tech-savvy population. Wider adoption of financial technology would positively affect consumers by increasing efficiency and effectiveness, saving them money and time. With new players in the market, bank monopolies in the region will be challenged to improve customer service, update technology and, most importantly, reduce costs for the consumer. The introduction of new technology and infrastructure can result in lower transaction costs and reduced usage

of cash and ultimately widen participation and integration of Latin American consumers into the formal economy.”

Andres Fontao, managing partner and co-founder, Finnovista: “Cash is king in Latin America for many reasons: financial inclusion, informal economy, a lack of trust in financial institutions and a low prevalence of bank branches, particularly in rural areas, just to name a few. That being said, we are very bullish on the digitalization of financial services in the region, and that will most certainly lower cash usage across Latin America. We’re already seeing a wide array of tech-based start-ups delivering digital value propositions across the region, from challenger banks such as Nubank, Ualá, Vexi and Flink, to payment start-ups such as Clip, Conekta and Dapp. Fintechs are aggressively pursuing an opportunity to disrupt and reinvent financial services at its core, and this will certainly result in lower cash usage in the region. Also, we can’t overlook the digital transformation of banks and payment companies, which will also reduce the use of cash in Latin America. Lastly, but not less importantly, we have to consider the direction and efforts taken by larger tech players in the region, particularly digital-commerce and sharing-economy players such as MercadoLibre, Rappi, Uber and Amazon. Their quest to become super apps with a multitude of products and services, financial services and, specifically, lending and payments projects will be fundamental to their success. If we consider these three factors, plus regulatory and central bank initiatives such as CoDi in Mexico, there is no doubt that cash will be reduced significantly in the coming years. As a frequent traveler to the region, it’s been years since I’ve needed to exchange currencies and carry cash thanks to Uber, Clip and Rappi, among others.”

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

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