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FEATURED Q&A

Will Responsible Banking Principles Lift Latin America?

Leaders of several of the world's major banks met last month on the sidelines of the U.N. General Assembly meeting to sign the United Nations Principles for Responsible Banking. // Photo: United Nations.

Q **Banks with collectively more than $47 trillion in assets in September signed on to the U.N. Principles for Responsible Banking, committing to align their businesses with the goals of the Paris Agreement on Climate Change and the U.N. Sustainable Development Goals. The responsible banking principles "are a guide for the global banking industry to respond to, drive and benefit from a sustainable development economy," said U.N. Secretary General António Guterres. Which banks in Latin America and the Caribbean signed on, and what will their decision to adopt the principles mean for their lending activities and other parts of their businesses? How much of an impact will banks have on accomplishing the goals of the Paris Agreement and the United Nations' objectives for sustainable development? Which countries in Latin America and the Caribbean could see the biggest changes as a result of the banks' adherence to the U.N. goals?**

A **Candido Botelho Bracher, president and chief executive officer of Itaú Unibanco Holding:** "I was personally at the global meeting in New York on Sept. 22 to sign the Principles for Responsible Banking. Of the 131 institutions that are signatories to the principles, 22 are from Latin America and the Caribbean, with Itaú and Bradesco being the only two from Brazil. We understand that this document will act as a guide to direct banks' actions to generate a positive impact through criteria for capital circulation in order to enable and accelerate a transition from an economy with high waste and pollution and low regard for social issues to an economy that is greener and socially inclusive. However, we believe it is too early to

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BANKING

Santander-Backed Fund Eyes Latin America Ventures

Santander InnoVentures wants to increase its level of investments in countries where the bank already has a presence, in particular focusing on Brazil and Mexico, according to a partner at the venture.

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INSURANCE

Generali No Longer Competing for BBVA Unit

The Italian insurer had considered buying BBVA's bancassurance unit through a joint venture with insurers based in Spain and Latin America.

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BANKING

Guyana Rejects Scotiabank's Buy of Republic Unit

Guyana's central bank has blocked Scotiabank's sale of its local unit to Trinidad-based Republic Financial Holding. Officials raised concerns about concentration in the country's banking sector, said Finance Minister Winston Jordan.

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Jordan // File Photo: Guyanese Government.

BANKING NEWS

Santander-Backed Fund Eyes New Latin America Ventures

Santander InnoVentures, a venture capital fund backed by Spanish bank Santander, is looking to Latin America for new opportunities, an executive said Sept. 27, just days after the fund completed an investment in Mexican financial technology start-up Klar, Reuters reported. Manuel Silva, a partner at Santander InnoVentures, said in an interview that the fund was seeking to boost investment in countries where Santander already has a presence, with a special focus on Brazil and Mexico. The two countries are Latin America's largest economies, and they have the most active and fast-growing markets for so-called fintechs in the region, including start-ups that have been developing technologies ranging from electronic payments to savings and loans, according to the report. "We continue to seek out companies," Silva told Reuters. "We invest mostly in markets where the bank is present because those are the markets where we can add most value for the bank, as well as for our investors." Other markets of interest include Argentina, Chile, Colombia and Peru, Silva added. Santander InnoVentures participated in Klar's $57.5 million seed round in a combination of $7.5 million in equity and $50 million in debt last week, Santander said in a statement. It was the largest fintech seed round in Mexico's history, the bank added. [Editor's note: See related **Q&A** in the Aug. 14 issue of the Financial Services Advisor.]

Judge Dismisses Potential Class Action in Mexico Bond Case

A U.S. District judge on Sept. 30 dismissed a proposed class-action lawsuit against several banks that had been accused of manipulating the market for Mexican government bonds, Reuters reported. Ten companies, including JPMorgan Chase, HSBC, Citigroup and Bank of America, had been accused of benefiting from the alleged manipulation. However, District Judge Paul Oetken in Manhattan said he was dismissing the suit because the eight pension funds that had brought the action did not allege that each defendant had committed a conspiracy. Oetken said the plaintiffs could attempt to amend the complaint, adding that he did not determine whether an antitrust conspiracy plausibly existed. A lawyer for the pension funds, Todd Seaver, said he and his colleagues were examining the ruling and did not comment further to Reuters. In April 2017, Mexico's Federal Commission for Economic Competition, known as Cofece, announced that it was investigating a case of potentially illegal competition breaches in the market for public debt.

Guyana Rejects Republic's Buy of Scotiabank Unit

Guyana's central bank has rejected the sale of Scotiabank's local unit to Trinidad-based Republic Financial Holding, the Trinidad and Tobago Guardian reported Sept. 25. In an interview, Guyanese Finance Minister Winston Jordan said the country's government was apprised of the central bank's rejection of the acquisition, adding that the central bank "having done their examination and taking all the circumstances into consideration ... could not approve the application." Jordan added that the president's cabinet agreed with the central bank's decision amid concerns with concentration in the country's banking sector, issues related to anti-money laundering and combating the financing of terrorism and a lack of supervisory capacity. "So when you take all of that into consideration, we did not feel that this application would be in Guyana's best interest," said Jordan. Central bank chief Gobin Ganga said the central bank had thoroughly reviewed the takeover plan and rejected it due to several concerns, including ones related to concentration in the market and competition. Last November, Republic announced that it was

NEWS BRIEFS

Mexico Banking Start-up Klar Raises $57.5 Million in Debt, Equity Seed Funding

Mexico City-based digital banking start-up Klar announced Sept. 25 that it has raised $50 million in debt financing and $7.5 million in equity financing. Klar announced in a statement that Washington-based fintech venture firm Quona Capital led the financing round. The new funding will help Klar to launch its product in Mexico, where it aims to reach 100,000 new users next year. The start-up, led by co-founders Stefan Moller, Daniel Autrique and Gianluigi Davassi, has offices in Mexico City and Berlin.

Authorities Raid Homes of Banco do Brasil Managers in Laundering Probe

Brazilian authorities on Sept 27 searched the homes of Banco do Brasil managers who are suspected of taking part in a money laundering scheme, police said, Reuters reported. Police are investigating allegations that directors at the state-controlled bank laundered more than 200 million reais ($48 million) between 2011 and 2014. When it was informed of the allegations, the bank carried out internal investigations that resulted in additional evidence being sent to authorities, prosecutors said.

Carrefour Acquires 49% Stake in Brazilian Fintech Ewally

French multinational corporation Carrefour Group announced Oct. 2 that it has acquired a 49 percent stake in Brazilian fintech start-up Ewally. The acquisition will allow Ewally "to expand its payment and digital product and service distribution ecosystem in Brazil, in line with its digital transformation strategy," Carrefour said. Under the deal, Carrefour would acquire a controlling stake in the start-up after three years. Ewally focuses on customers who lack formal financial accounts.

seeking to acquire Toronto-based Scotiabank's operations in Guyana, St. Maarten, Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. In September, the Eastern Caribbean Central Bank, which is based in St. Kitts, announced that it had approved an application for a transfer of assets and liabilities from Scotiabank to Republic. However, the bank added that discussions were still going on with regard to the future of Scotiabank's operations in Antigua and Barbuda, the newspaper reported.

Banco Bradesco Eyes Extraordinary Dividend Payment

Brazil's Banco Bradesco is proposing an extraordinary dividend payment of 8 billion reais ($1.95 billion), the bank said in a securities filing Oct. 7, Reuters reported. Pending approval by the private lender's board of directors on Oct. 17, the dividend would be paid on Oct. 23. The proposal comes as Brazil's second-largest private bank registered a tier 1 capital ratio of 15 percent in June, according to the report.

INSURANCE NEWS

Generali No Longer Competing for BBVA Bancassurance Unit

Italian insurer Generali is no longer competing for BBVA's bancassurance business, Insurance Business America reported Oct. 1, citing Italian daily newspaper Il Sole 24 Ore and Reuters. Generali's board reportedly had doubts about the potential investment's profitability. Generali had been seeking to invest in the bancassurance unit through a joint venture that also included insurance companies based in Spain, Mexico and elsewhere in Latin America with a value of approximately 1.5 billion euros ($1.6 billion). Allianz and Liberty Mutual were also in the running for the BBVA unit, according to the report. Generali had allocated as much as 4 billion euros for growth and acquisitions in its three-year plan, which the insurer announced last November. The company, which is headquartered in Trieste, is closely watching asset management businesses as well as high-margin operations in Latin America and Asia, Reuters reported. Last year, BBVA's home insurance market in Spain announced that its profits had risen 4.8 percent as compared to 2017, to 311 million euros, according to Insurance Business America.

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assess which countries will feel the greatest impact of these changes. In the case of Itaú, we will internalize these globally agreed principles through the execution of the eight commitments to positive impact that were announced at an investor event in early September and which are publicly available on our website. Our commitments are based on the U.N. Sustainable Development Goals and involve various areas and businesses of the bank. For us, these commitments are not just a manifesto, rather they comprise a strategy of action unfolded in 40 goals with quantitative and qualitative indicators that affect the daily lives of our teams and executives. Our idea is to incorporate the best practices for sustainability across our organization."

A **Mario Sérgio Vasconcelos, marketing and sustainability director at Febraban:** "So far, 22 financial institutions from Latin America and the Caribbean have signed the Principles for Responsible Banking. Febraban, the Brazilian Federation of Banks, has also demonstrated its commitment to a sustainable banking sector by becoming an endorser of the initiative under the non-bank stakeholders' category. By adhering to the principles, signatories commit to a series of actions, including publishing targets to increase positive effects while reducing the negative impacts where they can have the most significant influence. To do so, banks are expected to better understand the social and environmental risks and opportunities associated with their lending activities and redefine their policies for capital allocation. At Febraban, we are working to improve our methodology to measure capital flows to different categories of economic activities, including those that contribute to the transition to a green and more inclusive economy and the ones that are more exposed to climate-related risks. Banks are then encouraged to define strategies to increase the share of investments in sustainable projects and assets. In 2018, around 20 percent of corporate lending activities by the Brazilian banking industry were to green economy sectors. Substantial investments are needed to achieve the Paris Agreement and the Sustainable Development Goals. Commercial opportunities are estimated at more than $10 trillion and require the development of new business models and financial instruments. Banks, as financial intermediaries, have a key role in supporting corporations in this transition to a more sustainable economy."

"Commercial opportunities are estimated at more than $10 trillion and require the development of new business models and financial instruments."
— Mario Sérgio Vasconcelos

A **Mary Rose Brusewitz, member at Clark Hill Strasburger:** "It was exciting that so many financial institutions signed on to the U.N. Principles for Responsible Banking. We have recently seen CEOs of major corporations and others appear to recognize the need for practices that support sustainability and consideration to be taken for stakeholders other than simply equity holders. This does

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POLITICAL NEWS

Ecuador's President Moves Gov't From Quito Amid Riots

Ecuadorean President Lenín Moreno announced Oct. 7 that he was temporarily moving his government's administrative operations out of the nation's capital and to the port city of Guayaquil as riots and protests continued against his move to end a fuel subsidy, The Wall Street Journal reported. In a brief televised address, Moreno said he would not change his mind about scrapping the fuel subsidy, which has been in place for four decades and costs the government approximately $1.4 billion annually. "I'm not going to take any step back," said Moreno, alongside the country's top

Moreno // File Photo: Ecuadorean Government.

military leaders. He added that the "looting and vandalism" of the protests show that it is not one of "social dissatisfaction," but rather one with "an organized political motive to destabilize the government," The Guardian reported. Moreno accused his political opponents of attempting to orchestrate a coup and also accused, without presenting evidence, associates of his predecessor, Rafael Correa, of infiltrating the protests in an effort to topple his government. In a tweet, Correa called for elections, saying Moreno was "finished." Indigenous groups and others took to the streets for a fifth consecutive day on Oct. 7, blocking main roads and highways with burning tires and other debris. Rioters pushed their way into the comptroller general's office in Quito and also vandalized the National Congress building. Ecuador's Congress said later that the vandalism was an "attempt to take over the seat of parliament," The Guardian reported. Demonstrators also attacked an oil production facility, a large dairy and dozens of rose plantations, Bloomberg News reported. Security forces were outnumbered and unable to prevent much of the damage. Rioters also burned military and police vehicles. Moreno's government eliminated the fuel subsidies as part of its loan agreement with the International Monetary Fund. Fuel prices rose overnight by about 25 percent for gasoline, and diesel prices doubled, The Guardian reported. The government is also reducing the size of the state work force and plans some privatizations. Moreno imposed a state of emergency Oct. 3 after the protests

ADVISOR Q&A

Who Has the Edge Ahead of Uruguay's Presidential Vote?

Q Former Montevideo Mayor Daniel Martínez of the ruling Frente Amplio coalition appears to be the front-runner ahead of Uruguay's Oct. 27 election, with 40 percent of support in the latest Radar survey. Earlier this year, however, Frente Amplio received 23.6 percent of the overall vote in the country's primaries, trailing the opposition Partido Nacional, with 41.6 percent. Uruguay's primaries allow voters to select both a preferred presidential candidate for each party and a preferred party. With nearly a month to go until election day, how likely is Martínez's victory? Is a second round of voting expected, and how might that change the race's dynamics? What are the most important factors driving voter preferences this election cycle?

A David D. Nelson, former U.S. ambassador to Uruguay: "This is an interesting election in Uruguay, not only at the presidential level but also as the General Assembly is likely to be more fractured than ever before, with no party capturing a majority and several new ones entering. At the presidential level, Martínez's recent ascent in the polls is probably attributable in part to the incumbent party's power to sway votes. But, most significantly, his support in the polls appears to have increased mainly at the cost of Colorado candidate Ernesto Talvi. He represents more of a policy break with the current and recent governments than any other major candidate, as he advocates reforming the welfare state in a more free-market direction. While Uruguayan voters are concerned about the increasing crime rates and a somewhat stagnant economy, the majority of voters are quite conservative in the sense of fearing change. So, they may be focusing more on the risks that reforms could create, rather than the opportunities, and thus essentially declaring 'I will stick with what I have.' That benefits the Frente Amplio candidate but does not necessarily disqualify National Party candidate Luis Lacalle Pou, who reassuringly is the son of a former president and is not advocating such a 'radical' reform agenda. Therefore, I predict that Martínez will lead in the October election but fail to secure a majority, so it will go to a second round, most likely with Lacalle Pou as the other candidate. The runoff will be very close, as several other parties will win representation in the General Assembly, and their voters will prefer not to see continued Frente Amplio domination of the political scene."

EDITOR'S NOTE: More commentary on this topic appears in the Oct. 7 issue of the Latin America Advisor.

NEWS BRIEFS

Dominican Republic's Fernández Contests Apparent Primary Loss

Former Dominican President Leonel Fernández on Oct. 7 contested his apparent loss in a primary vote by the country's ruling party to pick its candidate for February's presidential election, the Associated Press reported. Fernández, who was the Dominican Republic's president from 1996 to 2000 and from 2004 to 2012, received 47.3 percent of the vote in the Oct. 6 primary, coming in second to businessman Gonzalo Castillo Terrero, with 48.7 percent, according to the Dominican Liberation Party.

Nicaragua Won't Return Private TV Station to Owners: Gov't

Nicaraguan President Daniel Ortega's government has said that 100% Noticias, a private television station that police seized in December, will not be returned to its owners, accusing it of inciting anti-government violence, according to a statement submitted to the Inter-American Human Rights Commission, the Associated Press reported Oct. 5. In the statement, the government alleges the occupation of the TV station is necessary while it probes the station's director, Miguel Mora, and head of news Lucía Pineda for alleged involvement in a "failed coup attempt." Mora and Pineda were both imprisoned for six months.

Argentina Sees 6.4% Slide in Industrial Output

Argentina's industrial output declined 6.4 percent in August, as compared to the same month a year earlier, according to data from the national statistics agency, Reuters reported Oct. 3. It was the 16th straight month of falling industrial output in Argentina, as the country continues to struggle to spur growth amid currency and debt crises.

erupted. As of Oct. 7, authorities had made 477 arrests. [Editor's note: See related Q&A in the Oct. 4 issue of the Dialogue's daily Advisor.]

Guatemalan High Court Suspends Panel Probing CICIG

Guatemala's highest court on Oct. 7 ordered the suspension of a recently created commission to investigate a U.N.-backed anti-graft agency, the International Commission Against Impunity in Guatemala, or CICIG, El Periódico reported. In late September, Guatemala's Congress voted to approve a commission of five lawmakers to look into the now-defunct CICIG's work over the past 12 years in the Central American country, which included working with prosecutors to bring high-level politicians and businessmen to trial and ultimately jailing then-President Otto Pérez Molina. Two of the five commissioners had faced formal efforts to strip their immunity from prosecution for alleged graft and other crimes, Al Jazeera reported. The Constitutional Court struck it down, after the country's attorney general, a private lawyer and a civil society group had filed injunctions against the commission. The court ruled the panel unconstitutional, saying it violated the Public Ministry's autonomy, Deutsche Welle reported. CICIG left Guatemala in September after President Jimmy Morales declined to renew its mandate a year earlier.

ECONOMIC NEWS

Mexico's Gross Fixed Investment Drops Sharply in July

Mexico's gross fixed investment registered its sharpest decline in nearly a decade in July, official data from national statistics agency Inegi showed Oct. 7, Reuters reported. When adjusted for seasonal swings, spending on machinery, equipment and new construction in Mexico dropped 9.1 percent in July, as compared to the same month a year earlier. The annual fall was the biggest since November 2009. Gross fixed investment has declined in seven out of the eight months since President Andrés Manuel López Obrador took office last December, according to the report. Gross fixed investment also fell 0.7 percent from the previous month, its third consecutive monthly decline, Excélsior reported, citing Inegi data. Some of the current government's decisions have hit investor confidence, most notably the cancellation of a $13 billion airport in Mexico City that was already under construction, a project López Obrador has said was rife with corruption and geologically unsound, Reuters reported. When taking office, López Obrador vowed to spur economic growth to an annual average of 4 percent during his six-year term. However, Mexico's GDP dropped 0.2 percent in the first three months of the year, as compared to the previous quarter.

Russia to Help Cuba Secure Fuel Supplies: Medvedev

Russia will work to help Cuba secure supplies of oil and petroleum products, Russian Prime Minister Dmitry Medvedev said in an interview broadcast on Oct. 5, Reuters reported. Medvedev vowed to help boost Cuba's energy sector during a visit to the Caribbean nation, though he did not announce any short-term measures to alleviate Cuba's crippling fuel shortages following tougher U.S. sanctions. However, support from both Venezuela and Russia, some of Cuba's closest allies, is unlikely to resolve the fuel shortages, which have prompted the Cuban government to implement energy-saving policies. Among the measures are cutting public transportation, reducing production at some factories and encouraging the use of more animal-powered vehicles and wood-fired ovens, Reuters reported. "I think we will find other ways to help Cuba get oil and petroleum products," Medvedev told Rossiya 1 TV when asked if Russian ships could escort oil tankers to Cuba.

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not mean abandoning profit motives nor financial responsibility and accountability. Many financial institutions had already adhered voluntarily to the Equator Principles. Some financial regulators in the region had incorporated sustainability factors into regulations. Some private equity firms have launched 'impact' funds, and the world of funds and groups dedicated to impact investing has multiplied. Development finance institutions have long required projects they finance to adhere to ESG policies. Firms in Argentina, Brazil, Costa Rica, Ecuador, El Salvador, Mexico, Nicaragua, Panama and Paraguay signed on already. To be true to the letter and spirit of the principles, all aspects of institutions must be reviewed and policies and practices modified. Will the firms that signed on actually make changes to practices involving funding, hiring, procurement and their whole value chains? The website of the UNEP Finance Initiative has a reporting and self-assessment template. If we see firms actually going through the process and thinking through what this all means for all aspects of their business—and embracing broader transparency—this will be a sign that they are serious. Will their regulators and shareholders support the transformation that will be needed to fully comply?"

A **Carlos M. Parra, clinical professor in the Department of Information Systems and Business Analytics at Florida International University:** "The participation of Latin American banks, in asset terms, include big players from Brazil (Itaú Unibanco, Bradesco and Santander), amounting to approximately $1 trillion, and Mexico (BBVA, Banorte, Santander and Citibanamex), adding an additional $330 billion. Add to these Bancolombia with $68 billion and Santander Chile with $60 billion. All other signatories appear to have less than $20 billion in assets. This means that signatories in Latin America and the Caribbean would contribute at the most $1.6 trillion to $1.8 trillion of the $47 trillion (or only about 3.5-4 percent of the total). Even so, this is a welcome development in light of significant environmental, social and governance (ESG) challenges that the region faces. In particular, these banks could play a critical role in financing sustainable development projects as well as the infrastructure needed to facilitate Latin America's transition to a service and knowledge-based export-oriented region. Arguably, this would do more to mitigate ESG risks than most other initiatives. This is especially true in light of the fact that Latin America remains a primary product export-oriented region (focused on oil, gas, minerals, metals and agricultural exports). Also, financing the exploitation of these natural resources ought to involve strict project finance environmental and social risk management (ESRM) practices. These can be enforced, for example, through adherence to the principles in question. However, since 2006, China—through its China Development Bank and China Import Export Bank—has loaned about $140 billion (or 8-9 percent of the Latin American bank assets mentioned above) to the region for this purpose (for example, in energy, mining and infrastructure project finance). Unfortunately, these Chinese financial institutions are not signatories of the Principles for Responsible Banking."

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>
> **— Carlos M. Parra**

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

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