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FEATURED Q&A

What Factors Are Driving Remittance Flows to Mexico?



Transfers of money to Mexico have broken multiple monthly records this year. // File Photo: Mexican Government.

Q Remittance flows to Mexico have broken several monthly records between January and August, a period in which Mexicans working abroad sent home nearly \$24 billion, an increase of 8.7 percent compared to 2018. They have also sent more money per transfer on average than last year, reaching \$326. What is driving the increased flow of remittances to Mexico this year, and will the upward trend continue? Which sectors in Mexico are benefiting the most from the money transfers? To what extent are advances in technology, such as blockchain, digital assets and apps, affecting remittance flows and the way recipients use them?

A Manuel Orozco, member of the Financial Services Advisor board and director of the Migration, Remittances and Development Program at the Inter-American Dialogue: "The growth in remittances to Mexico is associated with four interconnected factors. First, the length of time in the United States among Mexicans has increased, as many are not returning to their homeland. In turn, the number of remittance senders increases, thus increasing the volume. We have found that more migrants are sending remittances in states that represent an important source of remittances growth. An Inter-American Dialogue study found that while less than 2 percent of remittance senders arrived in 2016 and 2017, the percentage of all Mexican migrants sending money increased from 50 percent in 2006 to 65 percent in 2017. Second, the frequency and principal remitted has been increasing over the past three years and is largely due to increasing family obligations back home (as they stay longer in the United States, their obligations to

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TOP NEWS

BANKING

Santander's Latin America Units Offset Europe Weakness

The Spanish bank said strength in the performance of its units in Latin America offset weakness in Britain and the rest of Europe during the third quarter.

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REMITTANCES

Argentine Peso Weakness Dents Western Union's Q3 Earnings

Western Union said the strengthening of the U.S. dollar against the Argentine peso reduced revenue by 2 percent in the third quarter.

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BANKING

BTG Pactual to Start Consumer Platform Testing

Brazilian investment bank BTG Pactual will begin testing a new consumer platform by the end of the year, CEO Roberto Sallouti told analysts in a conference call.

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Sallouti // File Photo: LinkedIn.

BANKING NEWS

Santander's Latin America Units Offset Europe Weakness

Banco Santander's Latin America earnings offset underperformance in the United Kingdom and the rest of Europe in the third quarter, according to the Spanish bank's published results, Bloomberg News reported Oct. 30. Underlying earnings in South America rose 36 percent in the third quarter, led by Brazil, pushing Santander's profit up by 7 percent even



Botín // File Photo: Banco Santander.

as earnings in Europe contracted. The lender's net income fell by 75 percent to 501 million euros (\$557 million) after booking charges in the United Kingdom. The figure beat analysts' estimates. Brazil's profits increased 19 percent in the three-month period, and Mexico has also seen a steady growth that contributed to group earnings, according to the report. Net income in Brazil grew 25 percent from a year earlier, and Mexico's net income was up 21 percent. Santander Brasil aims to keep growing its customer by at least 7 percent annually through 2022, Reuters reported. By the end of September, the bank had 25.9 million clients, adding 400,000 new clients in the July-to-September period. "Our diversification across Europe and the Americas is one of the defining characteristics that stands Santander apart from our peers," Ana Botín, executive chairwoman of Santander, said in the statement. "We have achieved the strongest underlying performance in almost a decade this quarter," she added. Santander officials said Nov. 4 that the bank has agreed to acquire a stake in Brit-

ain-based payments platform Ebury, The Wall Street Journal reported. Santander is buying just over 50 percent of the company for 350 million pounds (\$453 million). The acquisition is part of an effort by Santander to strengthen its global payments business and help it to be more competitive in trade finance, Botín told the newspaper in an interview.

BTG Pactual to Begin Testing Consumer Banking Platform

Brazil's Banco BTG Pactual will begin testing a new consumer banking platform by the end of the year, the investment bank's chief executive officer, Roberto Sallouti, told analysts Nov. 5 in a conference call, Reuters reported. BTG Pactual's retail unit plans to focus on its digital platform and aims to become the sixth-largest bank in Brazil by total number of clients. At the same time, BTG Pactual reported a rise in third-quarter net income of 56.6 percent amid higher fees for investment banking and trading gains, Reuters reported. BTG Pactual's recurring net income, excluding one-off items, amounted to 1.073 billion reais (\$267.43 million) in the third quarter, as compared to 685 million reais in the same period a year earlier. Total revenue for the quarter rose 74 percent year-on-year to 2.184 billion reais, fueled by trading gains, as well as the performance of its investment banking unit and its proprietary investments. BTG Pactual said that this year has been its investment banking unit's best one since its initial public offering in 2012.

REMITTANCES NEWS

Western Union Sees Turmoil in Argentina Affect Q3 Earnings

Denver-based money transfer company Western Union said Oct. 31 it generated revenue of \$1.3 billion in the third quarter. The figure is a

NEWS BRIEFS

Remittances to Mexico Continue Strong Run

Mexican workers living abroad sent home \$3.08 billion during the month of September, the Bank of Mexico said Nov. 1. The amount is less than the record \$3.37 billion sent home in August, but it still represents a double-digit percentage increase over the amount sent in September last year, growing 13.3 percent year-over-year. Given the nearly 3 percent depreciation of the Mexican peso against the U.S. dollar over that period, remittances grew 16.7 percent in local currency terms, according to Goldman Sachs.

BBVA Sees 31% Slide in Profit Despite Solid Earnings in Latin America

Spanish lender BBVA's profit dropped 31 percent in the third quarter, despite solid earnings growth in the bank's Latin American businesses, Reuters reported Oct. 31. Underperformance in Spain and a decline in profit offset gains in Latin America, particularly in Mexico, where earnings rose 6 percent in the third quarter and where BBVA makes more than 40 percent of its net profit. In South America, net profit rose 32 percent, according to the report.

Swiss Re Taps Mueller to Head Reinsurance in Latin America

Global reinsurer Swiss Re has appointed Kaspar Mueller as president of reinsurance in Latin America, effective Nov. 1, Reinsurance News reported Oct 21. Mueller previously served as chief operating officer of reinsurance at Swiss Re. He started working with the company 13 years ago. He will replace Urs Baertschi, who was recently named chief executive officer of reinsurance for Europe, the Middle East and Africa. Mueller spent three years as regional head of strategy and operations for the United States, Canada and Latin America at Swiss Re.

decline of 6 percent on a reported basis, or an increase of 4 percent in adjusted constant currency terms, compared to same period a year earlier. The strengthening of the dollar against the Argentine peso set back reported revenue by 2 percent in the quarter, while the effects of inflation on the company's Argentina-based businesses are estimated to have boosted revenue there by approximately 2 percent, the company said. Geographically, growth was driven by cross-border sends that originated in the United States and Latin America, as well as improvement in the Middle East, which were partially offset by declines in Asia-Pacific and U.S. domestic money transfers.

FINANCIAL TECHNOLOGY NEWS

Mexico Fintech Investments May Delay IPOs: Report

Investments by firms including SoftBank and General Atlantic in Mexican financial technology firms may mean a delay in the sector's first initial public offering, Mergermarket reported Nov. 4, citing two industry executives and an attorney in the sector. Fintechs in Mexico will need to invest capital raised in funding rounds before turning their attentions to a possible IPO, María Ariza, the CEO of Bolsa Institucional de Valores, told the media company. In March, Japan-based SoftBank launched a \$5 billion fund in order to invest in Latin American technology start-ups. That was followed by a \$1 billion investment in Colombian delivery start-up Rappi in April and a \$20 million investment into Mexico-based online payment processor PayClip. The SoftBank investment came as part of PayClip's \$100 million funding round. PayClip had been eyed as Mexico's first potential fintech to hold an initial public offering, Mergermarket reported. Greenwich, Conn.-based General Atlantic is also an investor in PayClip. SoftBank is also in talks to invest in Mexican lender Konfío, which lends money to small- and medium-sized enterprises, Reuters reported. In October, Konfío received a \$100-million

FEATURED Q&A / Continued from page 1

relatives in Mexico increase). They are also sending more out of fear of being deported, and thus tend to send at least 20 percent more than what they used to. Third, there has been an important increase in earnings among Mexican migrants since the post-recession period, helping to also increase the amounts remitted over time. Finally, and reinforcing the frequency remitted, we find that the percent of migrants using digital transfers has increased. These migrants tend to send a higher principal amount than those using cash-to-cash. In turn, the volume and principal remitted increase, too. In the case of transfers to Mexico, we estimate that at least two million out of seven million monthly transactions are performed digitally via mobile applications or online web portals."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Remittances to Mexico depend on two structural factors: employment and the performance of the U.S. economy. The recent increase in remittances also depends on technological progress in money transfers. An additional factor is the flow of migrants into the United States, but this factor has not played an important role in the past few years since the flow of Mexican migrants has not increased. Remittances in 2019 can be explained by, first, the prolonged expansion of the U.S. economy, which implies more employment and better wages. Second, the propensity to save has increased, given the risk of deportation for illegal immigrants. Third, improvement in the process of money transfers has

credit facility from Goldman Sachs. In March, Mexico enacted a new law that requires the operators of cryptocurrency-based payments systems, online wallets and crowdfunding platforms to secure operating licenses from Mexico's banking regulator, the CNVB. Some of the requirements may present a struggle to meet the regulator's requirements, which include necessary liquidity and capital levels.

allowed authorities to have better tracking/recording of transactions and has made transfers easier for workers. Better employment and wages, the need to save more in case of deportation and an easier way to

“Remittances to Mexico depend on two structural factors: employment and the performance of the U.S. economy.”

— Alfredo Coutiño

send money have resulted in the increase of money transfers to Mexican families in Mexico. The exchange rate has little or nothing to do with it because what is important for the sender is his income constraint. If the immigrant has a job and income, then he has the possibility of sending money to Mexico, regardless what the exchange rate is. In fact, the immigrant does not check how the peso is doing at the moment to send money; it is more that his income availability and the financial needs of his family in Mexico are the factors taken into account. Remittances will continue to flow to Mexico, to some extent and mainly depending on how the U.S. economy performs and provides employment for immigrants. Since remittances are mostly received by low-income families, with a high propensity to consume, the activities that benefit the most are those related to consumption of durable and nondurable goods."

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"It's better to work through that struggle as a private company rather than a public company," a sector lawyer told Mergermarket. Mexico has more than 515 fintech companies in operation, 200 of which require an operating license, according to the CNVB. Just 85 companies have applied for such a license as of Sept. 26. Mexico has had no initial public offerings since September 2017.

POLITICAL NEWS

Guatemala's Next President to Break Ties With Maduro

Guatemalan President-elect Alejandro Giammattei said Nov. 4 that his government will break off all diplomatic relations with Venezuelan President Nicolás Maduro, Reuters reported. Center-right Giammattei, who won the country's runoff election in August, is set to take office on Jan. 14. He told reporters his administration would recognize opposition leader Juan Guaidó as Venezuela's leader. "I think it's the right thing to do," Giammattei said, Reuters reported. "There are other South American [governments] that will do the same," he added, without providing further detail. On Nov. 2, new Salvadoran President Nayib Bukele expelled Maduro's diplomatic corps from the country, saying that he would instead bring in a new diplomatic team representing Guaidó. In response, Maduro kicked out El Salvador's diplomats from Venezuela, as well. However, Bukele said on Twitter that his government had not assigned any envoys to the South American country, so all diplomats expelled had been named by his predecessor, Salvador Sánchez Cerén, whom he said Maduro called a friend. On Nov. 4, Mexican President Andrés Manuel López Obrador said he would not take sides in the dispute between El Salvador and Venezuela. "We're not going to make a statement in favor of either one because they are both sister nations and governments that we respect," he told reporters, Reuters reported.

Conflict Continues in Bolivia, Morales Decries 'Coup'

Bolivian President Evo Morales claimed Nov. 3 there was a "coup" underway against him and called for an emergency meeting of groups supporting him to reject an opposition bid to force him to resign, La Razón reported. In a

Save the Date

Nov. 14

5G and the Evolution of Smart Cities in Latin America and the Caribbean

FEATURED SPEAKER

The Hon. Ernesto Muyschondt
Mayor of San Salvador,
El Salvador

PANEL DISCUSSION

Eric Crabtree
Chief Investment Officer,
International Finance Corp.

Luis Fiallo
Vice President,
China Telecom Americas

Antonio García Zaballos
Lead Specialist in
Telecommunications,
Inter-American Development
Bank

Margaret Myers
Director, Asia and Latin
America Program,
Inter-American Dialogue

Ed Roach
Vice President of Regulatory
Compliance and Associate
General Counsel,
SBA Communications

Rachel Samrán
EVP and Chief External
Affairs Officer, Millicom

November 14, 2019

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Washington, DC

To register, click [here](#).

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NEWS BRIEFS

Peruvian Judge Orders 14 Lawyers Jailed in Odebrecht Probe

A Peruvian judge on Nov. 4 ordered 14 lawyers be jailed amid a probe into whether they allegedly favored Brazilian construction giant Odebrecht in public works contracts, Al Jazeera reported. Each lawyer was ordered to spend 18 months in preventive detention for allegedly participating in 42 arbitration processes that in total provided Odebrecht nearly \$250 million. The lawyers denied the accusations and have appealed the ruling. [Editor's note: See related [Q&A](#) in the May 14 issue of the daily Latin America Advisor.]

Brazil: Indigenous Activist Killed by Illegal Loggers

A young indigenous activist and land defender was shot dead Nov. 1 in Brazil's Amazon region, BBC News reported. Paulo Paulino Guajajara was reportedly attacked and shot in the head while hunting inside the Araribóia reservation in Maranhão State. He was a member of Guardians of the Forest, a group formed to combat logging gangs in the area. Media reports indicated illegal loggers carried out the attack, which left another man wounded. Brazilian far-right President Jair Bolsonaro has drawn criticism for his plans to develop the Amazon.

Spain Offers Madrid as Venue for Climate Event

Chilean President Sebastián Piñera said Oct. 31 that Spain's caretaker Socialist Party government had offered to host COP25, the United Nations' climate change conference, after Piñera pulled out of hosting the event amid deadly street protests and violence, daily newspaper El País reported. The conference is set to take place between Dec. 2 and 13. Chile will still chair the summit, but the event will convene in Madrid.

speech in Santa Cruz, Morales accused rivals of plotting violence against him after local opposition leaders set a 48-hour deadline for the long-time socialist president to resign, Agence France-Press reported. Deadly violence and unrest has paralyzed the Andean nation since Morales was named winner of the Oct. 20 election, giving him a fourth term. His closest opponent in the race, Carlos Mesa, disputes the result and has called for a new election to be held, saying "the best solution to this crisis in the current circumstances is a new election, administered by an impartial new [electoral body] and with rigorous observation of the international community," Reuters reported. A team from the Organization of American States is conducting an audit of the vote, but both Mesa and Morales have said they will not necessarily abide by its findings.

ECONOMIC NEWS

Argentine President-Elect Meets With AMLO in Mexico City

In his first foreign trip since winning last month's election, Argentine President-elect Alberto Fernández met with Mexican President Andrés Manuel López Obrador in Mexico City on Nov. 4, the Associated Press reported. With the aim of strengthening bilateral and regional cooperation, Fernández said the two discussed improving what he called a deteriorated commercial relationship and mutual concerns over political upheaval in countries such as Chile and Ecuador. Venezuela was barely mentioned, as both presidents' viewpoints are well-known, he said. Fernández added that he and López Obrador, both considered leftists, share a similar vision of the Americas and the world, one he said prioritizes equality and lifting marginalized people. "They are alternatives to what has ruled in recent years, for example in Argentina, and it is a return to finding a political system that returns equity lost in Latin America, the equilibrium lost in Latin America, the social equity lost in Latin America," Fernández said

in a news conference following the meeting, the AP reported. Before the encounter, López Obrador said he was willing to help Argentina during its economic recession. "We are going to improve our economic and trade relations," he said. In a conference in Cuba, Venezuelan President Nicolás Maduro said there has been a calling for López Obrador and Fernández to head "a new progressive front" in Latin America and the Caribbean, adding they will both "play a key role in the hemisphere," Clarín reported.

Credit Growth Slows as Mexico Economy Continues to Stall

Mexico's economy grew just 0.1 percent in the third quarter from the previous three-month period, extending a series of disappointing data releases under President Andrés Manuel López Obrador, Reuters reported Oct. 31. The preliminary data from state statistics agency Inegi marks the first annual decline in GDP in adjusted terms since the final quarter of 2009, a year in which Mexico suffered a sharp recession brought on by the global financial



López Obrador // File Photo: Mexican Government.

crisis that originated in the United States. Meanwhile, Mexico's private sector saw credit growth deteriorate to 4.6 percent in September, down from 5.9 percent from a year ago, the Bank of Mexico said Thursday. "Tight monetary conditions and lingering apprehension with regard to the policy outlook under the [López Obrador] administration appear to have eroded both credit supply by banks and demand by both consumers and corporates," economist Alberto Ramos of Goldman Sachs told clients in a research note.

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A **Wolfram F. Schaffler González,**
director of the Texas Center for
Border Economic and Enterprise
Development at Texas A&M

International University: “The trend of 42 straight months of growth of remittances to Mexico from the United States began in April 2016. During the previous month, Donald Trump won 17 Republican primaries or caucuses (and some say both debates). While these two facts might not seem directly correlated, there might be something there to further analyze. Economic factors for these record-setting remittances to Mexico are the strong U.S. economy and the low unemployment rate, but fear could also be part of the equation. Fear of possible deporta-

“**Fear could also be part of the equation.”**

— **Wolfram F. Schaffler González**

tions could fuel these remittances. Fear of a recession in Mexico. Fear of losing the 20.4 percent average income of those households in Mexico that receive remittances from their relatives in the United States. This sustained trend should continue during the upcoming months (Christmas is around the corner, as is the final stretch of the U.S. presidential campaign), and the Banco de México estimates that it should eventually stabilize in the near future at a 5-7 percent monthly growth average, well below the 9.2 percent we saw from January to September of this year. While technological factors might now allow for safer and faster transmission of information and remittances, a recent BBVA report details that the impact of those dollars previously sent to Mexico has permitted the creation of more than 400,000 small businesses. If most of these businesses survive, they would be an additional benefit to

the Mexican economy, and specifically to the income of those families who now rely on remittances from the United States, but who also fear they might someday lose them.”

A **Rogelio Ramírez de la O,**
president of Ecanal in Mexico
City: “The steady rise in workers’ remittance inflows that Mexico has recorded has caused some surprise, but it should not. The main reason and the driver of such a steady rise is twofold. On the demand side, the United States is recording one of the greatest periods of job creation after the sluggish recovery that followed the Great Recession. This rise has continued despite a recent weakening of the manufacturing industry, which is largely originated in foreign markets. The main driver this time is U.S. domestic demand, which does not exclude manufacturing, but is more reliant on services. It thus seems that the boost given to the economy by lower taxes, deregulation and higher confidence helped to extend job gains beyond the normal duration of the business cycle. On the supply side, the Mexican worker in the United States has a good record of personal performance with employers. As additional demand for workers is reflected in job gains and higher wages, these gains are visible in remittance inflows. The outlook for these remittances to continue rising cannot be taken for granted, as the rest of the world has entered into a slowdown after only a brief recovery period in Europe and other emerging markets. Despite this, the resilience of U.S. domestic demand and pragmatic trade negotiations may help maintain a hard core of continued job creation, which would in turn provide a floor for remittance inflows in Mexico.”

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 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at fretrial@thedialogue.org

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