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FEATURED Q&A

Can Mexico Boost Financial Inclusion With More Banks?



Mexico's president wants the state-run Bank of Well-Being to have the most branches of any bank in the country. // File Photo: Mexican Government.

Q Mexico's government has approved the construction of 2,700 branches of the Banco del Bienestar, or the Bank of Well-Being, President Andrés Manuel López Obrador announced Jan. 6. López Obrador's plans would mean that the so-called "bank of the poor" would have the most branches of any lender in the country. Are the president's plans for the bank, which would provide financial services to recipients of government financial support, well placed? How important is building brick-and-mortar branches as opposed to focusing more on technology such as mobile banking? To what extent will the plans for Banco del Bienestar affect other parts of Mexico's financial services sector?

A Alma Caballero, director at McLarty Associates: "The Mexican government's plan to invest 10 billion pesos and build (with the help of the military) more than 2,700 branches of the Banco del Bienestar aims to distribute social program funds and offer banking services to the country's 2,457 municipalities. Even though this initiative is designed to address the pressing financial gaps that exist in Mexico, old ways won't open new doors. As of 2018, 54 million Mexicans (out of 130 million) had access to financial services, and more than 90 percent of all transactions were conducted using cash. Obtaining financial inclusion by launching bank branches contradicts the global trend and forward-thinking unveiling of digital strategies. Internet connectivity in Mexico reaches more than 70 percent of the population. Mexico has a high penetration of smartphones, covering nearly 60 percent of the population, but has a low penetration of credit cards with only

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TOP NEWS

BANKING

BNP Paribas Gets Banking License for Mexico Unit

BNP Paribas has obtained a license from Mexico's national banking commission to operate in the country as a bank. The French banking group had been operating in Mexico as a nonbank lending and finance institution.

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INSURANCE

Chile Insurance Premiums Double Following Protests

Insurance premiums to shield shops and offices in Chile from protest-related damages have at least doubled following violent antigovernment demonstrations that began last October.

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INSURANCE

Pan-American Life Taps Edwards as Senior VP

Pan-American Life Insurance Group, which has operations in several Latin American countries, named Miguel Edwards its senior vice president and chief information officer.

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Edwards // File Photo: Pan-American Life.

BANKING NEWS

BNP Paribas Obtains License to Operate in Mexico as a Bank

BNP Paribas has obtained a license from Mexico's national banking commission, or CNBV, to operate there as a bank, *El Economista* reported Jan. 14. It had been operating in Mexico as a nonbank lending and finance institution, also known as a "sofom," and its presence in Mexico dates back more than five decades in areas such as corporate and investment banking, consulting, asset management, insurance and personal finance. The Paris-based banking group has more than 700 employees in Mexico. Last year, it asked the CNBV for a local license in an effort to expand the products it offers in Mexico and continue advancing its presence in the country, *El Universal* reported. With its new license, BNP Paribas will now be able to offer a wider array of local banking services, such as global markets and value and post-trading services, *El Economista* reported. The move is part of a larger growth strategy in the Americas. BNP Paribas has a presence in eight of the region's countries, employing nearly 20,000 people. "Mexico is a fundamental piece in the Americas region as a whole and an important bridge between our strong presence both in the United States and in Latin America," said Francisco Hernández, the local director of BNP Paribas in Mexico. "The license will allow us to provide better services to our clients through the expansion of previous products' capacities and the incorporation of new services," he added.

Banco do Brasil Eyes Reforms to Better Compete With Rivals

Brazilian state-controlled bank Banco do Brasil is seeking to implement reforms in a bid to better compete with private rivals after President Jair Bolsonaro intervened in management's

plans to fully privatize the lender, Reuters reported Jan. 27, citing four people familiar with the matter. Changes include modifying employment rules to make it easier for the bank to hire and fire workers and remove some pay restrictions, according to the sources, who declined to be identified because the plan is not yet public. Calls for the bank to maintain its



Bolsonaro // File Photo: Brazilian Government.

dividend payout ratio, even as it expects asset sale proceeds to add to profits in the coming months, are also part of the plan, the sources said. It also includes forming partnerships with financial technology and other start-ups. Two sources added that the plan was already approved by the bank's board late last year. The lender would still need approval from the government to move ahead with the reform plans. Some elements could face resistance and become politically tricky, such as weaker job protections for the bank's nearly 94,000 employees. Sources said talks with the economy ministry were already underway. Banco do Brasil declined Reuters' request for comment.

France's BNP Paribas Creating Innovation Center in São Paulo

French banking group BNP Paribas is working with three other companies to establish a new innovation center in São Paulo, Reuters reported Jan. 23. The new facility is an effort to foster start-ups and also help larger companies to become more efficient, the wire service reported. BNP Paribas is working on the project, to be called La Fabrique, with Carrefour Brasil, card and prepaid meal voucher provider Edenred and Ingenico Group, a developer of

NEWS BRIEFS

Mexico's Banorte Reports 12 Percent Decline in Net Profit for Fourth Quarter

Mexico's Grupo Financiero Banorte, which owns the country's second-largest bank and its largest pension fund, on Jan. 23 posted a 12 percent decrease in fourth-quarter net profit from the same quarter a year ago, Reuters reported. Net profit in last year's fourth quarter was 9.01 billion pesos (\$477 million) due to losses from Banorte's largest business unit, Banco Mercantil del Norte, which operates as Banorte in Mexico, the group said.

Mapfre Partners With Banco Pichincha to Offer Voluntary Policies

Spanish insurance group Mapfre has struck a deal with Banco Pichincha, which has operations in Ecuador and Colombia, to offer its voluntary policies for coverage of disability, accidents and illness, *Finance Colombia* reported Jan. 27. In the future, Mapfre could expand its insurance offerings in the deal to group life, home, business and driver liability coverage, according to the report. José Carpio Castaño, the CEO of Mapfre Colombia, said the insurer is hoping that joint strategies will help the company grow its business. Mapfre has operated in Colombia for 33 years. It has 965 direct employees in the Andean nation, as well as 6,000 affiliates and 105 offices.

Pan-American Life Taps Edwards as Senior VP & Chief Information Officer

Pan-American Life Insurance Group, which has operations in several countries of Latin America and the Caribbean, on Jan. 21 named Miguel Edwards as senior vice president and chief information officer. Edwards will join the New Orleans-based insurer's executive management committee, the company said in a statement.

financial transactions systems. “We are looking for start-ups that may help BNP gain efficiency,” said Sandrine Ferdane, the chief executive officer and country head for BNP Paribas in Brazil. “As lower interest rates globally reduce margins, efficiency is key.” BNP Paribas wants to finish at least eight projects this year, two for each of the banking group’s four business sectors—its Arval fleet-management unit and retail banking section Cetelem, as well as its insurance unit Cardiff and its corporate and institutional banking department. BNP Paribas already invests in start-ups in France, and it may expand those investments to Brazil. The bank has more than 1 billion euros available for investments, said Sandrine. Edenred has chosen five start-ups to work in the new innovation hub, said Gilles Coccoli, its chief operating officer in the Americas. “We have worked with 15 start-ups over the last three years and now we decided to relocate some resources and concentrate our innovation initiatives at La Fabrique,” said Coccoli.

INSURANCE NEWS

Chile Insurance Premiums Double Following Protests

Insurance premiums to shield shops and offices in Chile from damage caused by protests have at least doubled, industry sources said, as insurers struggle to cover losses following un-

The unrest cost the economy some \$3 billion, according to government estimates.

rest that started last October, Reuters reported Jan. 27. At least 27 people were killed during the protests, which began over a relatively small hike in transport fares and spiraled out of control. The strikes, marches and damage to property and public transport cost the economy

FEATURED Q&A / Continued from page 1

23 million citizens having them. According to the 2019 World Economic Forum global competitiveness report, Mexico ranks 48th out of 141 countries in competitiveness and 74th out of 141 in information and communication technology adoption. Creating financial inclusion by providing broader access to the digital economy can unlock Mexico’s economic potential, increase its competitiveness and achieve AMLO’s goal of reducing the country’s inequality and economic gaps. If targeted and used correctly, these branches not only can obtain financial inclusion but also function as connectivity centers throughout the country. This would allow Mexico to better integrate its economy to the world’s technological revolution while combating barriers to entry, including corruption, digital skills, financial literacy, taxation and fraud. With the combination of Mexico’s impressive local technical talent and the rise of the country’s digital ecosystem, the López Obrador administration has the opportunity to implement public policies that strengthen the convergence of the online and the offline worlds to create a more competitive Mexico.”

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** “Mexico is starting the new institution in order to increase the country’s ‘banked’ population. This is not the first time that such an effort has been made. For the past two decades, it has tried various schemes. First, it allowed

some \$3 billion, according to government estimates, Bloomberg News reported. Meanwhile, Walmart’s local unit said 128 of its approximately 400 stores had been looted. The length of the riots, which have sporadically continued, caught international insurers by surprise, given that Chile was previously regarded as low risk. Now, some insurers have withdrawn from the market, unnamed sources told Reuters. Span-

Walmex to have depositing facility by becoming a virtual bank. After all, Walmex had a national presence with a large number of branches. Unfortunately, that effort did not go well. Then came the initiative of allowing many other entities to operate like banks. They also did not yield many additional accounts. To get the unbanked customers in,

“This is not the first time that such an effort has been made.”

— Tapen Sinha

many money transfer entities in the private and the public sectors were allowed to do certain operations. They produced mixed results. The fundamental problem of unbanked population has remained stubbornly unsolved. More than half the population still lacks bank accounts. In the region, Venezuela remains the country with the most highly banked population, followed by Brazil (with more than 70 percent). Mexico has remained among the lowest with 35 percent. (Others with low banking penetration include Haiti, Nicaragua, El Salvador and Paraguay). High fees and difficulty in opening new accounts remain the barrier, along with a deep distrust for banks in general. Why that is such a big problem in Mexico and not Venezuela is a mystery. Will the physical presence rather than virtual ones using the Internet be a successful model for the 2020s in Mexico? It is not clear that it will.”

Continued on page 6

ish insurer Mapfre said in December that the protests, together with typhoons in Japan, hit its results by between 130 million and 140 million euros (\$144-\$155 million). KBW analysts said the protests in Chile were likely to affect international insurers’ fourth-quarter earnings. The losses, paired with the withdrawal of some providers, have driven up prices. Rates, even for businesses that had not made a claim

and were not in the middle of a big city, “will typically double,” Chris Kirby, head of political violence and terrorism at London insurer Optio, told Reuters.

POLITICAL NEWS

Colombian Fugitive Ex-Senator Arrested in Venezuela

Authorities in Venezuela have arrested Aída Merlano, an imprisoned former Colombian senator who escaped almost four months ago during a visit to the dentist, El Tiempo reported Jan. 27. Merlano was arrested in Maracaibo, according to Venezuelan authorities. Merlano “entered Venezuelan territory illegally in the company of an undocumented Colombian citizen,” Miguel Domínguez, the director of Venezuela’s FAES special police force, said in a posting on Instagram, Agence France-Presse reported. Domínguez also posted a photo of the pair, along with wigs and several cell phones on a table. Last September, Merlano was sentenced to 15 years in prison for buying votes for her run for Colombia’s Senate in the 2018 general election. She was sentenced on charges of involvement in aggravated crime, voting fraud and illegal possession of weapons, Semana reported. On Oct. 1, she was taken to a dentist’s appointment in Bogotá and managed to slip away from the officers escorting her. She climbed out a window, slid down a rope, climbed onto the back of a waiting motorcycle and sped away, AFP reported.

Bolivia’s Interim President to Run in May Election

Interim Bolivian President Jeanine Áñez on Jan. 24 announced that she will be running for president in the country’s upcoming May 3 election, which will serve as a re-run of October’s disputed vote that brought protests

THE DIALOGUE CONTINUES

Are Cyberattacks on the Rise in Latin America and the Caribbean?

Q **Cybersecurity company Kaspersky said in a recent report that threats facing financial services providers are doubling every year, with small banks and other financial firms that were recently acquired by larger companies as the prime targets of ransomware and other attacks. How safe are Latin American and Caribbean financial services providers from cyberthreats? What more should they be doing in order to protect themselves and their customers? What role do governments have in fighting cyberattacks, and how effectively are Latin American officials working together with others to meet the challenge?**

A **Meredith Griffanti, managing director for crisis and issues management at FTI Consulting:** “In cyber, it’s really not a matter of ‘if’ but rather ‘when.’ So, there are a few things that the sector and the region should consider, not only to guard against cyberattacks, but also to be prepared to respond and recover in the event that one happens. It is most important to have a plan in place to respond to and contain any potential incident. This plan should cut across job functions and incorporate not only the technical response team but also communications and public relations staff, operations team members and legal counsel, among others.

There should be a quarterback in place who knows what the teams’ decisioning rights are and how to escalate a situation when needed. In the heat of a cybersecurity crisis, every moment counts, and approvals on action items, such as media statements and cyber insurer responses, need to happen fast to keep up with an unfolding incident. Lastly, drill, drill, drill and then drill some more. Latin America is learning from other regions about the importance of fostering cross-industry collaboration and public-private partnerships. Through these, cybersecurity professionals can share intelligence and collectively defend against cyberthreats. Additionally, these sorts of partnerships can help to ensure that universities are cultivating best-in-class talent to incentivize and encourage young people to pursue careers in cyber and information security. We all know that there is a significant shortage of good talent in our field globally, and this especially rings true in Latin America. A strong talent pipeline will help businesses and governments compete with and defend against the dynamic challenges and threat actors we’re facing in today’s environment.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in the Jan. 15 issue of the Advisor.

and prompted former leader Evo Morales to resign, El Diario reported. Áñez had previously suggested she would not run, saying it would not be correct for her to do so, Reuters reported. However, Áñez said Jan. 24 that she had changed her mind. “The dispersed vote and candidates who fail to bring Bolivians together has led me to make this decision,” she said in announcing her candidacy at an event of her social democratic party in La Paz. “We respect

the decision of those who have yet to join, I extend a hand to them and assure them the door remains open to join this broad and diverse front that seeks to work for all,” she added. Morales, who is barred from running in the May election, recently named his former economy minister, Luis Arce, as the presidential candidate of his Movement to Socialism party. Former Presidents Jorge Quiroga and Carlos Mesa have also announced their candidacies, as has

NEWS BRIEFS

Giammattei Offers El Salvador Ability to Build Port in its Waters

New Guatemalan President Alejandro Giammattei on Jan. 27 met with his Salvadoran counterpart, Nayib Bukele, in El Salvador and offered him an opportunity to construct and operate a port in Guatemalan waters in the Atlantic Ocean, Giammattei said, Reuters reported. The “unprecedented” offer in “the history of Central American integration” is a bid to encourage commerce, Giammattei added. The two leaders also announced that flight routes between the neighboring countries will be considered local in order to bring down costs and promote tourism.

Brazil Modifying Rules to Allow Foreign Companies to Better Compete

Brazil’s government is modifying rules to give foreign companies an even playing field at winning government contracts, Economy Ministry Paulo Guedes said Jan. 27, Reuters reported. As of May, international companies will no longer need a Brazilian representative in order to participate in public tenders, nor will they be required to have a Brazilian tax identification. The move will mark a sharp change in how international companies can operate in Latin America’s largest economy.

Thousands Rally in Madrid in Support of Venezuela’s Guaidó

Thousands of supporters, some holding signs demanding democracy, came out to support Venezuelan opposition leader Juan Guaidó in Madrid on Jan. 25, Reuters reported. Guaidó, whom dozens of countries recognize as Venezuela’s legitimate president, was in Spain for the last leg of his European tour. Guaidó met with Foreign Minister Arancha González as well as Madrid’s mayor and regional president.

former civic leader Luis Fernando Camacho, América Economía reported. On Jan. 26, Áñez also announced that she had asked all of her cabinet ministers to resign, El Diario reported. Áñez said the action was a normal step, given her candidacy and the upcoming election. [Editor’s note: See related [Q&A](#) in the Jan. 13 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

China’s Exports to Cuba Fall to Lowest Level in a Decade

China sold \$791 million worth of exports to Cuba last year, the lowest level in a decade, according to data from the Chinese Customs Office, Reuters reported Jan. 27. The Communist-run island depends on imports for much



Trump // File Photo: White House.

of its consumption, but it started falling behind on payments to foreign suppliers since 2015, when support from Venezuela began to falter as it faced its own economic problems. Cuba’s economy has struggled even more in recent years as the administration of U.S. President Donald Trump imposed new sanctions in a bid to restrict foreign investment and financing, oil supplies, tourism and other revenue sources. China, one of Cuba’s top political allies and economic partners, continues to invest in the island in areas including alternative energy, development financing in light industry and communications. However, Chinese data showed that exports to Cuba had fallen from nearly \$1.9 billion in 2015 and \$1.1 billion as recently as 2018 to just \$791 million last year. Cuba’s

debt to China is estimated at billions of dollars. The decline in Chinese exports contrasts with that of Russia and the European Union, whose exports to Cuba have increased in recent years, according to the Russian government and E.U. authorities. Cuban state-owned newspapers say relations between Russia and Cuba are “at their best moment in 20 years,” the Financial Times reported. [Editor’s note: See related [Q&A](#) in the Nov. 11 issue of the daily Latin America Advisor.]

Peru Plans Nearly \$2.34 Bn in Spending on Infrastructure

Peru plans to award infrastructure projects via public-private partnerships worth nearly \$2.34 billion by the end of President Martín Vizcarra’s term next year, the country’s investment promotion agency said Jan. 21, El Comercio reported. “Our goal is to contribute to closing the infrastructure gap through structured projects under the public-private partnership scheme ... and improve Peruvians’ quality of life,” Rafael Ugaz, the executive director of the agency, Prolnversión, said during a presentation. Among the 44 projects up for auction are the construction of a railway in the Andes for \$227 million and the potential development of a major natural gas network, Ugaz said, Reuters reported. The investment plan will also include a \$720 million drinking water project for Lima and a highway in the central area of Peru worth \$464 million. “We will focus all our energies on these projects. We are obsessed about them,” Ugaz said in the speech. Prolnversión awarded just \$414 million worth of projects last year, as compared to \$3.1 billion of projects in 2018, Reuters reported. In a Jan. 14 report, the International Monetary Fund said that strengthening Peru’s prospects for long-term growth will require closing the country’s infrastructure gaps. In its report, the IMF noted that Peru’s government has launched its National Plan of Infrastructure for Competitiveness and added that the country especially needs improvements to its transportation, sanitation, health, telecommunications and water systems.

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A Rubén Olmos, president of Global Nexus in Washington: “The volume of public resources allocated to social programs in Mexico is record-breaking. Thus, it is essential to expand the scope of financial services, especially if Mexico wants to prevent those resources from ending up in the informal economy. With the new Bank of Well-Being, President López Obrador seeks to reach communities that private banks did not cover in what he has called the ‘neoliberal era.’ Nevertheless, the decision to invest public money in building and managing the bank can be very costly and ineffective. It is yet to be seen if the president wants to ensure that resources of his social flagship programs remain in the hands of the state. The landscape of financial inclusion in Mexico has improved in recent decades, and the country has even recovered its leadership in Latin America. After the publication of the fintech law in 2018, fintech services have focused on consumer lending (20.6 percent), payments and remittances (20 percent), personal financial management (9 percent) and digital banking (3.8 percent). The coverage of this public and private network could be boosted by creating incentives to operate in marginalized zones. The transition toward digital banking loses an opportunity for expansion. The resources allocated for the Bank of Well-Being (approximately \$530 million) could be used to improve Mexico’s telecom network and be coupled with the ‘Internet for all’ project in order to promote the use of digital financial services. The Bank of Well-Being can affect the competitiveness of the financial sector. For example, public majority shareholding reduces the possibility of improving bank services and eliminates the

opportunity to have more competitive bank fees (even when the ruling Morena party proposes legislation to regulate them).”

A José Carlos Rodríguez Pueblita, CEO and founding partner of Pondera Lab: “Banks are among the least trusted Mexican institutions, just above the police, Congress and political parties, according to a yearly survey by Mitofsky. President López Obrador knows that well, so he does not want to leverage technology nor fintech solutions to provide financial services to the poor, who represent the backbone of his constituency. A brick-

“**The solution offered ... will help López Obrador’s government to increase and consolidate its presence in far-away locations.**”

— José Carlos Rodríguez Pueblita

and-mortar solution to grow the presence of government programs is inefficient and most likely ineffective; moreover, it does not solve the main reason for the limited financial penetration in Mexico: lack of trust. Nevertheless, the solution offered by establishing branches of the Banco del Bienestar will help López Obrador’s government to increase and consolidate its presence in far-away locations, which is different than strengthening financial services. The investment to be made will benefit López Obrador’s movement, agenda and image. Hopefully, it will also provide better services to the poor.”

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