LATIN AMERICA ADVISOR

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

February 27-March 11, 2020

FEATURED Q&A

Would Piñera's Reform Fix Chile's Pension System?

Chilean President Sebastián Piñera unveiled his proposed changes to the country's dictatorship-era pension system earlier this year. // File Photo: Chilean Government.

Q Chilean President Sebastián Piñera earlier this year unveiled his plan for reforming the country's pension system. The current system, which heavily relies on the private sector, has not met the expectations of many retirees, and protesters in Chile have demanded its overhaul. What are the main problems with Chile's current pension system? Are Piñera's proposals, which include a 6 percent increase in workers' contributions and a 3 percent increase in employers' contributions, likely to become law? How much would Piñera's plans strengthen the pension system, and what other reforms are needed?

A **Cristián Rodríguez, chairman of AFP Habitat Chile:** "Every Chilean should retire with dignity. For many of our oldest citizens, however, that has not been the reality. What are the root causes of low pensions? How can we change this fate for future generations and support the current one? I propose five recommendations. First, keep Chile's defined-contribution system. Chile in 1980 led the world in shifting its pension system from a bankrupt, pay-as-you-go (PAYG) defined-benefit system into a sustainable defined-contribution system. In the past 40 years, that model has been replicated in multiple countries. The typical PAYG system was not designed for current demographic trends. It is unsustainable. Chile already has made the responsible move to a sustainable, capitalized system, and it would be irresponsible to return to an unsustainable PAYG system. Second, increase contributions to individual accounts. For workers who contributed to pension accounts, the system has provided good pensions; Chileans who retired between

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Caixa Seguridade Delays IPO Amid Outbreak, Oil Plunge: Report

Brazilian insurance provider Caixa Seguridade has reportedly decided to cancel its initial public offering amid concerns about the coronavirus outbreak and the plunge in oil prices.

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REMITTANCES

Remittances to Mexico Grow 5.2% in January

The amount of money Mexican workers living abroad sent home rose to $2.58 billion in January. It was the second consecutive monthly increase.

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Brazil's Nubank Launching Credit Card in Mexico

São Paulo-based Nubank is launching its Nu credit card in Mexico. CEO David Vélez said he expects the company to gain customers mainly through word of mouth.

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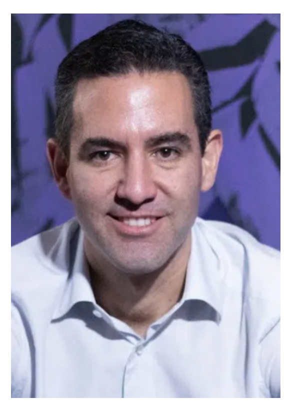

Vélez // File Photo: Nubank.

INSURANCE NEWS

Caixa Seguridade Delays IPO Amid Oil Plunge, Virus: Report

Brazilian insurance provider Caixa Seguridade on March 9 decided to cancel its initial public offering amid concerns about the spreading coronavirus outbreak and the plunge in oil prices, Reuters reported. State-run bank Caixa Econômica Federal, the insurer's controlling shareholder, had planned to conduct the offering in April, but it has decided to push the offering back by three to six months, two sources told the wire service on condition of anonymity because the discussions are private. The offering had been expected to raise in excess of 10 billion reais ($2.12 billion), which would make it Brazil's largest IPO so far this year. Caixa did not respond to a request for comment by Reuters. Companies in Brazil have been considering a record number of IPOs and follow-on offers this year amid the country's lowest interest rates on record and a robust outlook for economic growth. However, the coronavirus outbreak has roiled markets worldwide and has led to increased uncertainty about global growth amid worries about dampening consumer demand and supply chain disruptions. Bankers in Brazil had been expecting almost 200 billion reais in share offerings this year, as homebuilders, banks and retailers have been among the 25 companies that have filed documents with the country's securities regulator ahead of planned IPOs. A delay in Caixa Seguridade's IPO could also represent a complication for Brazilian President Jair Bolsonaro's plans to raise billions of dollars this year through sales of state-owned assets, which may now fetch lower prices amid the market turmoil, Reuters reported. Most companies with planned IPOs have not yet ultimately decided whether to proceed with the offerings, three sources told the wire service. Firms can wait for about two weeks before finally deciding on whether to go ahead with the offerings after filing with securities regulators. Some companies are already close to deciding to back away from planned initial public offerings, such as Banco Daycoval, which had planned to raise $1 billion in a stock flotation in coming weeks, a source close to the bank told Reuters. On March 9, Brazil's real currency fell to a record low against the U.S. dollar, and its stocks entered a bear market amid the plunge in oil prices, Bloomberg News reported. The country's benchmark equity index tumbled 12 percent on March 9, its largest fall in 21 years. The index is down 28 percent since its peak in January.

Bolsonaro // File Photo: Brazilian Government.

BANKING NEWS

Credit Suisse Asked to Probe Accounts of Argentine Ex-Nazis

The U.S.-based Simon Wiesenthal Center on March 2 said it received a list containing the names of former Nazis living in Argentina who are believed to have deposited ill-gotten monies into bank accounts at what is now Credit Suisse, UPI reported. The center, which for decades has tracked down members of Germany's Nazi Party and war criminals, alleges that some people on the list, which contains 12,000 individuals, held stolen profits from German appropriations during World War II. From 1930 to 1938, Argentina became home to thousands of pro-Nazi organizations. It is believed that Argentine banks with ties to Germany took the money stolen from the regime's victims and transferred them to what was then called Schweizerische Kreditanstalt, which is now Credit Suisse, Deutsche Welle reported. The records

NEWS BRIEFS

Brazil's Nubank Launching Credit Card in Mexico

São Paulo-based digital bank Nubank is launching its Nu credit card in Mexico, Tech Crunch reported March 3. Nubank, which is valued at $10 billion, has raised $820 million across seven investment rounds and has attracted nearly 22 million customers in Brazil alone. In Mexico, there are 30,000 customers on the waiting list for its payment card. Nubank CEO David Vélez has said that he expects the company to gain customers mainly through word of mouth as it did in Brazil, where 80 percent if its customers signed up following unpaid referrals.

Liberty Mutual Re Taps Londoño for Colombia General Manager Role

Liberty Mutual Re, a unit of Liberty Mutual Insurance Group, has named Juan Felipe Londoño as the general manager of its Colombia operation, Insurance Journal reported March 10. Londoño replaces José Ernesto Ospina, who left the company in a mutual agreement and will be pursuing personal endeavors. Before his promotion, Londoño was the company's Bogotá-based treaty underwriting manager for northern Latin America, a position he had held since 2017. Londoño will report to Miguel Martínez-Álvarez, Liberty Mutual Re's head of business development and Latin America.

Apple Pay Platform to Launch in Mexico This Month: Report

Apple is poised to launch its Apple Pay platform in Mexico this month, Apple Magazine reported March 6. The platform will allow users in Mexico to make contactless payments using their iPhones and Apple Watches. Last year, the company introduced Apple Pay in several European countries, including Portugal and Slovakia, the magazine reported.

were found in a Buenos Aires building that was formerly a Nazi headquarters, Argentine officials said. The list was apparently compiled in the 1930s by the anti-Fascist government of President Roberto Ortiz in an effort to collect evidence against the Nazi Party there. Ortiz died while in office in 1942, and many documents since then have been destroyed in an effort to conceal stolen funds. The Wiesenthal Center has asked Credit Suisse to identity the bank accounts associated with the names "to settle this matter on behalf of the diminishing number of Holocaust survivors." Credit Suisse said that an investigation in the 1990s into accounts of victims of Nazi persecution at Credit Suisse and other Swiss banks provided "as complete and exhaustive a picture as possible" into the matter, but added that it would examine them again, UPI reported.

FINANCIAL TECHNOLOGY NEWS

YellowPepper Starts Brazil Project With Visa, Bradesco

Miami-based YellowPepper on March 5 announced a new project in Brazil that will allow clients of Banco Bradesco to make online payments through a virtual tokenized card. YellowPepper announced a credential-on-file for Bradesco and said the initiative will help improve the security of card transactions. "Visa Token Service creates a secure environment that drives innovation in online and mobile commerce," said the mobile payments provider. "With the Visa Token Service, card details can be replaced with a unique digital identifier used to process payments without exposing the cardholder's sensitive account information." YellowPepper added that it will implement the virtual card in Bradesco's mobile banking application in order to provide Bradesco's clients with an ability to conduct secure online payments. "We have been pioneers in the region for a long time, and we are so excited to bring such an essential tool to a country like Brazil to continue driving secure and easy

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2007 and 2017 with more than 25 years of contributions received an average 78 percent replacement rate. Today, due to higher life expectancy and lower expected investment returns, the contribution rate for individual accounts should rise to at least 18 percent, the OECD average. Third, increase contribution density. No system is viable if participants do not contribute. Defined-benefit systems require a minimum number of contributions to receive benefits. Defined-contribution systems depend on the value of accumulated assets over the individual's working life. Pensions in Chile are low due to lack of contributions. The pension system is not compulsory for self-employed workers. Contributions to individual accounts must be compulsory for all Chileans based on their income, regardless of work status. Fourth, increase the retirement age. Chileans are living longer. The trend toward a longer life span is clear, as are the implications for retirement. For individuals born after 1999, the legal retirement age should gradually be raised to 70. Fifth, increase the basic (solidarity) pillar, using tax revenues, for workers who did not save during their working life and complement current pensions during a transition period while current and future workers reach a higher density on contributions."

A **Peter Winn, professor of history and Latin American studies at Tufts University:** "Chile's privatized pension system originated in the neoliberal financial crisis of the 1980s. Its unstated goal was to use the savings of Chile's workers to shore up the stock market for Chile's capitalists. The system has been criticized for its high administrative costs and low pensions. Piñera's proposed reforms are unlikely to be enacted because both center-left and center-right coalitions are divided on whether to collaborate on this. But even if the reform does pass, it will result in too small an increase to make unlivable pensions adequate. As usual with Piñera, the proposed reforms are a case of too little too late. That is why his approval rating is down to 6 percent. Only Congress has lower approval ratings, at 3 percent. Neither one is likely to improve the public's view of them with this minimal pension reform. Moreover, this pension reform is not what Chileans are talking about. I spent March 8 with a million women protesting in the center of Santiago, and none of them were debating the pension reform. Their concerns were femicide, sexual harassment and gender equality—issues that Piñera is only now trying to make his own. The only reluctant Piñera reform that does galvanize Chileans is the prospect of a new constitution. There will be many more protests before voters decide that on April 26."

A **Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile:** "Chile's current pension system has three parts: a defined-contribution system (private pension funds); a solidarity pillar funded from general tax revenue; and pensions for the military, which are funded from the national defense budget. This combination has resulted in low pensions due to: 1.) minimal state-funded pensions; 2.) a private system which was not modified on a timely basis to respond to changing demographics and economics, including the need to save more and to work longer; and 3.) workers who have not contributed to the private system—approximately 1.9 million self-employed Chileans, as well as informal workers. President Piñera proposed the first reform to the system in October 2018. In general, the original plan addressed some of the underlying issues by enhancing the solidarity pillar, increasing levels of savings to be paid by employers and providing for more equitable treatment of women. The recent social unrest in Chile resulted in the government's modification to its initial proposal that, among other changes, introduces a fourth element—a pay-as-you-go system (3

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payments, whilst setting the infrastructure for clients and citizens to adopt these new technologies," Serge Elkiner, YellowPepper's CEO and co-founder, said in a statement.

REMITTANCES NEWS

Mexico Remittances in January Grow by 5.2 Percent

The amount of money Mexican workers living abroad sent home reached $2.58 billion in the first month of 2020, 5.2 percent more than in the same month last year, Expansión reported March 2, citing central bank data. A higher number of transfers, combined with an increase in the average amount of dollars sent per operation, helped spur the country's second consecutive monthly growth in remittances. Last November, monthly remittances fell for the first time in three and a half years. But that decline appears to have been a temporary dip. "We expect workers' remittances growth to stabilize at a moderate positive level in coming months," Goldman Sachs economist Alberto Ramos told clients in a research note. Although some sectors of Mexico's economy, such as industrial production, have been in recession in recent quarters, remittances have helped buoy consumer spending. Economists have been steadily reducing the country's 2020 growth estimates to an average of just 1 percent from 1.7 percent six months ago, Bloomberg News recently reported. Prices for oil produced in Mexico have fallen sharply in recent months. [Editor's note: See related Q&A in the Feb. 26 issue of the Financial Services Advisor.]

> **"We expect workers' remittances growth to stabilize at a moderate positive level in coming months."**
> **— Alberto Ramos**

THE DIALOGUE CONTINUES

How Is Technology Changing Mexico's Remittances Flows?

Q Mexicans working abroad sent a record $36 billion in remittances back home last year, the country's central bank announced Feb. 4. At the same time, the number of financial technology firms operating in Mexico has grown exponentially. How much are fintech firms disrupting the traditional remittance channels in Mexico and elsewhere in Latin America and the Caribbean, and what do those changes mean for consumers? How widely are remittance senders and recipients adopting fintech in the region? To what extent do remittance recipients use the money they receive through electronic channels differently as compared to recipients who receive it through more traditional money-transfer companies?

A Kai Schmitz, partner at Crestone Venture Capital: "Traditional remittance operations can be broken down into three parts: the collection of money from senders, the payment to the recipient and the process of settlement between the service providers involved. In a cash-based remittance system, there are many parties: collection agent, bank or banks in the originating country, the remittance company, a bank in the receiving country and sometimes an agent for the payout. Collecting or paying out cash is expensive and slow, introducing lag in the settlement that remittance operators need to overcome by supplying working capital. Fintech companies in the United States and Europe have already overcome the origination part by offering money transfers online and innovating identification and payment security. This has significantly reduced the costs of processing online remittances. Companies can and must invest in online marketing. Disrupting the process in receiving countries has proven much harder. A lack of penetration with efficient electronic payment methods, be it bank accounts, cards or wallets, has hindered a more efficient and lower-cost process. Fintech companies have tried many options, from card-to-card transfers to handing out store credit or gift cards, but today most remittances are still paid out in cash. However, this may be changing. The increasing penetration of wallets, payment cards and low-cost bank accounts offers new methods for electronic payments. Many fintech and tech companies have started to issue simple payment accounts, wallets and cards and are growing very fast. Sending remittances into these accounts will reduce the cost of distribution significantly. A deeper disruption of the traditional remittance business may already have begun. Payments through social media such as Facebook and WhatsApp were launched and are scaling fast in India and a few other markets. The large social media companies are used by most remitters and recipients. Regulation currently prohibits their use for international payments. But regulation is changing, and fintech has a successful track record of disrupting not just business models but also the regulation that protected them."

> **"Collecting or paying out cash is expensive and slow..."**
> **— Kai Schmitz**

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Feb. 13-26 issue of the Advisor.

NEWS BRIEFS

Venezuelan Officials Say 50,000 Voting Machines Destroyed in Fire

Venezuela's electoral council on March 8 said a fire in its main warehouse had destroyed almost 50,000 voting machines and 582 computers used in the country's elections, BBC News reported. Electoral council chief Tibisay Lucena said the cause will be investigated and that "nothing is being ruled out." Recent elections in Venezuela have been undermined by disruption and fraud. Elections for the National Assembly are due to be held before the end of the year, although no date has been set yet.

Armed Men Steal More Than $14 Million in Heist at Santiago Airport

Police in Chile are looking for a group of armed men who stole $14 million and 1 million euros from a security van at Santiago airport, in an incident that has been dubbed "the heist of the century," The Guardian reported March 9. At least seven attackers, some carrying shotguns and one a rifle, were involved in the robbery, which left two security guards injured. It was the latest in a wave of robberies in Chile, where criminals are taking advantage of the country's unrest to carry out criminal activity.

Costa Rica Suspends Mass Gatherings in Bid to Stem Coronavirus Outbreak

Costa Rican authorities on March 9 announced several preventive measures in response to the spreading coronavirus epidemic, including the suspension of mass gathering events and working from home for all positions that allow it, the Tico Times reported. President Carlos Alvarado said in a press conference that concerts, horse parades and regional festivals would be suspended for at least two weeks, and soccer matches and other sporting events would be held without spectators.

POLITICAL NEWS

Women's Strike Closes Stores, Schools in Mexico

Hundreds of thousands of women in Mexico participated in an unprecedented nationwide strike to protest a recent wave of violence against women, bringing much of the country to a halt on March 9, The Wall Street Journal reported. Many shops that women own or manage were closed, and most schools and universities suspended classes. Streets across Mexico City were empty, as were public transport buses, El País reported. It was not clear whether the strike reached the country's rural areas, where poverty and inequality make it harder for women to skip work. Photographs on social media showed deserted roads in other large cities, including León and Puebla. The call to strike aimed to bring attention to rising violence against women and authorities' failure to provide security, as well as to raise awareness about the importance of women in the country's daily life, The Wall Street Journal reported.

ECONOMIC NEWS

Argentine Farmers Strike in Protest of Export Taxes

Argentine farmers on March 9 began a four-day strike in protest of the government's hike of export taxes for soybeans and the crop's products, EFE reported. Three of Argentina's four main rural associations had announced the strike over the government's decision to increase soy export taxes to 33 percent, from 30 percent previously. The strike is reminiscent of a previous conflict between farmers and the Peronist government of former President and current Vice President Cristina Fernández de Kirchner. Her government and agriculture producers were involved in a fierce dispute, which reached a high in 2008 when she attempted to raise taxes on soy exports but massive protests forced the administration to back down, Reuters reported. Guillermo Wade, head of Argentina's CAPyM port operators' chamber, said the current strike is not expected to hurt grains shipments because export companies have reserves in their ports.

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percent of workers' salaries to be funded by employers for cross-generational funding). An additional 3 percent will be funded by employers and contributed to the individual accounts of each worker. The total 6 percent will be administered by a public entity whose structure and responsibilities remain unclear. Overall, the new proposal is a short-term response to social unrest and does not adequately address the underlying issues required for a sustainable pension system. It is clear that, if approved, further adjustments will need to be made to the system on a more timely basis than in the past. New complexities and costs that do not necessarily benefit pensioners have been introduced. Further careful analysis is required to evaluate implications for Chile's fiscal strength; potential for increased informality in labor force; as well as with respect to local capital markets and foreign investment."

A **Pablo Heidrich, assistant professor in the global and international studies program at Carleton University:** "The meager pay that elder Chileans currently receive is the country's largest cause of poverty, as 80 percent obtain pensions lower than the already very low minimum wage. When created by Jose Piñera (the brother of the current president), during the Pinochet dictatorship in 1981, the pension system promised to deliver payments equal to 70 percent of salaries. Instead, the average pension in 2019 reflected just 22 percent of wages. Pension administrators, or AFPs, have accrued $200 billion under management, equal to 70 percent of Chile's GDP, by receiving 10 percent of the income of Chilean wage earners for almost 40 years. They have facilitated loans with that very cheap capital to Chilean business elites to invest in their own ventures, enabling the formation of great family-owned conglomerates, which now control more than 70 percent of the economy. Thus, pension contributions have graciously funded elite-owned oligopolies. It's no surprise then that the pension system is among the protesters' chief grievances. A reform will become law as the pressure for change on the model is too strong. Besides,

> **"The meager pay that elder Chileans currently receive is the country's largest cause of poverty..."**
> **— Pablo Heidrich**

the stakes are too high as the AFP's funds have been crucial for economic elites to cheaply fund their expansion and for the political elite to unload state pension responsibilities on wage earners. Both are thus ready to save their system given their self-interests. Specific concessions by Piñera, such as requiring businesses to begin contributing for their workers, stipulations for AFP managers to bear some loss for unwise investments and open up competition for cooperatives and other entities to vie for workers' contributions with the incumbent AFPs, could help the government get needed votes. This law will also open the discussion for increasing the minimum retirement age. The pension system is very strong financially. However, it has grown illegitimate in political terms. In 2008, President Bachelet subsidized AFPs by committing a miserable $150 payment for the poorest pensioners at a cost of 0.8 percent of GDP. Piñera outdid her last December when he committed an additional 50 percent increase to that fund (1.3 percent of GDP). Neither of those patches seem now enough."

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 © 2020

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

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
freetrial@thedialogue.org