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FEATURED Q&A

Will Inclusion on a Money Laundering List Spur Action?


The European Union singled out five countries in Latin America and the Caribbean for shortcomings in fighting money laundering. // Image: TaxRebate.org.uk.

Q The European Commission said in early May that it is adding several countries, including ones in Latin America and the Caribbean, to its list of nations that pose a risk to the bloc because of shortcomings in fighting money laundering and terrorist financing. Among the countries mentioned are Panama, the Bahamas, Barbados, Jamaica and Nicaragua. Have these countries' actions, or lack of action, merited their placement on the list? What practical effects will their inclusion on the list have for these countries and businesses operating there? What should the singled-out countries do in order to improve their controls against money laundering and terrorist financing?

A Alexandra M. Solórzano, international trade specialist at Winston & Strawn LLP: "The fight against illicit financing and financial crimes is an ongoing battle that requires constant revision and updating of laws and regulations. Countries that allow regulations to go stale or fail to identify weak points in their anti-money laundering/countering terrorist financing (AML/CFT) regulatory regimes become vulnerable to and even potentially complicit with illicit actors that abuse their systems. As a current member of the Financial Action Task Force (FATF), the European Commission is committed to following and implementing FATF guidance and regulatory recommendations to enhance the European Union's AML/CFT regulatory regime. In May, the European Commission announced an action plan to fight money laundering and terrorist financing. This action plan is based on six pillars. The first five pillars are solely focused on the European Union and its members,

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Brazil's Banrisul Seeking to Sell Card Business

The lender confirmed that it is discussing strategic options with JPMorgan Chase for the sale of its card business.

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A.M. Best Confirms Rating of Costa Rica's INS

Credit ratings agency A.M. Best said it was affirming its A- rating for Costa Rican insurer Instituto Nacional de Seguros, or INS. Factors included the strength of the insurer's balance sheet.

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Brazilian Banks Concerned Over Early Holidays

Several Brazilian banks have expressed concerns about plans by São Paulo Governor João Doria and Mayor Bruno Covas to move up three holidays in an effort to get people to remain at home in order to slow the spread of Covid-19.

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Doria // File Photo: Brazilian Government.

FINANCIAL SERVICES NEWS

Brazilian Banks Express Concern Over Early Holidays

Several Brazilian banks, bank lobbying association Febraban and stock exchange operator B3 have expressed concerns over São Paulo officials' plans to move up three holidays, normally marked in June, July and November, in an effort to get Brazilians to stay home as the number of coronavirus cases soars in Brazil, Reuters reported May 19. São Paulo Governor João Doria and Mayor Bruno Covas said they were working to declare May 20, 21 and 25 holidays, with employers having the discretion to also give workers Friday, May 22 off. The days would be early celebrations of the Roman Catholic Feast of Corpus Christi, Constitutional Revolution Day and Consciência Negra, which are normally celebrated on June 11, July 9 and Nov. 20, respectively. Doria and Covas said May 18 that they planned to move up the holidays to increase isolation, citing data showing higher levels of people staying home on recent holidays and weekends. The financial services groups expressed concerns about the plans, which would close bank branches that are working to pay emergency stipends to almost 50 million people during the pandemic, Reuters reported. They also said there were complications with bills that were coming due as well as fund redemptions that have already been scheduled.

Bank of Jamaica Lowers Cash Reserve Requirements

Jamaica's central bank on May 15 announced that it is lowering the cash reserve requirements of the country's deposit-taking institutions by two percentage points. In a statement, the Bank of Jamaica said it was lowering the foreign currency cash requirement to 13 percent and the domestic currency reserve requirement to 5 percent. "Both adjustments are therefore aimed at boosting liquidity levels in the financial system in the context of the strain caused by the impact of Covid-19," the central bank said in a statement. The lowering of the foreign currency cash reserve requirement will return some $65 million to the country's deposit-taking institutions and expand the volume of foreign exchange that they have available to them, the central bank said. In addition, the domestic cash reserve requirement change will release approximately 14 billion Jamaican dollars ($95.2 million) to the institutions. The last time that the Bank of Jamaica adjusted its foreign currency cash reserve requirement was in April 2017 when it boosted the requirement by one percentage point to 15 percent. As a consequence of the central bank's action, liquid asset requirements will also fall. Banks' foreign currency liquid asset requirement will decline to 27 percent, while the domestic currency cash reserve requirement will lead to a reduction of 19 percent in the overall domestic currency liquid asset requirement.

CREDIT CARD NEWS

Brazil's Banrisul Seeking to Sell Card Business

Brazilian state-controlled bank Banrisul confirmed May 12 that it is seeking to sell its card business, Reuters reported. The bank said it is in talks with JPMorgan Chase to advise it on strategic options. The statement confirmed a Reuters report a day earlier on the talks. The bank's controlling shareholder, the state of Rio Grande do Sul, has struggled with a sharp fall in tax revenue, the wire service reported. Banrisul had filed an initial public offering of its card unit two years ago but canceled the transaction in November 2018. Then, the bank expected the card unit to reach a 2.5 billion-real ($432 million) valuation. The unit, Banrisul Cartões, posted a net income of 272 million reais last year, up 5 percent from the previous year. In order to get the same amount expected for the

NEWS BRIEFS

National Commercial Bank Jamaica Closing Three Branches

National Commercial Bank Jamaica announced that it is closing three branches and will be continuing the rollout of alternate banking facilities such as its "iABM" intelligent banking machines, the Jamaica Observer reported May 15. The bank said it is closing its branches in Half Moon, Annotto Bay and Chapelton. It is increasing the use of the iABM kiosks, which allow customers to deposit cash, pay credit card bills and perform other transactions. The bank's chief executive officer, Septimus Blake, said the Covid-19 pandemic and social-distancing requirements have increased the need for banking through digital channels or machines.

Fitch Lowers Ratings of Four Costa Rican Banks

Fitch Ratings announced May 14 that it was downgrading the ratings of four Costa Rican banks following the ratings agency's downgrade of the country's sovereign currency rating to B from B+ with a negative outlook and its downgrade of its country ceiling to B+ from BB-. Fitch downgraded the foreign- and local-currency long-term issuer default ratings of Banco Nacional de Costa Rica and Banco Popular y de Desarrollo Comunal to B from B+. It also lowered the foreign-currency long-term issuer default ratings of Banco BAC San José and Banco Davivienda (Costa Rica) to B+ from BB-.

Chilean Senate Debates Pension System Reform

Chilean opposition senators on May 13 introduced legislation to nationalize the country's pension system, S&P Global reported, citing Diario Financiero. Senators sponsoring the bill revamped the original legislation and presented it as a constitutional amendment, sending it to the chamber's constitutional committee.

IPO, Banrisul would need an investor that would pay 10 times earnings, a challenge amid the economic fallout of the coronavirus pandemic. Last month, Fitch Ratings downgraded Banrisul's outlook from stable to negative, with long-term foreign and local currency issuer default ratings at BB-, the ratings agency said in a statement.

INSURANCE NEWS

A.M. Best Affirms Rating of Costa Rican Insurer INS

Credit ratings agency A.M. Best on May 14 said it was affirming its financial strength rating of A- for Costa Rican insurer Instituto Nacional de Seguros, or INS. "The ratings reflect INS' balance sheet strength, which A.M. Best categorizes as strongest, as well as its adequate operating performance, neutral business profile

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>
> **— A.M. Best**

and appropriate enterprise risk management (ERM)," the ratings agency said in a statement. "A.M. Best is maintaining the positive outlook to reflect the still-favorable operating performance metrics posted in recent years, as well as the company's continuous and successful adaptation to the environment in which it operates." The insurer's strong risk-adjusted capitalization level is supported by its "comprehensive and adequate" reinsurance program, as well as a solid operating performance and position as the Central American nation's "leading insurer," A.M. Best said. The ratings agency's assessment of the company's business profile also includes the characteristics of the Costa Rican insurance market, derived from

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whereas the sixth pillar has a global approach. The Latin American countries added to the high-risk list are the same countries the FATF listed in February as jurisdictions under increased monitoring due to strategic deficiencies in their AML/CFT regimes. The issues the FATF lists for these countries include risk identification, implementing legal safeguards, criminal prosecutions, having effective financial intelligence units capable of conducting investigations and adequate beneficial ownership identification, among other issues. The issues listed are advantageous for criminals to enter and abuse the international financial systems through these countries' financial systems. Due to this risk, being placed on both the FATF list and the European Commission's list means that any transaction with any entity or person from any of those countries will be subject to enhanced due diligence and could serve as a disincentive for doing business with these countries. In order to be removed from these lists, the countries should take a more active approach in identifying deficiencies, passing and implementing laws that will address these issues in order to reassure other nations that they are not being complicit in financial crimes."

A **Martha Mallory, business development manager for Latin America at Trace International:** "Panama, the Bahamas, Barbados, Jamaica and Nicaragua have worked to combat money laundering over the past several years, but a lack of transparency in their financial systems has undermined these efforts. While these issues may not warrant sanctions, they create significant red flags for multinational companies and foreign financial institutions conducting business in those jurisdictions. Companies investing in these countries need to implement additional due diligence and oversight measures to mitigate the risk of their operations being tainted by a money laundering or terrorism financing scandal. The heightened risk, combined with the expense of additional compliance safeguards, may lead some companies to instead invest in jurisdictions with proven AML records. As a result of being listed as higher-risk by the European Commission, these countries could see reduced assistance from international development banks, which would inevitably undermine their Covid-19 pandemic response efforts. In order to retain critical aid and attract investment, current administrations in these countries will have to overcome the 'we've always done it this way' sentiment. Governments should fully implement AML procedures for vulnerable industries, establish transparent partnerships to identify and deter bad actors, effectively train officials to detect and combat financial crime, and increase coordination and intelligence sharing across law enforcement organizations."

A **Roland Potts, partner, and Ravika Rameshwar, associate attorney, at Diaz, Reus & Targ:** "The European Commission recently decided to broaden criteria to assess 'high-risk' countries. As a consequence of its broader criteria, the European Commission's 'high-risk' country list grew, and several countries were added without much explanation, including Panama, the Bahamas, Barbados, Jamaica and Nicaragua. Practically speaking, the effect of being included on the list is that E.U. banks and financial institutions must closely scrutinize transactions from these countries. However, a broader impact remains uncertain, since the true impact to the listed countries depends highly on the credence countries outside the European Union give to the designation. In the past, other countries have derided the European Commission's criteria to assess 'high-risk' countries. In 2019, the U.S. Treasury Department called the European Commission's process 'flawed' and urged U.S. banks to ignore the inclusion of U.S. territories on the European Commission's 'high-

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its 2008 insurance law. The assessment cites INS' "robust market share" and the Costa Rican government's guarantee to support the company's domestic obligations. INS is the country's largest insurer and has a 72 percent market share as of last December, the ratings agency said, adding that it also has exclusivity on underwriting compulsory workers' compensation and mandatory auto insurance. The company's compulsory premium segment represents 36 percent of INS' business portfolio and 26 percent of the insurance industry's total written premiums, A.M. Best added.

POLITICAL NEWS

Brazil Has World's Third-Highest Total of Covid-19 Cases

With an additional 674 confirmed cases of coronavirus reported on May 18, Brazil overtook Britain to become the country with the third-highest number of infections in the world behind only the United States and Russia, France 24 reported. As of midday on May 19, Brazil had registered 257,396 cases of

Bolsonaro // File Photo: Brazilian Government.

Covid-19. It also had 16,941 related deaths, the sixth-highest toll in the world. Experts believe that real figures could be at least 15 times higher due to a lack of testing. Amazonas state had nearly 21,000 confirmed Covid-19 cases on May 18. The number of infections has overwhelmed the health system in Manaus, the state capital, where mass graves are being used to bury the dead. Meanwhile, in São Paulo, Brazil's largest city with a population of 12 million, is facing a collapse of its health care system within two weeks, Mayor Bruno Covas recently warned, BBC News reported. More than 3,000 people have died from Covid-19 in São Paulo, and officials say most residents are not adhering to social-distancing measures. President Jair Bolsonaro has also publicly snubbed social distancing, even attending some anti-lockdown rallies, and he has clashed with state governors and two health ministers who have since left office over differences on how to approach the pandemic. The latest health minister, Nelson Teich, resigned on May 15, just four weeks after Bolsonaro fired Luiz Henrique Mandetta. Gen. Eduardo Pazuello is serving as the interim health chief, and Bolsonaro seems to be in no rush to choose his replacement, according to sources, France 24 reported.

THE DIALOGUE CONTINUES

Will the Pandemic Speed the Region's Adoption of Fintech?

Q As residents of countries throughout Latin America and the Caribbean stay home due to quarantine orders designed to slow the spread of Covid-19, more consumers are turning to technology to conduct financial transactions. In one case, Argentine mobile payments start-up Ualá saw a 20 percent jump in its issuance of prepaid cards since the country's lockdown began. To what extent will stay-at-home orders across the region accelerate the adoption of fintech? Will the pandemic significantly change the way most residents of the region conduct financial transactions? Do traditional banks need to change how they do business in order not to be left behind?

A Jan Smith, partner at KoreFusion in Mexico City: "Change will be slow. Our bank clients confirm that mobile apps and Internet banking have grown tremendously and that use of delivery services that relay card payments is up by more than 20 percent, but we think societal shifts pushing cash out are still far away. This is a contrarian view, but it is based on two overarching facts that remain unchanged: in Latin America and the Caribbean, cash accounts for 85 percent of retail payments, and banking services reach only 35 percent of the population. Will payment habits fundamentally change? In the short term, six reasons make this unlikely. First, the observed change in behavior is about how an already-banked population is accessing information and debt moratorium programs. It is not a change in payment habits. Second, the use of delivery services correlates with lockdowns, when consumers are willing to pay a service fee of an extra 5 percent to 10 percent. Going forward, and in an economic downturn, only the affluent will be able to afford this. Third, economic contraction will squeeze merchants' small margins and encourage cash to avoid paying for card transactions. Fourth, unemployment will rise, and informal hiring will return. In such times, cash is the preferred form of payment, even among banked customers. Fifth, real-time payment solutions that address P2P and P2M are still nascent and have unsolved and unbalanced economic incentives for merchants, banks and regulators. Sixth, and most importantly, banks need to move away from obsolete vertical 'command-and-control' models and earnestly become open platform ecosystems that play nicely with consumers, merchants and the still nascent fintech community."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the April 23-May 6 issue of the Advisor.

NEWS BRIEFS

Protesters Clash With Police Amid Citywide Lockdown in Santiago

Protesters threw rocks and burned piles of wood on May 18 as they clashed with police in Chile's capital, where the government has implemented a strict lockdown to fight the spread of coronavirus, Reuters reported. The clashes came as local officials warned of food shortages in one of Santiago's poorest neighborhoods. Police sprayed tear gas and fired water cannons in efforts to control the crowd.

Bukele to Seek Gradual Reopening of El Salvador's Economy Starting June 6

Salvadoran President Nayib Bukele said May 18 that he would propose to lawmakers a gradual reopening of the economy starting June 6, as strict measures to curb the spread of the novel coronavirus continue in the Central American country, Reuters reported. Bukele said he would abide by a Supreme Court decision earlier that day to suspend the state of emergency he recently declared to extend lockdown measures, a move that critics said exceeded the president's powers.

Argentina Gets Counteroffers From Creditors in Debt Talks

International creditors delivered Argentina's government three counteroffers late on May 15 as the country seeks a deal on restructuring $65 billion in foreign debt, Reuters reported. The Economy Ministry said it was studying the offers and "their implications for ... restoring the sustainability of public debt." Argentina's government has said its debt is unsustainable after two years of recession and now amid the economic fallout of the Covid-19 pandemic. [Editor's note: See related **Q&A** in the May 13 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

WTO Chief Resigns, Will Leave Office a Year Early in August

The World Trade Organization's director general, Roberto Azevêdo, on May 14 announced that he will step down on Aug. 31, a year before his term was set to expire. A 62-year-old Brazilian career diplomat, Azevêdo has headed the organization since September 2013. "It is a personal decision—a family decision—and I am convinced that this decision serves the best interests of this organization," Azevêdo said in an online meeting of WTO members. "I also want to be clear about what this is not. It is not health-related, thank goodness. Nor am I pursuing any political opportunities. I hope the future holds new challenges in store, but as of right now, I do not know what they will be." Azevêdo added, "between the lockdown and my recent knee surgery, I have had more time than usual for reflection." In his statement, Azevêdo mentioned the Trade Facilitation Agreement, the expansion of the Information Technology Agreement and decisions on food security among the highlights of his time leading the intergovernmental trade group. Azevêdo also cited the elimination of agricultural export subsidies and the enabling of more exports of goods and services from less-developed countries as accomplishments. However, Azevêdo said "much more remains to be done," including ensuring "that trade contributes to the global economic recovery from Covid-19." During his tenure, Azevêdo has been known to have frustrations over the U.S.-China trade war and the U.S. refusal to allow appointments to the organization's appellate body, The Guardian reported.

Azevêdo // File Photo: World Trade Organization.

Mexico Allows 300 Municipalities to Restart Activity

The Mexican government on May 18 issued guidelines to restart operations in the automotive, mining and construction sectors, pushing ahead with the reopening of the economy despite a growing number of cases of Covid-19, Reuters reported. The country's death toll has surpassed 5,300, and there are more than 51,600 confirmed cases of Covid-19, with its testing rate ranking among the lowest in the region, with just 0.4 tests per 1,000 people, The Guardian reported. The government gave the green light to 300 municipalities across the country, dubbed the "municipalities of hope," to restart economic activities and to begin loosening lockdown restrictions. The decision follows increasing pressure from the United States to reopen factories that are key to supply chains of U.S.-based businesses.

Puerto Rico to Spend $2.2 Bn in Federal Aid to Fight Coronavirus

Puerto Rico will spend more than $2.2 billion in federal aid to combat the spread of coronavirus, the governor said on May 14, the Associated Press reported. A large proportion of the money, $300 million, will go toward efforts to increase testing, expand contact tracing and help the unemployed, whom two months of lockdown have hit the hardest. Another $100 million will go to the island's 78 municipalities for coronavirus-related expenditures and $100 million to government agencies to clean and implement social-distancing measures in public offices. Additionally, $486 will be placed in reserve. Governor Wanda Vázquez said her administration will create a team charged with overseeing and auditing the aid.

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risk' list. As developing countries, Panama, the Bahamas, Barbados, Jamaica and Nicaragua are increasingly relying on financial services and largely depend on access to foreign banking institutions, including those with a presence in the European Union. If access to foreign financial institutions, particularly those in the European Union is important to these countries, then these countries should prioritize efforts to comply with anti-money laundering regulations and require financial institutions to conduct due diligence to protect against both money laundering and terrorist financing. Doing so may also lead to the countries being delisted and offset any perceived detriment to trade caused by stricter compliance measures. As a recent example, the European Commission removed Guyana from its 'high-risk' list due to that country's increased efforts to combat money laundering and terrorist financing, both through regulation and government-sponsored outreach and seminars. Using their neighbor as an example, there is a path to delisting, and that path is paved with compliance."

A **Earl Jarrett, member of the Financial Services Advisor board and chief executive officer of The Jamaica National Group Ltd.:** "The countries were added to the list based on the most recent findings of the FATF Mutual Evaluation Report. For Jamaica, the report cited several deficiencies, including that the Bank of Jamaica had not revised the anti-money laundering/counter-terrorism financing (AML/CTF) guidance notes to incorporate a risk-based approach in line with FATF recommendations and local legislation. The FATF also cited other factors. Among them, microfinance entities were not accounted for under the existing rules, creating a vulnerability for money laundering and terrorist financing; and Jamaica has not been able to monitor lawyers and attorneys who have been identified as facilitators of money laundering. While the Jamaican government has passed legislation to regulate the legal profession, the Jamaica Bar Association has filed an injunction against its implementation, an action that the FATF considers a vulnerability. The FATF notes the low levels of prosecution for money laundering in Resident Magistrates' courts and has made suggestions for increasing the number of cases. The report identified potential threats from not-for-profit and nongovernmental organizations and also signaled the risk from nonfinancial businesses, such as real estate agents, casinos and other types of cash-intensive businesses. While the FATF report was not all negative, citing improvements made since the 2005 and 2014 assessments, it is clear that much more needs to be done. The blacklisting could hurt some countries as the European Union will not provide development assistance to them. However, this international shaming will also result in strong remediation action. Already, central bank governors and ministers of finance have made public pledges to their citizens to have their countries removed from the listing within one year. It is hoped that this negative report will cause policymakers to critically review their economies to minimize the factors that provide a hospitable environment for criminals, including reducing the use of cash by incorporating noncash payment systems, digitizing land and motor vehicle titles and registration, implementing national identification systems and encouraging every citizen to use banks. Existing governance frameworks should also be reviewed to centralize the investigation and prosecution of money laundering and terrorist financing activities."

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

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