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FEATURED Q&A

How Hard Will the Pandemic Hit Latin America's Banks?



Chile's Itaú Corpbanca, one of whose branches in Santiago is pictured above, is among the banks seeing challenges this year due to the economic fallout of the coronavirus pandemic. // File Photo: Carlos yo via Creative Commons.

Q Consumer banks in Latin America and the Caribbean are facing declines in revenues as the coronavirus pandemic shocks the region's economies. Among them is Chile's Itaú Corpbanca, which said a \$930 million impairment charge that was "primarily the result of economic conditions" would make it unlikely for the bank to post a profit or pay dividends this year. Where in the region will the pandemic and economic downturn hit commercial banks the hardest, and where will banks weather the crisis relatively well? What traits do the region's most resilient banks have? Which segments of commercial banks' activity will be the most robust, and which will suffer?

A Theresa Paiz Fredel, senior director for Latin America Financial Institutions at Fitch Ratings in New York: "Fitch expects the pandemic and economic downturn in Latin America and the Caribbean to hit commercial banks the hardest in Brazil and Mexico as these countries face steep economic recessions this year with very weak recoveries in 2021. In Brazil, the financial performance of most banks had been improving despite sluggish economic growth prior to the pandemic; however, the sharp recession will derail this recovery. Mexico's limited fiscal response to the crisis relative to other countries in the region could increase downside risks to an economic recovery. This will be negative for the financial system due to the adverse impact on business and household income, which will affect borrowers' repayment capacity and consequently lead to higher impairments and credit costs. The pandemic's impact should be more manageable for Panamanian

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JPMorgan Buys Minority Stake in Brazil's FitBank

JPMorgan has bought a minority stake in FitBank, a Brazil-based digital banking and fintech firm. FitBank is looking to grow to markets outside Brazil.

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INSURANCE

Beazley Offering Cyber, Financial Coverage in Colombia

Specialist insurer Beazley has started offering cyber and financial insurance coverage that is designed for businesses and senior executives in Colombia.

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PENSIONS

Chile's Piñera Approves Pension Withdrawal Bill

Chilean President Sebastián Piñera signed into law a measure to allow citizens to withdraw a portion of their pension funds amid the economic fallout of the Covid-19 pandemic. His government had opposed the measure.

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Piñera // File Photo: Chilean Government.

BANKING NEWS

JPMorgan Buys Minority Stake in Brazil's FitBank

New York-based JPMorgan has bought a minority stake in Brazilian digital banking and fintech firm FitBank, Citywire reported July 15. The investment comes as FitBank is looking to grow beyond Brazil to other Latin American countries, but the firm did not disclose specific details of the purchase, including how many shares were bought or for how much. Founded in 2015, FitBank provides bill payment, online treasury, financial management, transfers and escrow services, according to its website. Around 96 clients have used its technology for 180,000 accounts, according to Brazilian newspaper Valor Econômico, Finextra reported. Additionally, the fintech firm facilitates transactions of approximately one billion Brazilian reais (around \$187 million) per month, Citywire reported. "The strategic investment in FitBank is an important addition to sustaining and growing our leadership in wholesale payments within Latin America," said Renata Vilanova Lobo, the head of Brazil wholesale payments at JPMorgan. "Our clients, both local corporates and international [multinational corporations], are looking to JPMorgan to help simplify digital payments in the region and provide them access to various new payment types unique to Latin America," she added. Vilanova Lobo is set to take a seat on FitBank's board as part of the deal.

INSURANCE NEWS

Beazley Starts Cyber, Financial Coverage in Colombia

London-based specialist insurer Beazley has started offering cyber and financial insurance coverage in Colombia, Reinsurance News re-

ported July 21. The offerings are designed for businesses and senior executives in the South American country. The insurer's information security and privacy, or InfoSec, policy is aimed at protecting against cyber and data security risks that can affect businesses in Colombia. Beazley's core policy provides customers with first- and third-party coverage, as well as costs for managing any data breaches and coverage for e-crimes, Reinsurance News reported. Additionally, the InfoSec policy will provide coverage of costs associated with legal, notification and forensic services, as well as fraud and loss prevention, and public-relations and crisis-management support. The coverage also includes directors' and officers' liability as well as professional liability for asset manager.

PENSIONS NEWS

Chile's Piñera Approves Pension Withdrawal Measure

Chilean President Sebastián Piñera on July 24 signed into law a measure to allow citizens to withdraw as much as 10 percent of their pensions savings, as people lined up at the administrator's office in Santiago to take advantage of the economic relief, Reuters reported. The president's office said Piñera had signed the bill late on July 24 but made no comment on its content. The government had staunchly opposed the legislation while it was being discussed in both houses of Congress, even announcing it would help support citizens with public money instead. It also warned of long-term consequences on the profitability and already low average payouts of pensions. In previous statement, Piñera's office said the president would sign the plan into law in response to the widespread support given the country's "difficult economic and social situation," CNN en Español reported. Lines formed on July 24 outside offices of pension fund administrators, with polls showing that nearly nine out of every 10 Chileans planned to dip into their pension funds. Economists say

NEWS BRIEFS

Brazil Will Let WhatsApp Payments Operate if Rules Are Followed: Official

Brazil's central bank will allow Facebook's WhatsApp messaging platform to operate a payments service if all rules are followed, central bank director João Manoel Pinho de Mello said July 20, Reuters reported. "We will allow it, no problem," as long as rules are followed, he said during an online event. The central bank suspended the payments service last month, saying it needed to examine whether it can operate safely and allow competition. [Editor's note: See [Q&A](#) in the July 2-15 issue of the Financial Services Advisor.]

Banco G&T Continental Introduces Digital Bank in Guatemala

Guatemala's Banco G&T Continental has introduced what it said is the country's "first 100 percent digital bank," Finextra reported July 23. The digital bank, called "DIG&TAL," will allow users to open accounts by using a smartphone, a process that Banco G&T Continental said is quick, "seamless and paperless." The offering will also give the bank's customers access to an electronic wallet for purchases.

Credit Suisse Taps Chilov as Wealth Management Head for Brazil

Credit Suisse has appointed Marcello Chilov as its new head of international wealth management for Brazil, the bank said in a statement July 27, Finews reported. He will report directly to Philipp Wehle, who heads the division. Chilov has worked at Credit Suisse for the past 11 years, and he has more than 20 years of experience in banking. Previously, he was responsible for transactions, tactical and structured solutions at IWM in Brazil, according to the report.

that Chile's struggling economy could get a short-term boost, with a total estimated \$16.65 billion potentially to be used for consumption, according to think tank Ciedess, Reuters reported. However, they also warned of the negative impact on pension funds, which hold more than \$200 billion in assets and which may liquidate local stocks and bond holdings to pay out savers.

Mexico's López Obrador Unveils Pension Reform Plan

Mexican President Andrés Manuel López Obrador on July 22 unveiled a plan to overhaul the nation's \$266 billion pension system, including an increase in companies' contributions to employee retirement funds, in a rare display of unity with business leaders, Bloomberg News



López Obrador // File Photo: Mexican Government.

reported. The president announced the reform plans in his morning press conference, saying the proposal will prevent a looming retirement crisis. The bill would increase pensions for employees by 40 percent overall, Finance Minister Arturo Herrera said at the event, talking alongside business, union and congressional representatives. Under the plan, employers will contribute 2.7 times more than what they currently do, Herrera said, *Expansión* reported. The bill was immediately sent to the lower house of Congress. The bill was similar to a recent proposal made by the country's conservative opposition party. Jonathan Terluk, an analyst at Mexico City-based political consultancy Empra, said "[the bill] will be readily passable in some form that is similar to what is being presented." Adding, "That seems to rarely happen with this

FEATURED Q&A / Continued from page 1

banks as Fitch expects a shallower recession and quicker recovery in Panama relative to other Latin American countries. Despite weaker profitability, in part due to dollarization, these banks entered the crisis with solid capitalization buffers above regulatory minimums and better asset quality, which will support their resilience. Regardless of the market, Fitch expects those banks with a diverse business model and strong loss absorption capacity to weather the crisis better than their peers. Some specialized banks with business models focused on foreign exchange trading or payroll loans to public sector employees may also perform better. However, the performance of banks with high exposures to unsecured SME, microfinance or consumer loans, or energy, transportation, nonfood retailers or lodging and leisure sectors, will face greater pressures."

A **Alfredo Calvo, senior director and sector lead for financial institutions ratings at S&P Global Ratings:** "There is a strong link

between the economic dynamics and credit fundamentals of banks in Latin America and the Caribbean. In general, banks operating in countries in which we expect a stronger recovery, due to the prudent handling they have led of the pandemic and considering the stimulus packages offered by their governments, will be better positioned to face this crisis. This is the case of banks operating in Chile and Peru. In contrast, Mexican and Argentine banks may be the ones that will face the greatest challenges due to the severe economic slump in 2020 and the weak recovery for 2021. However, it's fundamental to understand the credit strengths and weaknesses with which banks, individually, reached this Covid-19 crisis. Those banks that entered the crisis with moderate credit growth dynamics, with healthy balance sheets and well-diversified loan portfolios—reflected in manageable levels of nonperforming assets and fully

covered by reserves—and with thick margins, representing a good buffer before the capital base can be affected by potential losses, will be in better conditions to resist the difficult environment. In addition, those banks with solid capitalization and those that are mainly

“**Mexican and Argentine banks may be the ones that will face the greatest challenges due to the severe economic slump in 2020...**”

— Alfredo Calvo

financed with deposits—especially if those are made up of an important component of retail deposits, thus favoring their funding diversification and financing costs, even in scenarios of high market volatility—will resist in better shape. In general, banks in the region have limited exposure on their balance sheets to foreign currency. Those banks with broader exposures in foreign currency or dependent on wholesale and external funding will be more sensitive to a scenario of weakening currencies in Latin America.”

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "With Latin America falling into its deepest recession in at least the past half century, the region's banking system and businesses are facing severe constraints, with some of them already dealing with the risk of bankruptcies. Crisis and recession always put the banking system in a difficult situation as its operation depends on the health of businesses and the activity of consumers. As private and public firms start having financial issues, people start losing their jobs, consequently resulting in the deterioration of banks' balance sheets. Financial problems

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administration." He also said that the proposal was "conciliatory" between the government and corporate leaders, Bloomberg News reported.

POLITICAL NEWS

Bolsonaro Accused of Crime Against Humanity Over Covid

A group of unions and social groups representing Brazilian medical professionals have filed a complaint against President Jair Bolsonaro in the International Criminal Court, accusing him of a crime against humanity over his response to the Covid-19 pandemic, NPR News reported July 27. Brazil has more than 2.4 million reported cases of the disease and more than 87,600 confirmed deaths related to it, more reported cases and deaths than any other country in the world except the United States. In the complaint, filed at the court in The Hague, Brazil's UNISAúde network accused Bolsonaro of "serious and deadly failures" in his handling of the pandemic, saying that the loss of life attributed to the disease amounted to "genocide," Newsweek reported. Among actions by Bolsonaro cited in the complaint is his repeated touting of hydroxychloroquine, an anti-malaria drug that has not proven to be effective in fighting the novel coronavirus. Most recently, a study carried out in Brazil and published July 23 in The New England Journal of Medicine found hydroxychloroquine to be ineffective in treating those who were infected with the coronavirus. However, just two days later, Bolsonaro tweeted a photo of himself holding a pack of the drug and giving a thumbs-up gesture, saying that after three positive tests for Covid-19 in recent weeks, his latest test came back negative. "RT-PCR for Sars-Cov 2: negative. Good morning everyone," he tweeted. Bolsonaro has also downplayed the disease and has shunned lockdown measures that state governors have ordered in order to curb the virus' spread. In the complaint, the medical professionals accused Bolsonaro of committing a crime against humanity through reacting to the pandemic with

ADVISOR Q&A

How Might U.S. Sanctions Policy Toward Latin America Change Next Year?

Q Since taking office, U.S. President Donald Trump's administration has toughened sanctions against some Latin American governments in an effort to exert pressure on those countries' leaders. The Trump administration recently sanctioned officials of President David Granger's government in Guyana following the country's disputed election. U.S. sanctions have also targeted Venezuela's oil industry, the assets of top Nicaraguan government and military officials, and some remittances to Cuba. If Trump wins re-election in November, how could sanctions involving Latin American countries expand or otherwise change in his second term? If Joe Biden is elected president, to what extent would sanctions involving the region change? In the area of sanctions policy, what is most at stake for businesses in the U.S. presidential election?

A Seth Stodder, partner at Holland & Knight: "A Biden presidency will mark a major shift in U.S. foreign policy toward Latin America, but I would not expect much change regarding Venezuela, Guyana and Nicaragua. On Venezuela, it is possible we may see an even tougher approach, given Vice President Biden's criticism of Trump for saying he would be willing to meet with Venezuelan President Maduro. Biden has not made any specific comments on Guyana, but

"contempt, neglect and denial," NPR reported. Meantime, 152 Catholic bishops in Brazil have signed an open letter, saying Bolsonaro's government is not capable of handling what it called a "perfect storm" that resulted from an "unprecedented health crisis, overwhelming economic collapse" and "tensions" among key

he is likely to maintain the visa sanctions imposed on Guyanese officials in response to President Granger's refusal to transfer power after the recent election. Biden has not commented specifically on Nicaragua, but given the Ortega regime's corruption, human rights abuses and open support for Maduro, a lifting of sanctions seems unlikely—at least until after Nicaragua's 2021 election. Cuba policy, however, is one area where a Biden victory would likely have a major impact, as Vice President Biden has advocated resuming President Obama's normalization of U.S.-Cuba relations and lifting trade and travel restrictions—in part reversed by President Trump. That said, Biden has also been very critical of recent human rights abuses by the Cuban regime, and he was also very critical of Senator Bernie Sanders' praise of certain Cuban policies during the Democratic primary campaign. So, I would not expect an immediate resumption of normalization efforts by a President Biden, as it will likely depend on improvements in the Cuban government's human rights record. But as trade and travel restrictions are again lifted, this may provide businesses with significant opportunities in Cuba."

EDITOR'S NOTE: More commentary on this topic appears in the July 28 issue of the Latin America Advisor.

government institutions, NPR reported. In the letter, the bishops said Bolsonaro's government in a "systematic" way has used "unscientific arguments ... to normalize a Covid-19 plague that is killing thousands, and to treat this as if it was an accident or divine punishment." In Brazil, the coronavirus outbreak has stabilized

NEWS BRIEFS

Guyana's Court of Appeal to Issue Final Ruling on Election July 30

Guyana's Court of Appeal said July 25 that it will provide a final ruling regarding ongoing challenges with the disputed March 2 regional and general elections on July 30, the Jamaica Gleaner reported. The case is in connection with the Guyana Elections Commission's move to make a declaration of the March 2 elections, using votes by the national recount process, which the challenger alleges was ruled unconstitutionally by the Caribbean Court of Justice, or CCJ, on July 8. Both the elections commission and the CCJ declared a win for the opposition.

Mexico's Transportation Minister Steps Down

Mexican President Andrés Manuel López Obrador said July 23 that he had accepted the resignation of Transportation Secretary Javier Jiménez Espriú, saying the two had a "dispute" over the president's decision to hand over the administration of the country's customs operations to the military, the Associated Press reported. In his resignation letter, Jiménez expressed concern about "the serious consequences" the measure will have, the wire service reported.

Inmates Demand Covid-19 Tests in Protest on Bolivian Prison's Roof

Inmates at a prison in central Bolivia protested on the facility's rooftop on July 27, demanding medical services following the deaths of three inmates, including one suspected of having Covid-19, the Voice of America reported. Prisoners held up banners including one that read, "We want Covid-19 tests." The protests over health concerns comes after the recent deaths of 23 people in the San Pedro Jail in La Paz, reportedly due to coronavirus.

in areas including São Paulo, where most of the country's related deaths have occurred. However, the number of cases is rising in 10 of the country's states, and the average daily death toll has remained above 1,000 for nearly nine weeks. NPR sought comment from Bolsonaro's office on July 27 but was referred to the attorney general's office, which said that it would respond only after receiving formal notification from the International Criminal Court.

El Salvador Arrests Former Defense Chief Over Gang Pact

Authorities in El Salvador have arrested former Defense Minister David Munguía Payés in connection with a pact involving the country's main gangs in 2012, the Associated Press reported July 24. Munguía was arrested for his alleged involvement in relation to the pact that was formed during the administration of then-President Mauricio Funes, said the country's current attorney general, Raúl Melara. The government struck the deal with the Mara Salvatrucha and Barrio 18 gangs in an effort to lower El Salvador's murder rate. In exchange, authorities moved some imprisoned gang leaders from high-security to medium-security prisons, from which they were able to continue managing the gangs' activities, the AP reported. Melara said investigators determined that Funes and Munguía devised the pact, adding that El Salvador's attorney general's office is also pursuing Funes, who fled to Nicaragua and was granted asylum in 2016. In a posting on Twitter, Funes denied involvement in the pact. "I never met with gangsters, nor did I order any official to do so," he said in the posting. "I never ordered nor authorized prison privileges for any gang member." Munguía's attorney, Manuel Chacón, on July 23 said he had not been informed of the charges against the former defense minister, adding that he and Munguía had long known about the investigation into the gang pact because prosecutors had Munguía testify several times about it. In another case related to the gang pact, Munguía said the agreement was a public policy that originated from Funes'

cabinet. "My role was to facilitate the work of the mediators and receive reports from the mediators and members of the [Organization of American States] and keep the president of the republic informed of advances in the process," Munguía said at the time. Chacón told the AP that he would ask a judge to allow Munguía to remain out of jail as he awaits trial because he is older than 70 and has enough family ties in El Salvador to prevent him from fleeing the country. While the pact was in force, El Salvador's homicide rate fell from about 14 killings per day to five. However, the agreement fell apart in 2013 after the country's Supreme Court removed Munguía from his position as defense minister and authorities ended privileges that they were providing imprisoned gang leaders. The country's homicide rate then increased again, the AP reported.

ECONOMIC NEWS

Brazilian Economy Minister Presents Tax Reform Proposal

Brazilian Economy Minister Paulo Guedes on July 21 unveiled to congressional leaders the first part of the government's tax reform proposals, a plan that will combine two federal consumption taxes into a single value-added tax, Reuters reported. The new single tax on goods and services, to be known as CBS, would replace the so-called PIS and Cofins federal consumption taxes and be set at a rate of 12 percent, the economy ministry said, adding that it will be simpler, cheaper and more efficient for companies to apply, in addition to more transparent for consumers. Guedes said the tax reform will lead the pace of the government's broader economic reform agenda. Guedes did not mention the possibility of a controversial financial transactions tax, which could have sparked opposition in Congress, the Financial Times reported. The government indicated, however, that this was only the "first phase" and more proposals will be made, the newspaper reported.

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are more evident in countries more affected by the negative impacts of the coronavirus pandemic, such as the cases of Brazil,

“**The banks that will suffer more are the ones mostly focused on retail consumption and on small businesses...**”

— Alfredo Coutiño

Peru, Mexico, Argentina and Chile, where banks are facing increased risk of defaults. Conversely, banks show better conditions in countries with strong fundamentals and whose economies were performing at solid rates, as in the case of Colombia. In general, the more vulnerable an economy is in terms

of macroeconomic imbalances, the more exposed the banking system remains. Banks with better practices are the ones that will weather the crisis well. However, the banks that will suffer more are the ones mostly focused on retail consumption and on small businesses, precisely because of their higher risk of default. It would not be a surprise to see the bankruptcy of several banks and other businesses this year, accompanied by government intervention to avoid a systemic risk that could aggravate the already deteriorated situation of Latin American countries. In particular, governments are forced to intervene when deteriorating financial conditions of big institutions put the financial system at risk.”

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

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