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FEATURED Q&A

Are Mexico's New Reforms a Good Deal for Pensioners?



Mexican Finance Minister Arturo Herrera said a proposed reform will increase the average worker's pension. // File Photo: Mexican Government.

Q Mexico's government and the country's private sector have ironed out the details of a pension reform that is expected to take effect early next year, the Finance Ministry said July 22. Under the plan, the average worker's pension will rise 40 percent, said Finance Minister Arturo Herrera. Is the new plan likely to be approved in Mexico's Congress? Where is the increased payout coming from? How will the proposal affect workers and the country's current pension funds, known as the Afores? What are the proposal's main benefits and drawbacks?

A Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "Right now, with Morena ruling the roost, it would be an easy exercise for the current government to pass the new plan. Nobody in the government has talked about the extra costs. The employers will be required to increase their contribution from 5.151 percent to 13.875 percent in eight years. That will add to the cost of doing business for the private formal sector. They will react by reducing employment in the formal sector by hiring people either through 'honorarios' or by hiring more in the informal sector. The result will be a reduction of formal full-term employment in the private sector. There will also be additional costs by reducing the vesting period from 25 to 15 years. The cost for the 'top up' to 13.875 percent for people with less than four times the Measurement and Evaluation Unit, or UMA, inflation indexing benchmark, will be borne by the government. Given the employment conditions today, I estimate that cost will amount

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TOP NEWS

BANKING

Brazilian Banks Extend Deadlines on Repayments

Brazil's four largest banks are extending the loan repayment deadlines on some 235 billion reais (\$43.98 billion) in loans amid the coronavirus pandemic.

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REMITTANCES

Remittances to Mexico Rise in Year's First Half

Remittances to Mexico unexpectedly rose by 10.5 percent in the first six months of this year, according to the central bank, despite the economic devastation of the Covid-19 pandemic.

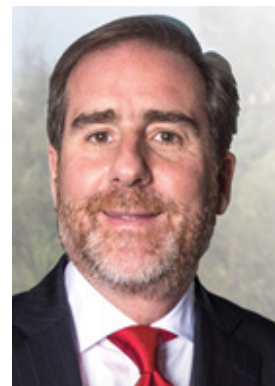
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BANKING

Banco Santander México Posts Fall in Profit of 24.6%

Banco Santander México posted net income of 4.2 billion pesos (\$191 million) for the second quarter, a year-on-year decline of nearly 25 percent. Still, CEO Héctor Grisi said the bank "remains strong and focused."

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Grisi // File Photo: Banco Santander.

BANKING NEWS

Brazilian Banks Extend Deadlines on Billions in Loans

Brazil's four largest lenders are extending payment deadlines for some 235 billion reais (\$43.98 billion) in consumer and business loans as the coronavirus pandemic hits the country's economy and borrowers' ability to repay, Reuters reported Aug. 7. The loans included in the forbearance programs involve 13 percent of Banco Santander Brasil's portfolio and 10 percent of the loan book at Itaú Unibanco Holding, the wire service reported. The forbearance programs also involve 11.6 percent of the loan portfolio at Banco do Brasil and 12.75 of the portfolio at Banco Bradesco. It is not clear how many borrowers will be able to repay the debts after the end of the grace periods, which last between 60 and 180 days. U.S. banks have offered similar extensions and have acknowledged that some borrowers will be unable to pay their debts after the end of the forbearance programs. Brazilian banking executives have not made firm predictions on expected future losses on loans that go bad, but they have said defaults may not be as widespread as initially feared, citing signs of economic recovery in Brazil. However, in conference calls over the past weeks, Brazilian bank CEOs have said 90-day default ratios are likely to soar at the end of this year or the beginning of next year. Itaú CEO Candido Bracher said he expected default ratios to hit record highs. "Brazil's GDP is poised to drop by unseen levels, so it is natural that there will be higher loan delinquency rates," Bracher told reporters on a conference call, wire services reported. Bradesco CEO Octavio de Lazari told Reuters that default ratios could reach approximately 3.7 percent. Lower interest rates in Brazil could make debts more manageable for borrowers, said Lazari. Brazil's central bank recently cut its benchmark Selic interest rate to a record low of 2 percent. In 2016, during Brazil's most recent recession, interest rates stood higher than 14 percent.

Santander's Mexico Unit Posts 24 Percent Drop in Net Income

Banco Santander México on July 29 posted its second-quarter results, with a net income of 4.2 billion pesos (\$191 million), a 24.6 percent fall year-on-year and 21.9 percent drop quarter-on-quarter. On a cumulative basis, net income for the first half of the year reached 9.6 billion pesos, a 11.5 percent decrease from a year earlier, the bank said. "This past quarter has been quite challenging as we started seeing the impact of the pandemic on the Mexican economy on our business and of course on our results," Héctor Grisi, executive president and chief executive officer of Santander México, said during an earnings call. "Despite the impact, let me assure you that our bank remains strong and focused," he added. During the second quarter, loan volumes grew more than 7 percent year-over-year, as the bank saw a shift in its portfolio mix toward lower yielding segments, Grisi said. Additionally, loans to consumer and small and medium-sized enterprises also started to contract, in line with market trends. "Although asset quality deteriorated only slightly in the quarter, we decided to book precautionary loan loss provisions of 3.9 billion pesos in addition to normal quarterly provisions, in preparation for higher future losses," Grisi added in a statement. [Editor's note: See related [Q&A](#) in the July 29 issue of the Financial Services Advisor.]

Itaú Unibanco Buys Paraguayan Brokerage Verbank

Brazil's Itaú Unibanco has acquired Paraguayan brokerage house Verbank Securities Casa de Bolsa, Citywire reported Aug. 4. Paraguay's central bank recently approved Itaú's purchase of 100 percent of Verbank's shares. The transaction's cost was not disclosed. As a result of the purchase, Verbank, which has more than 10 years of experience in Latin

NEWS BRIEFS

Cape Verde Court Rejects Money Laundering Appeal From Colombia's Saab

A court in Cape Verde has rejected an appeal by Colombian businessman Alex Saab, who was arrested there in June on money-laundering charges in connection with the government of Venezuelan President Nicolás Maduro and is seeking to avoid extradition to the United States, Saab's defense team said Aug. 4, Reuters reported. The U.S. government has accused Saab of being involved in a bribery scheme to benefit from Venezuela's state-controlled exchange rate. It has also blacklisted him for allegedly orchestrating a corruption network in relation to a state food subsidies program in Venezuela.

Chile's CMPC Closes on \$100 Million Loan Linked to Sustainability KPIs

BNP Paribas on Aug. 7 announced that it has closed a \$100 million syndicated revolving credit facility structured as a sustainability-linked loan with Empresas CMPC, a major Chilean pulp and paper company. The Europe-based bank said the loan is the first of its kind in Chile and includes comprehensive environmental key performance indicators, or KPIs, such as greenhouse gas emissions, industrial water use, industrial waste to landfill, and land areas set aside for conservation.

Colombia's Sempli Launches Digital Card for Start-up Businesses

Colombian financial technology firm Sempli is launching a digital-first credit card for start-ups and small and medium-sized enterprises, or SMEs, in the Andean nation, Contxto reported Aug. 5. Holders of the Sempli Business card would pay vendors immediately and then have 30 days to cover the bill, according to the report.

American capital markets, will change its name to Itaú Investe, local Paraguayan newspaper La Nación reported. Itaú said it was looking to grow its brokerage business in Paraguay through the acquisition while at the same time seeking to attract foreign investors and create a secondary fixed income market to make Itaú Investe the largest wholesale bank in Paraguay, Citywire reported. Under the deal, the management of Verbank will be handed over to the Brazilian bank's executives. According to a market filing by Itaú on July 22, Verbank had approximately \$424,000 in assets at the time of the purchase and no active client accounts while making trades through an in-house desk, Citywire reported. "We know that our friends in Itaú will continue with our principles and will make an enormous contribution to the local market," Jorge Usandivaras, the founder of Verbank Securities, said in a statement, La Nación reported.

REMITTANCES NEWS

Mexico's Remittances Unexpectedly Rise in Year's First Half

Remittances to Mexico unexpectedly rose by 10.5 percent in the first six months of the year despite the economic devastation wrought by the coronavirus pandemic, Mexico's central bank announced Aug. 3, the Associated Press

Mexicans abroad sent home about \$19 billion between January and June.

reported. Mexicans abroad sent home about \$19 billion between January and June, up from the \$17.25 billion registered in the same period last year, Mexico News Daily reported. Remittances in March reached a record monthly high of \$4 billion. Additionally, money sent home from abroad, which makes up a

FEATURED Q&A / Continued from page 1

to between 0.3 percent and 0.4 percent of GDP per year. The extra requirement for the Afores to reduce the fees is a welcome change in the right direction that should have been done a long time ago. It will increase the final value of the Afore for the workers by at least 5 percent. The big question is: Where will that extra money be invested? Will the Afores be allowed to freely invest in what they see fit or will they be forced to invest the extra inflow to government-directed infrastructure? If the government requires the latter, then we will see a rise in investment in white-elephant projects such as the Tren Maya or the oil refineries in Tabasco. That will be a disaster for the workers in the long run. They will have lower final payouts in their retirement funds."

A **Leslie Palma, senior counsel, and Juan Pablo Moyano, associate, at Holland & Knight in Mexico City:** "President

López Obrador's pension reform proposal is pending approval in Mexico's Congress, but it is very likely that lawmakers will approve it, given that the president has an overwhelming majority in Congress. Broadly speaking, this proposal greatly benefits employees. Employees previously had to work in formal jobs for 25 years in order to receive a pension through this system, but the time they would have to work under the reform will be shortened to 15 years. Retirees' pensions are comprised of contributions by employers, employees and the government.

significant portion of Mexico's gross domestic product, rose to \$3.53 billion in June, up 4.7 percent from May and 11.1 percent from the same month a year earlier. The money, which is the second-highest source of foreign exchange for Mexico after auto exports, comes mainly from Mexicans living and working in the United States. Given the plunge of the Mexican peso so far this year, remittances sent in dollars have an even higher value, the AP reported. When measured in local currency, remittances

López Obrador's proposal will modify employer contributions, which will be gradually increased from 5.15 percent to 13.7 percent over a period of six years. Additionally, the reform seeks to gradually reduce the

“Broadly speaking, this proposal greatly benefits employees.”

— Leslie Palma & Juan Pablo Moyano

commissions charged by the retirement fund administrators, or Afores, down to 1 percent. Also, through federal contributions, the country's lowest-paid workers will see significant increases under the proposed reform. Finally, the percentage of workers entitled to a pension will increase from 57 percent to 97 percent, and 82 percent of the population will have access to a pension, up from 34 percent. Therefore, in the future, more employees will receive higher pensions."

A **Alma Caballero, director at McLarty Associates:** "The reform, which will affect more than 20 million Mexicans, is expected to be approved by the Mexican Congress by early 2021 as it enjoys ample support from political parties, trade unions and business associations. This historic reform marks a big step for the AMLO administration in finding common ground with the business community, congressional leaders and the

Continued on page 6

in the first half of the year grew by 25.5 percent year-on-year, Alberto Ramos, an analyst for Latin America at Goldman Sachs, said in a note to clients. "The sharp contraction of activity and employment in the [United States] have not impacted in a visible way the flow of remittances to Mexico," Ramos wrote. "Generous wage/income support fiscal transfers in the U.S., a very competitive MXN/USD level, and a deep contraction of activity and employment in Mexico may have acted as both push and pull

drivers of dollar remittances from the U.S. to Mexico," he added.

INSURANCE NEWS

BB Seguridade Likely Hit Sales Records in July

Brazilian insurance company BB Seguridade is likely to have reached a monthly sales record in July in products such as pension plans and credit life insurance, as the state-controlled company begins to gradually recover from the economic crisis brought on by the coronavirus pandemic, Chief Executive Bernardo Rothe said in an interview with Reuters published Aug. 3. "The company has seen some sales recovery since April, and July is poised to be the best sales month for many of our products," Rothe said. BB Seguridade published its second-quarter figures, with a recurring net income of 982 million reais (\$184 million), 9 percent lower than a year earlier, as pension plan premiums and gains from investments were down while claims rose. This trend offset lower operating expenses, according to the report. Rothe, who took over as CEO 15 months ago, said he expects performance to pick up pace by the end of the year, although gains from investment should continue a downward trend as Brazil's benchmark rates remain at all-time lows.

POLITICAL NEWS

Rowley Appears to Hold Onto Power in Trinidad & Tobago

Prime Minister Keith Rowley's People's National Movement (PNM) appears to have held onto power after national elections in Trinidad and Tobago held Aug. 10, but with a reduced majority, the Trinidad Express reported. If confirmed, the PNM has won a three-seat

ADVISOR Q&A

Will a Probe Spell Defeat for Puerto Rico's Vázquez?

Q Prosecutors in Puerto Rico have targeted Gov. Wanda Vázquez and other top officials in an investigation involving the alleged mismanagement of supplies for victims of earthquakes that hit the U.S. territory. Vázquez is accused of firing one justice secretary in connection with the probe, though the governor denies that retribution was the reason for the dismissal, and another justice secretary has resigned in the matter. The developments come just ahead of the commonwealth's gubernatorial primary, in which Vázquez is a candidate. How will the scandal affect Vázquez's chances at re-election? Will the investigation prevent Vázquez from pushing through other parts of her agenda? What will be the long-term effects of the turnover in Puerto Rico's justice department?

A Cate Long, founder of the Puerto Rico Clearinghouse: "Corruption in Puerto Rico's government is endemic, and in my opinion, the root cause of its bankruptcy. The Puerto Rican people have by and large given up hope of any systemic reform to the government contracting process, which very often is plagued with nonexistent or weak auction process and contract requirements that predetermine that a specific bidder is awarded a contract. Contracts less than \$150,000 do not require competitive bidding. This all leads to contracts often being

majority, losing one seat in Parliament. "We have contested and contested hard but at the end of the day the prize was the majority of the seats to form the government," Rowley said in his victory speech. However, as the Advisor went to press, opposition leader and former Prime Minister Kamla Persad-Bissessar, with the center-left United National Congress, or

awarded to 'soul friends' or individuals or companies who make political contributions. The recent allegations made against Gov. Wanda Vázquez Garced are similar in form to prior allegations against government officials. Often the allegations are made as a form of political warfare, in the current instance ahead of Puerto Rico's primary election, and will likely be dropped once the primary is concluded. Many Puerto Rican governors have continued to govern with political scandals hanging over them. The exception was Ricardo Rosselló, who was forced from office last year, mainly for offensive personal remarks rather than government corruption. Congress imposed an oversight board to put structural reforms in place to reduce government corruption, but it has done nothing, and the corruption continues unabated. The most important reform for Puerto Rico would be to eliminate 'positions of confidence,' which are political appointees who are given leadership positions in government agencies based on political affiliations. Often, it is these individuals who award no-bid contracts to 'soul friends.' The cycle must be broken to create a less corrupt government in Puerto Rico."

EDITOR'S NOTE: More commentary on this topic appears in the Aug. 6 issue of the Latin America Advisor.

UNC, said the election fight is not over until votes are recounted from three marginal seats, and that she will not concede defeat until this happens. "Tonight I am not giving any concessionary speech. I am not conceding," she said election day at around 11 p.m. local time. Endowed with deposits of oil and gas, the twin islands of Trinidad and Tobago have not fared

NEWS BRIEFS

Jamaica's Holness Could Call For General Election as Soon as Sept. 2: Report

Jamaican Prime Minister Andrew Holness is expected to call for a general election to take place as soon as Sept. 2 or 3, the Jamaica Gleaner reported Aug. 9. Holness, the leader of the ruling Jamaica Labor Party, intends to hold the elections in order to avoid interrupting the return of students to school. In July, Jamaica's Parliament approved five emergency powers resolutions due to the coronavirus pandemic to extend the current states of public emergency until Sept. 3.

Bolivian Protests Stretch Into Second Week

More than 70 blockades set up by workers' unions and other groups halted commerce and traffic across Bolivia on Aug. 9, La Razón reported. Over the course of the previous week, the demonstrators, who are demanding that a previously agreed-upon election schedule continue as planned, dynamited passes in the Andean country in protest of several delays to a repeat of last October's contested elections, which led to the longtime president of the country, Evo Morales, fleeing to Mexico amid election fraud allegations.

French Director of NGO Killed in Guatemala

The French director of a nongovernmental organization in Guatemala was killed Aug. 10 in an armed attack in the northeast of the country, Agence France-Presse reported. Benoit Maria, who had lived in the Central American country for 20 years, was the country director of Agronomes et Vétérinaires Sans Frontières, or AVSF, an agriculture and animal health NGO. Maria oversaw agricultural projects aimed at benefiting the indigenous Mayan Ixil communities, according to the report. The motive for the attack is not yet known.

well economically over the past decade, with GDP contracting seven out of the last 10 years due to lower energy prices, Reuters reported. Rowley also faced headwinds over unpopular economic migrants fleeing nearby Venezuela. The ruling party has said it will continue to seek to diversify the economy by boosting exports of energy services, digitizing services to improve the ease of conducting business and supporting the private sector, according to the report. If confirmed the winner, Rowley will serve a five-year term as prime minister.

ECONOMIC NEWS

Argentina Deal With IMF Only Possible Next Year: Guzmán

Argentine Economy Minister Martín Guzmán said Aug. 10 that talks over the country's \$44 billion debt with the International Monetary Fund "will be tough and will take months," suggesting that it will be possible to close a deal "only at the beginning of next year," state news agency Télam reported. "We do not see a quick agreement due to the number of issues that must be negotiated," Guzmán said in a local radio interview. Guzmán said that he would not rule out that the IMF would try to put conditions on any deal, such as labor flexibility or pension reforms, adding he would not go along with "anything that goes against a virtuous and stable development path for Argentina." On Aug. 4, Argentina struck a deal with major foreign creditors to restructure roughly \$65 billion in sovereign debt, breaking an impasse between negotiators for South America's second-largest economy and a group of private investors that includes Ashmore, BlackRock and Fidelity. Argentina has been struggling to service its \$324 billion debt burden, which amounts to about 90 percent of the country's gross domestic product. The government of Peronist President Alberto Fernández, which took office last December, has been dealing with other economic problems, as well, including high inflation, a severe recession and capital controls that

have led to an overvalued official exchange rate. According to Bloomberg columnist Mac Margolis, Argentina earned the second-lowest score on Bloomberg LP's latest "misery index," with around 40 percent of the population of 44 million citizens living in poverty. Due in part to the pandemic, its economy is set to contract by as much as 13 percent this year. [Editor's note: See related Q&A in the July 9 issue of the daily Latin America Advisor.]

Mexico Adds 15,000 New Jobs in August

Mexican President Andrés Manuel López Obrador said on Aug. 8 that nearly 15,000 new jobs had been created in the country in the first week of August, Reuters reported. "We've stopped losing jobs," the leftist leader said in a video posted on YouTube. "The informal economy is also picking up. There's more activity on the street," López Obrador said. Still, the country has a steep hill to climb, official data shows. According to Mexico's Social Security Institute, 1.1 million formal jobs were lost between March and July, with some 555,000 losses in April alone. That pace slowed to 3,900 formal job losses in July, López Obrador noted. Mexico's state-run national statistics agency, INEGI, has said some 12 million jobs in total were lost between March and May, much of that stemming from temporary work suspensions caused by lockdown measures to prevent the spread of coronavirus. The president also touted impressive flows of remittances to Mexico, which, due to a favorable exchange rate with the U.S. dollar, have put more spending power into low-income households. According to data released by the central bank, workers abroad sent home 11.1 percent more in June than the year before, beating market expectations by 1.2 percent, Goldman Sachs analyst Alberto Ramos told clients in a research note. Given the 13.2 percent depreciation of the Mexican peso against the U.S. dollar over that year, remittances grew 27.9 percent year over year. "The sharp contraction of activity and employment in the United States have not impacted in a visible way the flow of remittances to Mexico," Ramos said.

FEATURED Q&A / Continued from page 3

labor sector. The proposed reform will increase the level of compulsory contributions to 15 percent of salaries from 6.5 percent over eight years, bringing rates closer to international standards and having the extra burden shouldered by employers. The plan reforms the investment regime and guarantees pensions to workers who meet the requirement of 750 weeks worked (approximately 15 years) as opposed to the current system in which Mexicans need to work at least 1,250 weeks (approximately 25 years) to be eligible for a pension. Even though this reform seeks to address the low pensions that workers in the formal sector receive, it falls short of addressing the informality rate in Mexico, which rose to 51.8 percent in May.

Additionally, nearly 50 percent of young Mexicans (ages 15–29) do not save, and more than 80 percent of the 62.9 million workers with an Afore didn't voluntarily contribute to their account in 2018. Mexicans still lack a 'savings culture' through formal alternatives where one has to be willing to forgo current short-term desires for unexpected future expenses and/or external financial shocks, such as the economic crisis resulting from the Covid-19 pandemic, during which close to 1.2 million formal jobs have been lost in Mexico."

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

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