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FEATURED Q&A

How Important Are U.S. Remittances for Cuba's Economy?



The U.S. State Department in September prohibited U.S. companies from doing business with Cuban military-owned Fincimex, which controls remittances to Cuba. // File Photo: trabajadores.cu.

Q Fincimex, the military company that controls remittances to Cuba, said Oct. 27 that it is unwilling to shift the processing of the money transfers to nonmilitary entities and that new U.S. sanctions will mean the closure of more than 400 Western Union offices across the island. Western Union has said it is "exploring ways to comply with the new rules," which go into effect in late November. How much have U.S. sanctions curtailed the flow of remittances to Cuba? What trends will remittances to the country see in coming years, and how will U.S. politics play a role? To what extent does Cuba's military benefit from its current role in processing remittances?

A Fernando X. Donayre, chief investment officer and founder of INCA Investments in Miami: "This latest, and last, measure of the Trump administration is a continuation of a policy intended to force regime change via the strangulation of the Cuban economy. It is the perpetuation of a hardline policy, that apart from the opening with Cuba under the Obama administration, has not succeeded for 50-plus years. The further shutdown of remittances will hurt the Cuban military, as a partner of the Cuban government and the most important economic player on the island, in its ability to control the country's hard currency reserves. However, it will once again be the Cuban people that will be most negatively affected by further diminishing their ability to obtain food and other basic goods. This measure will not move the Cuban government any closer to changing its political model, which is underscored by its response to the measure. Instead of resolving this issue by changing the commercial relationship with Western Union from a

Continued on page 3

TOP NEWS

BANKING

Chilean Central Bank Warns of Risks to System

The Covid-19 pandemic continues to pose the most significant risk that Chile's financial system is seeing, the central bank warned.

Page 2

ANTI-MONEY LAUNDERING

U.S. Seizes \$24 Mn in Brazil Digital Currency Scheme

The U.S. Department of Justice said it had seized \$24 million in virtual currency at the request of Brazil's government in connection with a large fraud scheme.

Page 2

PAYMENTS

WhatsApp 'Soon' to Offer Payments Service in Brazil: Campos Neto

WhatsApp will "soon" be able to launch its payments system in Brazil, said the country's central bank chief, Roberto Campos Neto. WhatsApp had rolled out the service in June, but the central bank and the antitrust regulator shut it down.

Page 3



Campos Neto // File Photo: Brazilian-Central Bank.

BANKING NEWS

Chilean Central Bank Warns of Risks to Financial System

The Covid-19 pandemic is continuing to pose the most significant risk to Chile's financial system, the country's central bank warned Nov. 11 in a report, Reuters reported. Amid the pandemic, financial institutions' ability to take action to mitigate the crisis is diminishing, the central bank said, adding that it has already expended 40 percent of its assets through August in order to support liquidity and the country's credit markets, the wire service reported. Low growth that could worsen the economic effects of the pandemic and a dwindling ability of financial institutions to take measures to adapt to the situation are posing risks that could transform "liquidity problems into solvency complications," the central bank said in its Financial Stability Report. "These measures were designed to deal with liquidity problems temporarily," the report added. The central bank also said that concerns have been raised about Chile's sovereign debt rating due to worsening conditions of balance sheets and a "sustained" increase in public debt. Those factors are added to a \$29 billion package that the government announced and which includes emergency loans and mortgage deferrals. Some of these government efforts may have "undesirable effects" that include complications involving the evaluation of credit risks and interest rate policy, according to the central bank. In addition, the central bank said "changes to the legal framework" could "render more difficult the functioning of financial markets and the solvency of financial institutions." Last month, Chileans overwhelmingly voted for a new constitution, a main demand of protesters that have taken to the streets in Chile since last year. However, some businesses fear that the changes could stifle investment. In an [interview](#) Oct. 26 with the Latin America Advisor, former Chilean President Ricardo Lagos said a new constitution would not have negative effects on the country's private sector. "Chile is a

country with a very open economy," said Lagos, who was in office from 2000 to 2006.

ANTI-MONEY LAUNDERING NEWS

U.S. Seizes \$24 Mn in Virtual Currency in Brazil Fraud Scheme

The U.S. Department of Justice announced Nov. 4 that it had seized \$24 million in virtual currency at the request of Brazil's government in connection to a large fraud scheme. Brazilian authorities say tens of thousands of Brazilians may have been defrauded of more than \$200 million through the scheme, the Justice Department said. Federal prosecutors in Brazil have charged several people in the case, known as "Operation Egypto," according to the Justice Department. The seizures of virtual currency were related to the alleged involvement of Marcos Antonio Fagundes. The Brazilian stands charged with several crimes in his home country, including the operation of a financial institution without legal authorization, fraudulent management of a financial institution, misappropriation, money laundering and violation of securities laws, the Justice Department said. A court in Brazil issued a seizure order of virtual currency in the United States that Fagundes owned or controlled. From August 2017 to May 2019, Fagundes and other defendants allegedly solicited money from prospective investors over the Internet and sometimes over the telephone, and held the money in a way that subjected it to financial institution regulations, with which Fagundes and the others allegedly failed to comply, the Justice Department said, citing Brazilian court documents. The alleged scheme involved solicitations for "innovative investment opportunities" involving investments in cryptocurrencies, the Justice Department added. "The Brazilian court found, however, that only a very small amount of funds were invested in cryptocurrencies as promised, and very little was returned to the investors," the department said in a statement. "To carry out the scheme, the conspirators are

NEWS BRIEFS

Brazil's Itaú Unibanco Sees Fall in Q3 Profit

Brazil's Itaú Unibanco, the largest nongovernment lender in the South American country, on Nov. 3 registered a fall in recurring net income in the third quarter, driven by a surge of nearly 41 percent in its loan-loss provisioning as compared to a year earlier, Reuters reported. The bank's third-quarter recurring net income, which does not include one-off items, was 5.03 billion reais (\$873.87 million), higher than the 4.938 billion reais estimate by Refinitiv.

Uber Begins Taking Instant Payments in Brazil in Partnership With Ebanx

Uber Technologies on Nov. 16 began accepting instant payments in Brazil in partnership with payments start-up Ebanx, Reuters reported. The service is likely to bring the company new clients, mainly ones who do not use payment cards, Uber told the wire service in an email. Approximately a third of Brazilians lack a bank account, one of the highest rates in the world. Uber is initially accepting instant payments only through its Uber Cash wallet. Uber's ride business will not yet participate in the service, but its food-delivery service, Uber Eats, will be added in coming weeks, Reuters reported.

Jamaica Eying Higher Rates Next Year for Property Insurance

Premiums for property insurance will rise next year in Jamaica, according to a top official of the Insurance Association of Jamaica, the Jamaica Gleaner reported Nov. 15. The Covid-19 pandemic forced large insurers to put premium increases on hold in the Caribbean, but property rates are "definitely going up next year," said the official, Sharon Donaldson, who is also managing director of the General Accident Insurance Company.

alleged to have made false and inconsistent promises to investors about the way the funds were invested and exaggerated the rates of return," it added.

PAYMENTS NEWS

WhatsApp Will 'Soon' Launch Payments in Brazil: Campos Neto

Facebook's WhatsApp messaging platform will "soon" be able to offer peer-to-peer electronic payments in Brazil, the country's central bank chief, Roberto Campos Neto, said Nov. 16, Reuters reported. "WhatsApp will start doing P2P soon. I have talked a lot with their CEO, we are making good progress. He has told me that the process [with us] was faster than in other countries," said Campos Neto. "Our only concern is that we must go through all the approval criteria and that we have a system that fosters competition." The central bank chief made the remarks at the launch of the bank's new "PIX" instant payments system. WhatsApp launched a payments service in Brazil on June 15, but the Brazilian central bank and the country's antitrust regulator shut the service down, saying the system needed to be reviewed for concerns over data privacy and also competition. The central bank has also been in discussions with Google and other "big tech" firms about entering the South American country's payments market, Campos Neto added. When asked whether WhatsApp's payments system would operate within the central bank's PIX payments system, Campos Neto said there would be room for platforms other than PIX. Approximately 72 million registrations have been opened for PIX, which was made fully operational on Nov. 16, the central bank said. That total includes 30 million individuals and 1.8 million businesses, according to a central bank official. The platform will allow individuals and businesses to execute bank transfers 24 hours a day. PIX will boost the speed, easy and efficiency of small and large financial transactions and will also

FEATURED Q&A / Continued from page 1

military entity to a state-owned bank, Cuban government and military authorities have decided they prefer to lose this important flow of hard currency rather than looking like they made a concession to the economic and political pressures exerted by the Trump administration. Vice President-elect Kamala Harris has voiced that a Biden administration will repeal the restrictions that the Trump administration has imposed on the island. We expect a return of a re-engagement policy that should not be judged on the basis of regime change, but rather by the strengthening of the voice and power of players external to the government hierarchy, which will improve and better serve the long-term interests of the Cuban people."

A **Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity:** "Approximately 700,000 Cubans in the United States send money home, totaling \$1.5 billion a year in family remittances, according to research that I conducted with Manuel Orozco and Laura Porras. New U.S. sanctions are likely to drive much of this flow underground, though overall impacts will depend on how long the sanctions remain in place. When formal remittance channels are disrupted, we generally see an increase in informal sending mechanisms, increased use of in-kind remittances (such as parcels of nonperishable goods) and use of third countries as transit points for financial flows in attempts to hide their true destination. From an anti-money laundering perspective, informal remittance channels and circuitous sending routes are highly concerning; funds could end up in the hands of entities far worse than Fincimex. While Cuba's human rights record rightly deserves condemnation, some of the Trump

lower costs and encourage competition among financial service providers, said Campos Neto. The PIX system is an upgrade over the existing system, known as SITRAF, which is similar to the wire-transfer system in the United States,

administration's claims, such as the notion of political interference throughout the hemisphere, seem misplaced given the country's greatly diminished regional standing and fragile economy. Meanwhile, the Cuban government's entrenched position on Fincimex is disappointing but hardly surprising.

“**When formal remittance channels are disrupted, we generally see an increase in informal sending mechanisms...**”

— Julia Yansura

Fortunately, the impacts of these sanctions may end up being short-lived. Many Cuban remitters send money home for the holidays; this year, we can expect those funds to be sent early, in advance of the rule going into effect on Nov. 27. And by January, with the political transition in the United States, the rules may change. Early indications suggest that a Biden administration will seek to normalize relations with Cuba and will walk back many of the Trump administration restrictions on family remittances."

A **Vicki Huddleston, retired U.S. ambassador and former chief of the U.S. Interests Section in Havana:** "After four years of rolling back former President Obama's opening to Cuba, Trump announced measures designed to cut off billions of dollars in remittances to the Cuban people. If these measures go into effect, millions of Cubans will be deprived of food and medicines in the midst of a pandemic and the recession it has created. How can this administration—or any

Continued on page 6

according to Pymnts.com. In order to execute transactions through the system, users will need to register "keys," with their bank or other financial services provider. The keys can be information such as the user's email address or

phone number. [Editor's note: See related [Q&A](#) in the July 2-15 issue of the Financial Services Advisor.]

POLITICAL NEWS

Hurricane Iota Slams Nicaragua as Category 4 Storm

Hurricane Iota made landfall the evening of Nov. 16 in Nicaragua, just miles away from where Hurricane Eta hit less than two weeks before, with possible "life-threatening" flooding, catastrophic winds and mudslides, CNN reported. The hurricane is expected to be felt throughout Central America and Mexico's Yucatán Peninsula, as well as Jamaica and as far south as Colombia. The storm hit in the town of Haulover in Nicaragua at 10:40 p.m. Eastern Time as a Category 4 hurricane with maximum sustained winds near 155 miles per hour, according to the National Hurricane Center. Haulover is just 15 miles south of where Eta had struck. [Editor's note: See [Q&A](#) in the Nov. 16 issue of the daily Latin America Advisor.]

Peru's Congress Selects Sagasti as Interim President

Peru's Congress on Nov. 16 chose Francisco Sagasti, a centrist lawmaker and technocrat, as the country's new interim president. A 76-year-old former World Bank official, Sagasti is the country's third president in a week, following the Nov. 15 resignation of Manuel Merino, whose presidency lasted just five days before he resigned amid deadly protests. The protests, in which as least two people have been killed, erupted after lawmakers swiftly removed President Martín Vizcarra from office on Nov. 9. Sagasti was sworn in as the president of Congress and shortly afterwards, he reached the required majority vote in order to become president, leading to applause in

ADVISOR Q&A

What Path Lies Ahead for Peru's Sagasti?

Q Peru's Congress on Nov. 16 selected centrist lawmaker Francisco Sagasti as Peru's new interim president—the country's third in a week. Legislators selected Sagasti, an engineer from the centrist Purple Party, following the Nov. 15 resignation of interim President Manuel Merino, who stepped down amid violent protests after just five days in office. Merino had replaced President Martín Vizcarra, whom Congress removed from office on Nov. 9. Legislators had declared Vizcarra "morally unfit" for office over his handling of the Covid-19 pandemic and allegations of corruption, which he has denied. Newspapers and analysts have called Vizcarra's ouster a "coup," and the protests it sparked left at least two dead and were the largest in Peru in two decades. What is at the root of Peru's political instability, and to what extent are protests likely to continue and intensify? What will the next five months hold for Peru ahead of the scheduled April 2021 elections? What implications will the crisis have for the country's already hard-hit economy and investment climate?

A Cynthia McClintock, professor of political science and international affairs at The George Washington University: "The root cause of the impeachment was elites' pushback against Vizcarra's anti-corruption reforms. Vizcarra championed the prosecution of under-the-table payments by companies to politicians—a practice, entrenched for centuries, that had catalyzed the prosecution of all four presidents elected since 2001 and scores of additional authorities. Many legislators feared an end to their own immunity from prosecution. Other legislators have personal stakes in for-profit universities, which are threatened

by new, higher standards. Another cause of the impeachment was legislators' political ambitions. One political party was seeking amnesty for its imprisoned leader. Others hoped to tilt the 2021 electoral playing field in their favor. Many wanted to overturn the new prohibition against legislators' re-election. An additional cause was that, given the brevity of this legislative term (January 2020-July 2021), some strong candidates chose not to run in 2020, and many legislators are rookies. They reacted intemperately to criticism by Vizcarra. They wrongly assumed that allegations of corruption against Vizcarra would significantly decrease his support; his approval remains above 50 percent. When what matters to Peruvians is that Vizcarra was weakening the 'traditional corrupt political class,' Merino was bringing it back. Worse yet, Merino enabled repression against largely peaceful protesters who hailed from all social classes and all regions. Soon, the Constitutional Tribunal is to rule on the 'permanent moral incapacity' clause and might catalyze the restoration of Vizcarra. (This clause is vague, but it is the same clause that enabled the impeachment of Alberto Fujimori and the impeachment threat against Pedro Pablo Kuczynski.) More likely, legislators will elevate a more respected member of their ranks. Meanwhile, the instability is worsening Peru's economic crisis and investment climate and turning attention away from the pandemic, which has hit Peru exceptionally hard. The country is both fighting and crying."

EDITOR'S NOTE: More commentary on Peru's political crisis appears in the Nov. 17 issue of the Dialogue's daily Latin America Advisor.

NEWS BRIEFS

Leftist Argentine Senators Demand Concessions From Int'l Monetary Fund

A group of leftist Argentine senators loyal to Cristina Fernández de Kirchner, a former president and current vice president, sent a letter to the International Monetary Fund, demanding that the lender refrain from attaching conditions to a new loan program and also publicly acknowledge its part of the responsibility for the country's ongoing economic problems, the Financial Times reported Nov. 16. The senators also pushed for the country to receive a five-year grace period before repaying a \$44 billion loan, as well as lower interest rates and a repayment schedule spread over decades.

Suriname Asks Creditors for Payment Deferral

Suriname's government has asked creditors to allow a payment deferral on its two bonds, which amount to \$675 million, in what analysts say could be a preview of a broader debt restructuring, Reuters reported Monday. In a statement on Saturday, the government of new President Chan Santokhi, who took office in July, announced the launch of a consent solicitation for its 2023 and 2026 bonds. The consent solicitation expires on Nov. 23. [Editor's note: See related [Q&A](#) in the Aug. 5 issue of the daily Latin America Advisor.]

Opposition Trounces Ruling Party in Belize Assembly Vote

The opposition People's United Party, or PUP, trounced the ruling United Democratic Party, or UDP, in Belize's general election, the country's election authorities announced Nov. 12, the Associated Press reported. The PUP won an overwhelming 26 of the 31 seats in the House of Representatives, propelling the party's leader, Johnny Briceño, to the position of prime minister.

the chamber, the Associated Press reported. Sagasti won the votes of 97 lawmakers, with just 26 voting against him, CNN reported. "We will do everything possible to return hope to the people and show them they can trust in us," Sagasti said, the AP reported. Sagasti and members of his Purple Party bloc were among only 19 of 130 legislators who voted against removing Vizcarra from office. A year ago, when Sagasti was a candidate for a seat in Congress, he **told** the Advisor that the "main contribution" of members of Congress "is to behave decently and begin the process of restoring public trust in politics." Sagasti is to serve as interim president until next July when a new president, elected in April, takes office. Peru has been hard-hit by the Covid-19 pandemic, with among the world's highest per-capita death tolls from the disease, Bloomberg News reported. Its economy contracted 30 percent in the second quarter, the Financial Times reported. The International Monetary Fund expects the economy to contract 13.9 percent this year.

ECONOMIC NEWS

IDB Board Approves Four Candidates for Top Positions

The Inter-American Development Bank announced on Nov. 13 that its board had approved four top candidates for leadership roles after they were proposed by the institution's new leader, Mauricio Claver-Carone. The board approved Reina Mejía, the chief executive of Citi Honduras, as executive vice president. She becomes the highest-ranking Latin American woman ever to serve the institution. The board also approved former Ecuadorean Finance Minister Richard Martínez as vice president for countries and former Paraguayan Finance Minister Benigno López as vice president for sectors and knowledge. Additionally, the board approved Gustavo De Rosa, an Argentine who currently serves as the bank's chief financial officer, as vice president for finance and administration. "Reina, Richard, Benigno and Gustavo

are highly respected professionals who represent the very best of Latin America and the Caribbean," Claver-Carone said in a statement. The candidates' approval by the Inter-American Development Bank's 14-member board ended weeks of delays due to opposition by Mexico and Argentina, Reuters reported. Claver-Carone's proposal of candidates from smaller countries irritated Mexico and Argentina, the wire service reported. Earlier this month, Claver-Carone added De Rosa's appointment to those of the other three, though an Argentine government official said De Rosa was "not affiliated" with the Argentine government. "We don't believe that cabinet represents governance for the region," the unnamed official told the wire service. Argentina and Mexico abstained from the vote to confirm the four candidates, Reuters reported. The selection of Claver-Carone, a U.S. citizen, to lead the Inter-American Development bank caused controversy as it broke an unwritten rule that the bank would always be headed by someone from Latin America or the Caribbean. [Editor's note: See related [Q&A](#) in the June 25 issue of the daily Latin America Advisor.]

Mexico's President to Submit Legislation on Job Outsourcing

Mexican President Andrés Manuel López Obrador on Nov. 12 said he will submit legislation to Congress that would prohibit subcontracting or outsourcing of jobs by private companies in the country without government authorization, the Associated Press reported. The bill would allow subcontract workers to provide "specialized services or carry out specialized projects that are not part of a company's line of business" with Labor Department approval. Additionally, personnel, staffing or temp firms can help private companies recruit, select or train workers, but cannot be listed as their employer, the AP reported. Labor Secretary Luisa María Alcalde said outsourcing hurts workers by allowing companies to avoid granting benefits to subcontracted employees, Mexican newspaper Milenio reported.

FEATURED Q&A / Continued from page 3

administration—justify this deadly action? The claim that it will reduce the Cuban military's resources that might somehow assist the Maduro government is hardly credible. Rather, it is incredible, when you consider that infants will go without milk, mothers without medicines and young people without hope. The Trump administration's punitive actions—the latest announced just days before the presidential election—were simply a ploy to garner Cuban-American votes and resources. This, despite the fact that foreign policy should be determined by our national interests, not the president's desire to win re-election. Yet, this time, Cubans need not despair. President-elect Joe Biden has suggested that his foreign policy will be based on empowering the Cuban people. This move is expected to permit much-needed remittances, which in addition to feeding the island, will help build small businesses. In addition, we can anticipate the return of people-to-people travel, which promoted private wealth as families opened restaurants, rented rooms and offered numerous artistic performances for their American visitors. Under a Biden administration, there is a far greater chance of improved human rights and greater freedoms. The Cuban government

reduces political space when under pressure from the United States and allows more freedom as relations improve. We witnessed this when Trump reimposed sanctions that Obama had partially lifted. Fragile openings

“The Trump administration's punitive actions ... were simply a ploy to garner Cuban-American votes and resources.”

— Vicki Huddleston

nurtured by improved bilateral relations withered with the reimposition of a hostile policy. The losers were the Cuban people who lost their investments and their businesses as sanctions became increasingly damaging. By starting early in his administration, Biden can restore hope and nurture the possibility of democratic change in every one of Cuba's new entrepreneurs.”

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

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter & Associate Editor
achacon@thedialogue.org



Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

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