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FEATURED Q&A

Is Online Banking Reducing Poverty in Latin America?



The Covid-19 pandemic has accelerated adoption of formal financial services in Latin American countries. // File Photo: Eduardo Soares via Unsplash.com.

Q At least 1.6 million Colombians who had never before had a bank account have joined the formal financial system just since April, and officials say nearly 86 percent of Colombians now have some type of financial account, a level the government had not expected to reach until 2022. To what extent has the Covid-19 pandemic accelerated entry into the formal financial system in Latin America, and why? Where are people still being left out of the financial system? Will the trend of more people becoming “banked” continue after the pandemic ends, and how would such a trend affect poverty rates in the region?

A Fabian Saide, member of the Financial Services Advisor board and founder CEO and president of Paykii: “Before we jump into numbers, we need to give credit to the Colombian government for its amazing job on their bancarization process. I don’t believe the Covid-19 pandemic will be recognized as the main factor for financial inclusion. Colombia’s unbanked population has been decreasing steadily since 2015. It decreased from 30.4 percent of the population in 2015 to 23.3 percent in 2020, according to Euromonitor. The pandemic did influence this process due to government stimulus related to Covid-19. More than three million families benefited through different stimulus programs led by Prosperidad Social. Two fintech products, DaviPlata and SuRed, were chosen as the payment gateway for banked people, while unbanked people would have to wait for a text message letting them know where and when their funds would be available. Therefore, there was an indirect incentive to open a bank account. Finally,

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TOP NEWS

REMITTANCES

Western Union Closes its 407 Locations in Cuba

Western Union shuttered all of its offices in Cuba, a move that resulted from U.S. sanctions on the island nation.

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FINANCIAL TECHNOLOGY

Ebanx Partnering With PicPay for Payments in Brazil

Latin American financial technology company Ebanx has formed an agreement with Brazilian digital wallet provider PicPay that will allow global merchants that use Ebanx in Brazil to offer PicPay as a payment option for customers. PicPay says it has more than 34 million users in Brazil.

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BANKING

BBVA Mexico’s Luis Robles Dies at 60

Luis Robles, BBVA Mexico’s board chairman from 2012 to 2018, died Nov. 19 in Mexico City. He also previously led Mexico’s banking association ABM and the Latin American Banking Federation.

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Robles // File Photo: BBVA.

REMITTANCES NEWS

Western Union Closes its 407 Locations in Cuba

Western Union closed its 407 offices in Cuba, a move that resulted from U.S. sanctions on the communist nation, the Associated Press reported Nov. 23. "The problem is not the closure of Western Union, but that Western Union is practically the only U.S.-to-Cuba provider of remittance payments," Manuel Orozco, the director of the Center for Migration and Economic Stabilization at Creative Associates International in Washington, told the AP. "The impact will be felt." Cuba's government does not release statistics on the amount of remittances that are sent to the island, but economists estimate that the country receives billions of dollars in money transfers annually. About half of the total comes from the United States, and 20 percent of the overall amount goes through Western Union, Orozco estimates. People outside of Cuba can still use other banks and other financial services companies to send money to people in Cuba, or they can send it through people traveling there, the wire service reported. Additionally, senders have also used cryptocurrencies to send money to Cuba, according to Cuban economist Omar Everlén Pérez. The closure of the Western Union locations came after the administration of U.S. President Donald Trump banned U.S. companies from doing business with Fincimex, a Cuban-military controlled company that controls remittances to the island. U.S. officials accused Cuba's military of violating human rights and supporting the government of Venezuelan President Nicolás Maduro, which the United States sees as illegitimate. The Cuban government refused to use a finance company that was not tied to its military, and Western Union was unable to find a way around the sanctions. In a [Q&A](#) published Nov. 18 in the Dialogue's Financial Services Advisor, Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity, said money transfers will still get through to

Cuba, including through informal channels. "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," she said.

FINANCIAL TECHNOLOGY NEWS

Ebanx Partnering With Brazilian Digital Wallet Firm PicPay

Latin American financial technology company Ebanx has struck an agreement with Brazilian digital wallet provider PicPay in order to provide global merchants a new payment option for their customers in the South American country, Ebanx said Nov. 30 in a statement. International companies that use Ebanx in Brazil will be able to allow their customers to use PicPay, which could help them expand their market reach, the news site reported. The deal marks PicPay's first dealings in the international market. PicPay says it has in excess of 34 million users in Brazil and that it is accepted in more than three million stores in the country. "Our main goal at Ebanx is to create access through payment solutions," Erika Daguani, the B2B product director at Ebanx, said in the company's statement. "This is why we are very happy to announce this integration with PicPay, a widely known e-wallet in Brazil, which will allow more and more Brazilians to connect with global products and services, and international companies to reach consumers that don't necessarily have a credit card or a bank account." PicPay was launched in 2012 and has been growing steadily since then, according to the statement. "This partnership provides our users with a great opportunity of expanding their online shopping experience with PicPay," said PicPay's chief commercial officer, Elvis Tinti. This year, PicPay registered growth of 126 percent in its number of users. Globally, digital wallets are expected to account for nearly half of e-commerce transactions and more than a quarter of point-of-sale payments by 2022, according to a September 2019 study by Bain

NEWS BRIEFS

Gunmen Invade Brazilian City of Criciúma, Shoot at Least Two, Attack Banks

In an organized attack late Nov. 30, dozens of gunmen invaded the southeastern Brazilian city of Criciúma, in Santa Catarina state, shooting at least two people, taking hostages and robbing banks, The New York Times reported. A police officer was among those shot, and his condition was unclear, according to a military police commander. The attackers were armed with assault rifles, and images on Globo television showed a bank vault with a hole in it, the Associated Press reported. Banknotes were scattered on the ground in one area. State-run Banco do Brasil said its branch in Criciúma will remain closed, adding that it would not provide details about the amount of money that was taken, the AP reported.

Luis Robles of BBVA Mexico Dies at 60

Luis Robles, the former chairman of the board of BBVA Mexico, died Nov. 19 in Mexico City at the age of 60, BBVA Mexico said in a tweet. Robles led the board of the Spanish bank's Mexican unit from 2012 to 2018 and previously was BBVA Mexico's vice chairman. Robles also led Mexico's banking association, ABM, from 2014 to 2017. He also chaired the Latin American Banking Federation from 2010 to 2012, Bloomberg News reported.

Itaú Board Approves Spinoff of Stake in XP

The board of Brazil's Itaú Unibanco Holding has approved the spinoff of the bank's stake in brokerage XP, Reuters reported Nov. 26, citing a securities filing. Itaú Unibanco had previously said it was considering a plan to spin off approximately 90 percent of its 46 percent stake in the brokerage. In its latest filing, Itaú said the spun-off entity would represent a stake of 41.05 percent in XP.

& Co. “Digital wallets are an instrument of financial access for thousands of consumers in Latin America who do not have a bank account, or who simply opt for the ease of having the data already stored in one single place,” said Daguani. “Connecting with players such as PicPay is crucial for international companies that want to seize the e-commerce market in Brazil.” [Editor’s note: See [Q&A](#) on fintech in Brazil in the Sept. 10-23 issue of the Dialogue’s biweekly Financial Services Advisor.]

PENSIONS NEWS

Chile’s Senate Approves Piñera-Backed Pension Bill

Chile’s Senate on Nov. 26 approved legislation backed by President Sebastián Piñera that would allow holders of pension accounts to tap some of their savings as an emergency measure amid the Covid-19 crisis, Bloomberg News reported. In a vote of 35-1, the Senate



Piñera // File Photo: Chilean Government.

approved Piñera’s legislation while rejecting a competing bill that opposition lawmakers had introduced. Piñera’s legislation is more limited than the opposition’s, Reuters reported. Piñera had vowed to present a challenge to the opposition’s legislation in the constitutional court. In July, lawmakers approved a measure to allow pension holders to withdraw as much as 10 percent of their accounts, saying the move was needed to help Chileans through the economic fallout of the pandemic. Piñera reluctantly approved the measure, which led to \$17 billion in pension fund withdrawals.

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it is clear to assume how Covid-19 has dramatically altered the landscape of financial inclusion in Latin America, with an extensive migration to digital financial services. For example, in Chile, online payments doubled in March as compared to the same month last year. But what’s next? To continue this trend, two challenges must be addressed: 1.) continue building customer trust, keeping the simplicity to migrate to online platforms and 2.) anticipate the new fraud risks. New online customers are not used to online banking, and this could be an opportunity for fraudsters with social engineering or phishing.”

A **Ernesto Haikewitsch, executive director of Mazaltech Consultores:** “Latin America is facing its worst economic crisis due to pandemic-related impacts, and a new wave of infections is creating additional and unpredictable challenges. Governments have adopted several measures to reinforce social safety needs. They are doing this through financial and digital inclusion programs that aim to reduce the pandemic’s economic consequences by taking advantage of the huge penetration of the Internet and smartphones. Entry into the formal financial system was accelerated during the first five months of the pandemic through programs such as Brazil’s Coronavoucher, through which more than 70 million vulnerable people became banked, receiving a monthly emergency subsidy through a digital account. However, cash is still deeply rooted, and people fear that their money is not safe in a bank, believ-

ing that the government and financial institutions will charge fees and taxes. Therefore, many beneficiaries simply withdraw their whole balance. Colombian officials created a broader program, connecting more than

“Cash is still deeply rooted, and people fear that their money is not safe in a bank...”

— Ernesto Haikewitsch

20 financial institutions through Ingreso Solidario, promoting a massive digital deployment. By quickly assigning unbanked benefit recipients to financial institutions, governments have created a strong start toward financial integration. Flexible regulations allow fintechs to promote new digital products and financial services, bringing even more people on board for the first time. All these conditions have created an amazing opportunity for the rise of new digital behaviors. For example, millions of consumers made their first e-commerce purchase this year. Covid-19 was a catalyst in the adoption of contactless payments, such as cards, wearables and mobile devices, including ApplePay, Samsung Pay and other e-wallets that use QR code applications or near-field communication (NFC), with different approaches and outstanding acceptance results. The whole ecosystem—banks, retailers and governments—should consolidate the benefits of this so-called ‘new normal,’

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Piñera’s legislation for the second withdrawal caps at about \$5,700 the amount that Chileans can take out, and some withdrawals will be subject to taxation, Bloomberg News reported. Chile’s pension funds, known as AFPs, will have up to 30 business days to deliver the money to account holders after the withdrawal is requested. The measure is expected to lead to an additional \$15 billion in withdrawals.

Chilean pension funds hold approximately \$200 billion in investments. Protesters have recently targeted the pension system, which dates from the dictatorship of Augusto Pinochet, because of its low payouts to retirees. The first round of withdrawals went to pay down debt and for the purchases of electronics and other consumer goods, as well as for down payments on new homes, Bloomberg News reported. The pension

system is expected to be a major point of debate as Chile redrafts its constitution. Chileans voted overwhelmingly in late October to rewrite the charter. [Editor's note: See the Advisor's [interview](#) on the constitutional rewrite with former Chilean President Ricardo Lagos.]

POLITICAL NEWS

Deforestation of Brazil's Amazon Hits 12-Year High

Deforestation of the Amazon rain forest in Brazil has reached a 12-year high, Inpe, the country's space institute, said Nov. 30, El País reported. Preliminary data from the space agency showed 11,088 square kilometers of rain forest destroyed between August 2019

“Public forests must be preserved as they are fundamental to maintain the climate and water balance of the Amazon.”

— Paul Moutinho

and last July, a 9.5 percent surge from the previous year and the largest area of rain forest razed since 2008. Inpe said that figure is expected to be even higher in its final report, to be published in the first half of next year. “Public forests must be preserved as they are fundamental to maintain the climate and water balance of the Amazon,” said Paul Moutinho, a senior researcher at Inpe, UPI reported. “It is urgent that deforestation there be stopped and that these areas be protected.” Brazilian Vice President Hamilton Mourão said that about 30 percent of the deforestation reported occurred on land that was not designated either for conservation or private use, and he blamed the recent destruction on people who steal land. However, some blame the growing deforestation on government policies that critics allege encourage agriculture and mining in the

ADVISOR Q&A

Are Mexico and the United States Putting Politics Above the Law?

Q The U.S. Justice Department on Nov. 17 announced it had agreed to drop criminal charges against former Mexican Defense Minister Gen. Salvador Cienfuegos Zepeda, who was arrested in Los Angeles in mid-October on accusations of conspiracy to manufacture, import and distribute narcotics into the United States and money laundering. The government of Mexican President Andrés Manuel López Obrador reportedly saw Cienfuegos' detainment as a violation of the country's sovereignty, and Mexican officials have not committed to putting Cienfuegos on trial when he returns to his home country. What is behind the U.S. Justice Department's decision to drop the charges? What implications does the move have for Cienfuegos' case and for future foreign corruption investigations or trials carried out by the U.S. government? How well are U.S. and Mexican authorities working together on anti-drug efforts?

A Ana Lorena Delgadillo, founder and executive director of the Foundation for Justice and a Democratic Rule of Law (FJEDD) in Mexico: “The U.S. government prioritized its diplomatic relationship with Mexico over evidence it claimed to have in order to prosecute Gen. Cienfuegos. It seems that a political decision was made over a legal one, which puts at the center of the debate the need to strengthen the autonomy of prosecutors in every democracy. One wonders what interests benefited from the decision, both in Mexico and in the United States, and whether this implies a change in

Amazon and weakened the country's environmental protection agencies. Between 2000 and 2018, Brazil's Amazon lost an area equivalent

to 270,000 square kilometers, roughly the size of the state of São Paulo, according to Brazil's statistics agency, Folha de S.Paulo reported.

the cooperation between the two countries for future criminal investigations. Historically, we have seen that if the United States wants to investigate in any of our countries, it does so, without even consulting them. Given the Cienfuegos case, hopefully in the future Mexico will at least be involved in the final stages of investigations, as the United States has realized that its interests might be put at risk if it doesn't involve Mexico. For Mexicans, it is unfortunate to think that justice in our country should depend on the United States. Yet, deep down, we fear that the Attorney General's Office will investigate the case because, despite important reforms in 2014, this institution has not been transformed. It has proven to be neither efficient nor autonomous, and it is not reliable. The Cienfuegos case could be its great opportunity for justice—especially in the face of corruption and human rights violations—or the continuation of a history of impunity for the military in Mexico. With regard to transnational crime, both countries require effective and reliable judicial collaboration channels that are not bureaucratic and that prioritize the advancement of the rule of law. Mexico's attorney general's office must demonstrate that it is up to the task of investigating this case and, based on the results, consolidate a relationship of trust that is based on judicial cooperation.”

EDITOR'S NOTE: More commentary on this topic appears in the Nov. 30 issue of the *Latin America Advisor*.

to 270,000 square kilometers, roughly the size of the state of São Paulo, according to Brazil's statistics agency, Folha de S.Paulo reported.

NEWS BRIEFS

Guaidó's Envoy to U.K. Steps Down Amid Split in Venezuelan Opposition

Vanessa Neumann, Venezuelan opposition leader Juan Guaidó's envoy to the United Kingdom has resigned, the Financial Times reported Nov. 30. Neumann told the newspaper that she left the post over doubts within the opposition over Guaidó's future, as well as concerns over strategy and bureaucratic delays in Washington regarding the release of frozen Venezuelan government funds to the opposition. "The fight against Maduro will continue—and I will personally continue that fight," Neumann said.

Group of Suriname Bondholders Back Deferment Proposal

A group of Suriname's bondholders said Nov. 30 that it backed the country's modified payment deferment proposal, with at least one creditor expecting "challenging negotiations" for the South American nation, Reuters reported. Suriname could reach a deal with creditors soon, three unnamed sources told Bloomberg News, after the country defaulted on a \$25 million interest payment.

Dominican Republic's Abinader Regrets Lack of Budget Communication

Reflecting on his first 100 days in office, President of the Dominican Republic Luis Abinader said he regretted not properly explaining new taxes included in the 2021 budget that have led to public pushback, Listín Diario reported Nov. 24. Abinader said his administration was still in talks with the financial sector as well as Barack Gold, a major source of tax revenue, when it submitted the proposal to Congress. "I think then we didn't explain well to the population what our proposal was," Abinader said.

Brazil's Bolsonaro Suffers Big Defeats in Local Elections

Brazilian President Jair Bolsonaro suffered huge setbacks in Brazil's municipal elections that concluded Nov. 29, with only five of the mayoral candidates he backed winning their races, and none of them in the country's major cities, the Associated Press reported. Bolsonaro's worst loss was in Rio de Janeiro, where center-right former Mayor Eduardo Paes overwhelmingly won over Bolsonaro-allied Mayor Marcelo Crivella, an evangelical pastor, by 64 percent to 34 percent. In Fortaleza, Bolsonaro-backed candidate Wagner Gomes also lost, 51.5 percent to 48.5 percent to center-left candidate Sarto Nogueira. Bolsonaro's candidates also suffered big defeats in the local vote's first round. In Belo Horizonte, Brazil's third-largest city, Bolsonaro-backed mayoral candidate Bruno Engler lost to Alexandre Kalil, who won more than 63 percent of the vote, The Guardian reported. In São Paulo, Bolsonaro-endorsed candidate Celso Russomanno didn't even make it to the runoff. Center-right São Paulo Mayor Bruno Covas won re-election on Nov. 29. [Editor's note: See related [Q&A](#) in the Nov. 6 issue of the Dialogue's daily Latin America Advisor.]

Mexican Officials Want to Prosecute García Luna

Mexican officials want authorities in Mexico to prosecute the country's former public security secretary, Genaro García Luna, who stands charged with drug-trafficking crimes in the United States, the Associated Press reported Nov. 29. An unnamed Mexican official told the wire service that Mexico's attorney general's office had issued an arrest warrant on Nov. 27 for García Luna, adding that officials "are assessing the viability of starting an extradition process." García Luna was arrested last December in Texas. He has pleaded not guilty to the charges against him. In mid-November,

U.S. authorities agreed to drop charges against another former Mexican official, ex-Defense Minister Gen. Salvador Cienfuegos Zepeda, and return him to Mexico. [Editor's note: See related [Q&A](#) in the Nov. 30 issue of the Dialogue's daily Latin America Advisor.]

ECONOMIC NEWS

Mexico Gains Back Jobs But Mainly in Informal Sector

Mexico's unemployment rate improved slightly in October, state statistics agency INEGI said Nov. 24. Of the 12 million people who left the country's "economically active population" in April, about 10.2 million had rejoined by October, INEGI said, rising from 53.8 million to 55.6 million people. Meanwhile, the unemployment rate fell to a historically still-high 4.7 percent in October from 5.1 percent in September. INEGI said a recovery in trade, informal employment, as well as a growth of those employed in micro-businesses, helped boost October's numbers. Informal employment in October amounted to 29.7 million, while the labor informality rate stood at 56 percent, an increase of 1.1 percent as compared to the previous month. "The labor market has shown some signs of gradual improvement, but overall there is still significant slack in the system," Goldman Sachs economist Alberto Ramos told clients in a research note. Ramos added that 8.9 million individuals of working age were classified as outside the active labor force (that is, did not work and did not look for a job) but were available to work, which equates to one-fifth of Mexico's working-age population remaining outside the labor force. Mexico's economy saw a recovery in this year's third quarter, growing 12.1 percent between July and September, as compared to the second quarter, INEGI said Nov. 26, Reuters reported. The increase in gross domestic product from the second quarter to the third was the largest quarterly jump since current record keeping began in the early 1980s.

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investing even more in financial inclusion through enhancing trust and education, making their services truly scalable and affordable and removing barriers to entry. This is a huge opportunity that can't be left behind and which could enhance the lives of millions of people."

A **Álvaro Rodríguez Arregui, co-founder and managing partner of IGNIA Partners:** "The issue that we had in the past to incorporate an important part of Latin America's population into the formal financial system is that cash was very convenient. By now it is already a cliché that the pandemic has accelerated the digitalization of the economy and society. The problem is that when you want to incorporate yourself into the digital economy, cash is no longer convenient. It is possible to transact in the digital economy with cash, but it is very inconvenient. This pushed many to start using payment systems and therefore incorporate themselves into the formal financial system. At the same time, we have had a surge in the growth of neo-banks as they bring a much more convenient solution to the client and a better value proposition than traditional players—again, the pandemic has accel-

ated the demise of analog businesses. This accelerated growth in users of neo-banks generates a positive cycle that feeds itself. When you see that your neighbor has opened an account and is happy, you now feel more

“The narrative that financial inclusion helps to reduce poverty was very popular, but that is now debunked.”

— **Álvaro Rodríguez Arregui**

comfortable about opening an account. For these reasons, I think these trends are here to stay, and with them, more and more people will be incorporated into the formal financial system. The narrative that financial inclusion helps to reduce poverty was very popular, but that is now debunked. No doubt that financial inclusion has a positive impact on society, but saying that it helps reduce poverty is going too far."

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

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