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FEATURED Q&A

Will New Fintech Rules Bring More Business to Chile?

Chile's Congress is considering new regulations for the country's financial technology sector. // File Photo: Chilean Government.

Q **Lawmakers in Chile are considering legislation to update regulation of the country's financial technology sector. Among the proposed changes are regulation of fintech start-ups such as crowdfunding platforms. How important is it for Chile to update its regulation of fintechs, and what problems have come from a lack of regulation in that sector? What are the most important guiding principles and significant changes that should be a part of the eventual law? What effects would increased fintech regulation have on innovation, competition and financing in the sector?**

A **Kai Schmitz, partner at Crestone Venture Capital:** "Fintech can hold the key to solving some of Latin America's economic problems, including unequal opportunities for small companies, low productivity growth and high concentration in financial services markets. However, financial services also require a sound regulatory framework to address systemic risk, consumer protection and other issues. Regulators in Latin America have already made huge strides in embracing new technology-enabled financial services and have helped to unlock a wave of innovation and investment. Simplified licenses for payment providers, deregulation of acquisitions, regulation for open banking and other measures have made important contributions to more competitive financial markets in the region. New regulation, in Chile and in other markets, should embrace the opportunities and efficiencies that technology can offer, for example in the areas of electronic know-your-customer procedures, access to banking and government data for risk underwriting, alternative credit bureaus and others. It should also

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Start-ups Get Record Venture Capital Deals

Latin America's start-ups, including financial technology companies, received a record number of venture capital deals last year, according to the Latin American Private Equity & Venture Capital Association.

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Swiss insurer Zurich is working with Visa and Cielo to launch instant payment of insurance claims via debit card in Brazil.

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Banco do Brasil CEO Resigns After Clashes With Bolsonaro

André Brandão resigned as chief executive officer of state-owned Banco do Brasil after clashing with Brazilian President Jair Bolsonaro over a cost-cutting plan.

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Brandão // File Photo: Brazilian Government.

BANKING NEWS

Banco do Brasil CEO Resigns After Clashes With Bolsonaro

André Brandão, the chief executive officer of Banco do Brasil, resigned March 18 after clashing in recent months with Brazilian President Jair Bolsonaro. Brazil's largest state-owned bank said Brandão was leaving his post on April 1, Reuters reported. Brandão became the bank's CEO last September and in January announced a cost-cutting plan to close approximately 200 branches and lay off more than 5,000 employees in an effort to save millions of dollars by 2025, Bloomberg News reported. However, the plan drew Bolsonaro's ire, with the president saying the bank should have "a social side." The clash with Bolsonaro led to speculation that Brandão would have to step down. However, he was planning to wait until Bolsonaro's administration named a successor, Bloomberg News reported, citing unnamed people familiar with the situation. After two months of waiting, he decided to resign, the news service reported. After the bank announced Brandão's resignation, Bolsonaro's government named Fausto Ribeiro, the head of one of the bank's units, as CEO. The developments came just weeks after Bolsonaro ousted the CEO of state-run oil company Petrobras, who angered Bolsonaro by allowing fuel prices to rise.

Caixa Econômica Federal Reports $1.04 Bn in Q4 Profit

Brazil's state-owned Caixa Econômica Federal on March 18 reported 5.7 billion reais ($1.04 billion) in net income for last year's fourth quarter, a 200 percent increase over the third quarter. For all of 2020, the bank's net income amounted to 13.2 billion reais. Caixa's return on equity totaled 15.18 percent, and it granted 112.6 billion reais in loans in the fourth quarter. That amount of loans was the bank's highest for the fourth quarter in five years, the bank said. The bank's total amount of loans represented an increase of 10 percent year-on-year. In the fourth quarter, the bank increased its payroll-deductible loans by 29.8 percent, its housing loans by 17.2 percent, its rural loans by 60.5 percent and its corporate loans by 58 percent. Caixa added that it granted 34.3 billion reais in loans to 300,000 micro-, small- and medium-sized enterprises. The bank's loan delinquency rate declined to 1.73 percent in the fourth quarter. Caixa also announced the hiring of 7,700 new employees and contractors, and the opening of 76 new branches, 21 of which will be focused on agribusiness. At the end of the fourth quarter, the bank had 145.8 million account holders, including 143.8 million individual accounts and two million corporate accounts. The bank added that customers opened more than 105 million free digital social savings accounts. "Caixa's app has enabled the largest social, digital and financial inclusion movement in Brazil," the bank said. [Editor's note: See related **Q&A** in the Jan. 27 issue of the Financial Services Advisor.]

FINANCIAL TECHNOLOGY NEWS

Region's Start-ups Get Record Venture Capital Deals

Latin America's start-ups, including financial technology companies, received a record number of venture capital deals last year, Bloomberg News reported March 16, citing the Latin American Private Equity & Venture Capital Association, or LAVCA. Investors agreed to 488 deals with entrepreneurs in the region last year, exceeding the previous record set in 2018, the group said. The amount raised last year, $4.1 billion, was 10 percent below the 2019 amount, but several international groups, such as SoftBank Group Corp., continued to invest, said LAVCA's chief executive, Ivonne Cuello. "Private capital in the region was remarkably resilient and strong," Cuello told

NEWS BRIEFS

Zurich Launches Instant Payment of Claims by Debit Card in Brazil

Swiss insurer Zurich is working with Visa and Cielo in order to launch instant payment of insurance claims via debit card in Brazil, the International Travel and Health Insurance Journal reported March 16. The initiative aims to provide customers with payment on insurance claims in as little as 30 minutes. The pilot program will initially only be available for customers of Zurich's travel insurance who request reimbursement for flight delays and for pharmaceuticals, the companies said.

Mexico's Fondeadora Extends Funding Round

Mexican financial technology start-up Fondeadora has extended its Series A funding round, adding $14 million to an additional investment of the same amount, Tech Crunch reported March 15. Among the investors in the extended funding round is Portag3. Also, Google's Gradient Ventures, an existing investor in Fondeadora, invested more money in the extended funding round.

Mexican Authorities Targeting Governor in Money Laundering Probe

Mexico's anti-money laundering agency said March 19 that Francisco García Cabeza de Vaca, the current governor of Tamaulipas, owns several luxury properties that the agency says do not match his income from government positions over the last two decades, the Associated Press reported March 19. In a report to Mexico's Congress, the Financial Intelligence Unit said García Cabeza de Vaca earned some $3 million since 2000 but acquired properties worth many times that amount. The governor said none of the homes in the report belong to him, and he said he has no links to organized crime.

Bloomberg News in an interview. "We still saw a lot of international investors coming into these rounds." Brazilian fintech Nubank, which is now valued at $25 billion, is the largest private start-up in Latin America. Colombian delivery app Rappi raised approximately $300 million last year and now has a value of at least $3.5 billion, while other fintech and property tech companies, such as Colombia's La Haus, continued growing, said Cuello. Venture capital groups also helped to create new tech unicorns, or start-ups valued at more than $1 billion. Uruguayan payment provider dLocal raised $200 million to become that country's first unicorn. Investors also cashed out at a record rate last year, pulling out $11 billion in so-called "exits," Bloomberg News reported. The Covid-19 pandemic has encouraged greater use of online channels for conducting financial transactions, Wally Swain, principal consultant for Latin America at Omdia, told the Financial Services Advisor in a Q&A last September. "Clients who did not find an adequate mobile or online experience from their traditional financial services provider looked elsewhere," he said.

> **"Private capital in the region was remarkably resilient and strong."**
> **— Ivonne Cuello**

Venezuela's Maduro Pushing Banks on Digital Payments

Venezuelan President Nicolás Maduro is pushing the country's banks to implement digital payment systems as hyperinflation has made its banknotes all but obsolete, Reuters reported March 15, citing three unnamed people familiar with the matter. The country's annual rate of inflation is approximately 2,665 percent, the wire service reported. Long lines frequently form outside the country's banks so that residents can withdraw a maximum of 400,000 bolívars, the equivalent of 20 U.S. cents, just to pay for round-trip transit fare to commute to work, Reuters reported. About three-quarters of all circulating bolívars are spent in the transit system. Many Venezuelans have stopped using the country's currency altogether for food and other basic purchases. It would take 40 banknotes of 50,000 bolívars each just to buy one kilogram of rice. Instead, they have been using U.S. dollars or debit cards backed by dollar accounts in local banks. However, many poor Venezuelans lack bank accounts, and some services, including public transit, are unable to process electronic payments. Maduro,

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re-examine whether sound reasons still exist for justifying regulations that create barriers to entry. The expansion of financial services also represents significant risks, especially where services are provided to consumers and small business with no prior experience in financial services, and in particular where deposits are raised, investment products are made broadly available or where new forms of credits are offered to riskier borrowers at high prices. The world already provides many examples of what can go wrong, from crowdfunding in China to Wirecard in Germany and Greensill Capital in the United Kingdom. The expansion of opportunities to invest in risky assets across the retail market represents another challenge that requires a nuanced response from regulators, especially in a time of high asset prices and new unproven asset classes, such as crypto and SPACs."

A **Helen Harris, senior research associate at McLarty Associates:** "While Chile is among Latin America's leading markets for fintechs, trailing only after Brazil and Mexico, its lack of industry regulation has limited investment in the sector. In particular, Chile's absence of regulation on crowdfunding platforms has hampered the country's ability to quickly and efficiently deliver capital to SMEs and start-ups. This is relevant in a post-pandemic environment, in which SMEs can play a key role in economic recovery. Chile has the opportunity to shape regulation in a collaborative way, incorporating elements that are similar to those applied to financial markets, such as know-your-customer and competition requirements, risk management frameworks and general data protection to safeguard privacy. The draft bill that the Chilean Financial Market Commission (CMF) submitted has industry support and seeks to regulate crowdfunding platforms, alternative trading systems, financial instrument intermediaries and loan advisors. As Chilean lawmakers think through the proposed bill, they can look toward other markets and incorporate best practices, building a regulatory framework that will expand opportunities for investment. In order to do so, the regulation needs to be flexible enough so as to foster innovation, attracting human and financial capital. The fintech sector is a dynamic one, and too many restrictions can have a detrimental impact on its competitiveness. A flexible regulatory framework for fintechs will allow Chile to strengthen its ecosystem, which in turn will further financial inclusion, promote job creation and potentially place Chile on the map as the region's fintech hub."

A **Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile:** "In February, the Chilean financial regulatory body made public its proposals to regulate the fintech industry. The proposal reflects several years of dialogue with market participants that responds to a growing number of available new business solutions. The Inter-American Development Bank provided advice to the regulator in this process. The legislation seeks to regulate business models of growing importance, including crowdfunding platforms, financial intermediation, custody of financial instruments and credit advisory services. However, it does not cover digital payment methods, which are

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who has said he wants the country to move to an all-digital economy this year, has focused on public transit as the first stage of what he has called “the digital bolívar” plan. In January, Maduro reportedly asked banks to provide Caracas’ subway system and bus drivers with point-of-sale terminals. Earlier this month, Venezuela’s central bank announced that it would start issuing banknotes with denominations as large as 1 million bolívars, Bloomberg News reported. That largest note would be worth only 53 U.S. cents.

ECONOMIC NEWS

Brazilian Economists Demand Measures to Contain Covid-19

Hundreds of Brazilian economists, including former finance ministers and central bank presidents, in an open letter published March 22 called on the government to accelerate its vaccination campaign and implement stricter measures to halt the unrelenting spread of Covid-19, the Associated Press reported. Describing the economic and social situation in Brazil as “devastating,” the signatories also countered Brazilian President Jair Bolsonaro’s argument that lockdowns and restrictions to curb the spread of the virus would have a worse impact on the population than the disease. “This recession, as well as its harmful social consequences, was caused by the pandemic and will not be overcome until the pandemic is controlled through competent action from the federal government,” the letter said, the AP reported. “It is urgent that the different levels of government prepare to implement an emergency lockdown.” Bolsonaro has refused to impose nationwide lockdowns and in fact has attempted to block state governments from implementing local curfews and restrictions. He has also downplayed the seriousness of the virus, calling it a “little flu,” and recently told Brazilians to “stop whining” about the disease. Brazil has the second-most confirmed cases of Covid-19 in the world, at more than 12 million, and more than 295,400 deaths from the disease, according to a Johns Hopkins University tally. The week of March 15, Brazil

Bolsonaro // File Photo: Brazilian Government.

ADVISOR Q&A

How Will Lula Shake Up Brazil’s Politics?

Q A Brazilian Supreme Court judge on March 8 annulled the criminal convictions against former leftist President Luiz Inácio Lula da Silva, leading to speculation that the move will pave the way for Lula to run in the 2022 presidential election. Though the decision could still be overturned, the political uncertainty shook Brazilian financial markets. How likely is it that Lula will run for president next year? How does the possibility of a Lula candidacy alter Brazil’s political dynamics, and in what ways could it affect the agenda of President Jair Bolsonaro, who is likely to run for re-election? What implications does the ruling have for anti-corruption efforts in Brazil?

A Peter Hakim, president emeritus of the Inter-American Dialogue: “The unexpected annulment of Lula’s conviction has jolted Brazilian politics on many fronts. Although not yet a declared candidate, he appears ready and eager to challenge Bolsonaro for the presidency in next year’s election. Recent polls suggest that Lula, although hardly a walkover, will not be easy to defeat. If he had not been legally barred, he might well have won the 2018 election, and he is now the only visible contender who could block Bolsonaro’s re-election. The sharp ideological and stylistic differences between the two men, compounded by the gulf dividing their core supporters, are likely to further polarize an already tense political atmosphere and turn it more divisive and rancorous. Still, both candidates need centrist votes and may yet decide to moderate their positions and rhetoric, as Lula did to win the presidency in 2002. Bolsonaro’s appeal has been declining in recent months, reflecting, in part, his government’s generally disastrous response to the pandemic, which continues to surge in Brazil. But a more important factor may be Brazil’s stumbling economy, sky-high unemployment and shrinking financial aid for vulnerable households (which included more than half of all Brazilian households). Indeed, the outcome of a Bolsonaro versus Lula election next year will most likely hinge on the state of the economy, job growth and federal subsidies. And there are some reasons for a measure of optimism, including, for example, the predicted economic resurgence of Brazil’s largest trading partners, China and the United States (in that order), and congressional support for critical economic reforms, but the obstacles to a speedy and robust recovery are numerous. One grave risk is the popular demand for heightened government spending, which could push Brazil’s debt to precarious levels and shatter prospects for the policy reforms needed to end Brazil’s long economic slump.”

EDITOR’S NOTE: More commentary on this topic appears in the March 17 issue of the Latin America Advisor.

NEWS BRIEFS

Chile's Piñera Announces $6 Billion in Emergency Spending Measures

Chilean President Sebastián Piñera on March 22 announced new emergency spending measures worth $6 billion, or about 2 percent of GDP, as the government expands lock-downs in an effort to stop the country's most severe virus wave since the pandemic began, Bloomberg News reported. The emergency plan includes additional aid for families under quarantine, new job subsidies, unemployment insurance and increased spending on virus testing. Despite a successful vaccination program, Chile has recently registered record numbers of daily Covid-19 infections and hospitalized patients.

Peru's Central Bank Lowers Outlook for Economic Growth

Peru's central bank on March 19 revised its outlook for economic growth this year to 10.7 percent, down from 11.5 percent previously, as a second wave of Covid-19 cases threatens a fast recovery in the Andean nation, Reuters reported. Despite higher copper prices, the bank cut its forecast for growth in the country's mining sector to 11 percent this year, down from an earlier prediction of 14.4 percent growth. [Editor's note: See related **Q&A** in the Feb. 1 issue of the Dialogue's daily Latin America Advisor.]

Ecuador's Health Minister Resigns Amid Allegations of Favoritism With Vaccine

Rodolfo Farfan has resigned as Ecuador's health minister after only three weeks on the job, the Ecuadorean government said March 19, Reuters reported. The announcement came as prosecutors probe allegations of favoritism in the rollout of Covid-19 vaccines. Farfan, a surgeon, has not been accused of wrongdoing. averaged 2,234 daily deaths, the highest since the beginning of the pandemic a year ago, the AP reported. Meanwhile, the country's GDP contracted 4.1 percent last year, the largest annual recession in decades.

POLITICAL NEWS

Honduran Allegedly Tied to President Convicted in U.S.

A Honduran man whose trial included bribery allegations against the Central American country's president was convicted March 22 in New York on drug trafficking charges, the Associated Press reported. A federal jury convicted Geovanny Fuentes Ramírez on all counts he faced, including conspiracy to traffic cocaine, illegal weapons possession and arms conspiracy. During the two-week trial, witnesses testified that Honduran President Juan Orlando Hernández accepted bribes from Fuentes Ramírez. The bribery allegedly took place when Hernández, who took office in 2014, was running for president and as recently as 2019. Hernández has not been charged with any crime, and he has repeatedly denied any involvement with drug trafficking. In a **Q&A** published in the daily Advisor March 5, Honduras' ambassador to the United States, Luis Suazo, questioned the credibility of those who have raised the allegations about Hernández. "The accusations against President Hernández are based on testimonies of confessed drug traffickers severely hit by the president's policies and actions against drug trafficking," he said. U.S. prosecutors listed the president as a "co-conspirator" in the Fuentes Ramírez case. Additionally, one of the president's brothers, Tony Hernández, was convicted of drug trafficking in 2019 and is to be sentenced soon. During Fuentes Ramírez's trial, Devis Leonel Rivera Maradiaga, a former leader of the Cachiros cartel, testified that he gave Juan Orlando Hernández $250,000, using the now-president's sister as an intermediary. Rivera Maradiaga testified that he gave the money as a bribe in exchange for protection for drug smuggling and to avoid extradition. Also during the trial, an accountant testified that he witnessed Hernández receiving bribes twice from Fuentes Ramírez in 2013. U.S. District Judge Kevin Castel, who presided over the case, is also scheduled to sentence the president's brother, the AP reported.

U.S. House of Representatives OKs Immigration Bills

The U.S. House of Representatives on March 18 approved two separate immigration bills, including one that would provide a pathway to citizenship for young undocumented immigrants brought to the United States as infants, known as Dreamers, as well as for recipients of temporary protected status and beneficiaries of deferred enforced departures, CNN reported. That legislation could make as many as 4.4 million individuals eligible for permanent residence in the United States, according to the Migration Policy Institute. The second bill, known as the Farm Workforce Modernization Act, would allow permit farm workers and their families to earn legal status through continued employment in the agricultural sector. The two pieces of legislation will now go to the Senate, where they are expected to face tough opposition, CNN reported. The passage of the two bills came as the administration of U.S. President Joe Biden is facing an increasing influx of migrants at the U.S.-Mexico border. Top U.S. officials are expected to discuss the surge in migrants with officials from Mexico and Guatemala during visits to those countries. Roberta Jacobson, Biden's advisor on the southwest border, and Juan Gonzalez, the head of Western Hemisphere affairs in the White House's National Security Council, traveled to Mexico on March 22, the Financial Times reported, citing the National Security Council. Also part of the U.S. diplomatic team is Ricardo Zúñiga, whom the State Department named as a special envoy for the "Northern Triangle" countries of El Salvador, Guatemala and Honduras. [Editor's note: See related **Q&A** in the March 12 issue of the daily Advisor.]

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under separate discussion in consultation with the Central Bank of Chile. The guiding principles of the plan include regulations that are proportional to the inherent level of risk in each activity, neutrality between more traditional financial business and ones that are more intensive in technology, flexibly to permit changes over time without requiring constant regulatory modifications and modularity in the provision of financial services. Importantly, this new regulation will provide appropriate oversight to protect consumers, market participants and the overall financial system while allowing for future growth of these business models. The Commission for the Financial Market (CMF) will maintain a register of the market participants, and registered businesses must comply with certain requirements related to the risk level of each service. New entities may be required to establish a remote interface to allow for exchange of information, with the client's permission, between different providers of financial services. The new regulation is a positive step as it will promote competition, innovation, financial inclusion and entrepreneurship in Chile's financial services sector."

> **"The legislation seeks to regulate business models of growing importance..."**
>
> — Kathleen C. Barclay

A **Michael Leatherbee, assistant professor in the Department of Industrial and Systems Engineering at Pontificia Universidad Católica de Chile and president of the Advisory Board of Start-Up Chile:** "In the 1990s, Chile's average annual GDP growth was just over 6 percent. In contrast, between 2000 and 2015, the country grew just under 4 percent. This fall from grace can be mostly attributed to a decrease in the country's total factor productivity (from 2.3 percent to 0.1 percent). To increase the slope of its growth trajectory, Chile must improve its innovative capabilities. One lever regulators can use is to enable a competitive landscape for new entrants. This is a difficult task, because incumbents typically have huge leverage over regulators and can influence them to act in ways that are opposite to what the country needs. Allowing fintech start-ups to compete against incumbents on a level playing field has a very clear outcome: greater well-being for the country's citizens."

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

Diana Roy
Editorial Intern
droy@thedialogue.org

Financial Services Advisor is published biweekly, with the exception of major holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at
ebrand@thedialogue.org