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FEATURED Q&A

Will Latin Americans Save & Invest More After the Pandemic?

An increasing number of people in Latin America and the Caribbean have become part of the formal banking system. A branch of Bolivia's Banco Unión is pictured. // File Photo: Bolivian Government.

Q **Amid the pandemic, there have reportedly been some advances toward greater financial inclusion in Latin America and the Caribbean. In a five-month period last year, 40 million people in the region became part of the formal banking system, according to research by Americas Market Intelligence in partnership with Mastercard. What are the main factors driving greater financial inclusion in the region, and what forces are still keeping people out of formal financial channels? How will long-term savings rates be affected by the pandemic, which has pushed tens of millions of people in the region into poverty? To what extent are savers in Latin America and the Caribbean able to invest their money and build wealth beyond saving cash, and what barriers stand in their way?**

A **Axel Christensen, chief investment strategist for Latin America at BlackRock:** "The research conducted by Americas Market Intelligence, in partnership with Mastercard, reveals an increase in financial inclusion across Latin America and the Caribbean as more individuals gained access to the formal banking system. A potential explanation of this growing trend is individuals' need to use digital platforms during the pandemic as widespread lockdowns have directly affected the traditional cash-based transactions normally used in local stores and markets. With this said, the high degree of labor informality across the region continues to be an obstacle for sustained financial inclusion as formal relations are strong connectors for people to establish access to formal banking products. Digital access continues to be limited, and people still require physical access to bank branches,

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The Eastern Caribbean Central Bank launched "DCash," a blockchain-based currency whose value is tied to the Eastern Caribbean dollar.

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Insurers May Limit Payouts Related to Covid: Venezuelan Gov't

Venezuela's government has reportedly told insurance companies that they can limit payouts related to Covid-19.

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Two Banco do Brasil Board Members Resign in Protest

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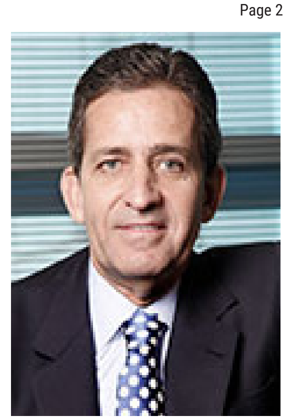

Magalhães // File Photo: Brazilian-American Chamber of Commerce.

BANKING NEWS

Two Banco do Brasil Board Members Resign in Protest

Two members of the board of Banco do Brasil, the country's largest state-controlled bank, including its chairman, Hélio Magalhães, resigned on April 1 in a dispute with Brazilian President Jair Bolsonaro over leadership of the bank, Reuters reported. José Guimarães Monforte, a former chairman of the board of Brazilian state electricity company Eletrobras, also resigned from Banco do Brasil's board. Earlier in the day, half of the board members of the bank released a public statement arguing that Bolsonaro had nominated someone to run the bank who is not ready for the job. Despite the criticism, Bolsonaro on Thursday swore in Fausto Ribeiro, 53, currently the CEO of the small business unit of Banco do Brasil, to replace André Guilherme Brandão, who resigned on March 18. In the statement, Magalhães and Monforte, as well as fellow board members Luiz Spinola and Paulo Roberto Evangelista de Lima, said Ribeiro meets the legal requirements to become Banco do Brasil's CEO, but they believe he lacks management experience to run the bank, according to the report. Brandão, who joined the bank last September after working at a private sector bank, ran afoul of Bolsonaro over a plan, popular with investors but not the pubic, to shutter some 200 branches and let go more than 5,000 employees to streamline operations and save millions of dollars by 2025, Bloomberg News reported.

Itaú Corpbanca Signs Deal With Rappi for Digital Products

Chile's Itaú Corpbanca has agreed to work with Colombia-based mobile app provider Rappi to provide new digital products in Chile, Itaú Corpbanca said March 30 in a statement. "This agreement aims to revolutionize the local financial market with simple, innovative and unique digital products, allowing an increasing number of individuals to access new financial solutions in an agile and digital way," the bank said. "With this initiative, Itaú and Rappi seek to democratize financial services, promote greater inclusion and, at the same time, simpler and faster digitization that brings broad benefits to users." Itaú Corpbanca and Rappi said that through the initiative they expect to be able to offer the bank's customers new digital financial products and services in the third quarter of this year. Rappi, which is headquartered in Bogotá, raised $300 million in venture capital last year and is now valued at $3.5 billion, Bloomberg News reported March 16.

DIGITAL PAYMENTS NEWS

Eastern Caribbean Launches New Digital Currency

The Eastern Caribbean Central Bank has launched a digital currency called "DCash," the world's first blockchain-based currency issued by a currency union, the Associated Press reported April 1. The central bank has expressed hopes that the new digital currency will help speed transactions and serve people who lack bank accounts. DCash became available on March 31 in St. Lucia, Grenada, Antigua and Barbuda, and St. Kitts and Nevis under a year-long pilot program. By September, officials hope to also launch the currency in Anguilla, Dominica, Montserrat and St. Vincent and the Grenadines. Barbados-based fintech company Bitt created the digital currency in partnership with the central bank. The currency has a value that is tied to the existing Eastern Caribbean dollar. The new digital currency "is a milestone in the history of monetary instruments," Bitt CEO Brian Popelka said during an online press conference. Users who lack bank accounts but have a smartphone can use the digital currency by downloading an app and making payments using a QR code, the AP reported. Some experts are concerned that digital currencies

NEWS BRIEFS

Santander Offering to Buy Portion of Mexico Unit It Doesn't Already Own

Spain's Banco Santander on March 26 said it will offer to buy the 8.3 percent stake in its Mexican unit that it does not own, proposing to pay about 24 pesos per share, which represents a 24 percent premium above the March 25 closing price and a total of nearly 550 million euros (about $648 million), Reuters reported. The offer is well below pre-pandemic levels and about 22 percent lower than in 2019, Reuters reported.

Argentine Bank Groups Seek Eased Regulations

Officials from Argentina's four largest banking industry groups have held several calls and meetings in recent weeks with central bank chief Miguel Ángel Pesce and Production Minister Matías Kulfas, asking them to ease some regulations, the Buenos Aires Times reported March 27, citing unnamed people with knowledge of the matter. Commercial banks were required last year to defer some loan payments, give out loans with interest rates below the rate of inflation and eliminate commissions for some services. However, the government is now reluctant to end these measures as it tries to revive the economy, the sources said.

Peru Working on Instant Payments Network by Linking Banks, Fintechs

Peru is working on an instant payments network that will link banks, financial technology companies and mobile wallet providers, PaymentsSource reported March 31. The network will use real-time technology provided by Mastercard, according to the report. The launch of the payments hub is scheduled for early next year and will use mobile phone numbers and email addresses in place of bank account numbers.

issued by small countries could be used for illicit activities, such as money laundering and the financing of terrorism, Eswar Prasad, a trade policy professor at Cornell University, told the AP. However, he added, "that skepticism is waning as more central banks get into the act, and as central banks around the world face the inevitability of the declining use of physical cash." Last year, the Bahamas rolled out a digital currency, and, in the Pacific, the Marshall Islands is considering a similar move. The Eastern Caribbean Central Bank first announced plans for its digital currency in March 2019, Cointelegraph reported.

INSURANCE NEWS

Insurers May Limit Covid Payouts: Venezuelan Gov't

Venezuela's government has told insurance companies that they can limit payouts related to Covid-19, Reuters reported March 31, citing a government document it reviewed. In the document, which was sent to insurance companies and dated March 16, Venezuela's insurance regulator said insurers would be required to cover a maximum of 14 days in intensive care in private health care facilities and pay out no more than $25,000 per Covid-19 patient. The country's health care system, which has deteriorated in recent years amid hyperinflation and a lack of funds, is the method through which most Venezuelans access health services, the wire service reported. The informal dollarization of Venezuela's economy has led to a dramatic increase in the cost of health insurance for the few Venezuelans who have private insurance and go to private health care clinics. It was unclear how many Venezuelans would be affected by the government's instructions to private insurers. The government regulator did not respond to a request for comment by Reuters. The Andean nation is experiencing a second wave of infection, which President Nicolás Maduro has blamed on the soaring number of infections in Brazil. Venezuela has

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which the Covid crisis has hindered. As we look ahead, BlackRock's outlook for the region is optimistic as per our most recent People and Money survey, which globally compiles the perspective of people about their financial well-being. The region faces challenges if we analyze the results in Brazil and Mexico, for example, which revealed that 60 percent of respondents recognized that not having enough money to start investing was a major obstacle to financial inclusion. However, the responses from these two countries also point to a higher awareness than the global average that their financial future would improve if they began investing earlier (more than 80 percent for both countries vs. the global average of 61 percent). Additionally, the survey results revealed a higher level of use of financial advisors compared to the global average (more than 80 percent vs. the global average of 76 percent). As the region recovers from the pandemic, people will see their income improve and will be able to improve their financial education. The heightened awareness of the benefits of investing, as well as having support from an advisor, should play a role in more Latin Americans looking beyond cash when making their financial decisions."

A **Carolina Costa, head of Latin America government affairs at RELX:** "Financial Inclusion in Latin America is being driven by a single short-term trend and two longer-term trends. The short-term trend is the Covid-19 pandemic, which has accelerated consumer and business adoption of digital services across all socioeconomic groups. Latin American countries experienced various forms of lockdown in 2020 and into 2021. These lockdowns forced consumers to adopt digital behaviors such as moving from cash to digital wallets and ordering food and services online. The two longer-term trends facilitating financial inclusion are: 1.) increased use of Internet services over the last 10 years among the middle and working classes—mainly through a dramatic increase in smart phone usage—and 2.) advances in big data analytics and machine learning. Collectively, these two trends have generated large amounts of data that can be used to increase lending to these underserved groups. Historically, consumers seeking

> **"The use of this data is a game changer for financial inclusion, but challenges still remain..."**
> **— Carolina Costa**

credit needed a meaningful credit history—a Catch-22 situation that effectively excluded roughly 70 percent of working adults in Latin America who have had no formal credit history. The use of this data is a game changer for financial inclusion, but challenges still remain, with incentives for people to continue working in a cash economy (which does not generate a helpful digital footprint for the consumer) and some country regulations that inadvertently discourage technology innovation. Regardless of the timetable of an economic recovery from Covid-19, in the next several years these new technologies and the competition they are creating will enable historically underserved populations to leverage the benefits of access to the formal financial sector."

A **Alejandra Ruales, senior manager at the Financial Health Network:** "The pandemic has forced the reimagination of financial interactions. Limited in-person contact and a need for quick distribution of relief efforts have led to increased adoption of digital banking. Governments disbursed voucher and relief programs using hybrid models of in-person and digital payments. It is a hopeful trend, but in a region where the

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recorded more than 160,000 cases of Covid-19 and more than 1,600 deaths, according to Johns Hopkins University. However, experts have said the country's actual numbers of cases and deaths are far higher due to a lack of testing, Reuters reported.

POLITICAL NEWS

Venezuela Creates Military Unit for Area Along Border

Venezuela has created a military unit for an area along its border with Colombia where troops and illegal armed groups have battled since March, sending thousands of refugees into Colombia, Reuters reported April 5. Venezuelan Defense Minister Vladimir Padrino announced the creation of the military unit, called the Integrated Operational Defense

Padrino // File Photo: Venezuelan Government.

Zone, or ZODI. The unit will operate in Venezuela's Apure state, where the clashes between Venezuelan troops and Colombian armed groups have occurred in recent weeks. "We are not going to allow any type of force, be it conventional, irregular, criminal, drug trafficker, et cetera, to come to Venezuelan territory to commit crimes," Padrino said in televised remarks. Eight Venezuelan soldiers have been killed, and 34 have been wounded in recent fighting with the armed groups, said Padrino. Additionally, he said nine members of the illegal armed groups have been killed, and 33 are facing prosecution in the Venezuelan military justice system, he added. Venezuela's military campaign began March 21 in Apure with several days of airstrikes, The New York Times reported. Security experts have described the assault as Venezuela's largest use of military force in decades. The military campaign has sent some 5,000 Venezuelans fleeing over the border into Colombia, the newspaper reported. On April 5, Colombia's Foreign Ministry urged Venezuela to respect the rights of civilians living in the border area. "Armed conflict in the border area of Arauca and Apure is seriously affecting the lives of the civilian population and has forced families to abandon their homes and belongings," the Colombian Foreign Ministry said in a tweet. Venezuela's government has been enmeshed in fighting with some factions of the former Revolutionary Armed Forces of Colombia, or FARC, rebels, and it is allied with some drug trafficking groups, Colombian Defense Minister Diego Molano recently told newspaper El Tiempo. Molano added that the

ADVISOR Q&A

Will Venezuela Transition to All-Digital Payments?

Q Facing hyperinflation and a scarcity of local banknotes in denominations large enough for even small purchases, Venezuelan President Nicolás Maduro is reportedly pressuring the country's banks to implement digital payment systems. Will Venezuela's severe economic problems push the country to implement wide-scale digital payments? Does Venezuela have the necessary electronic infrastructure for such a move? How accessible are electronic payment options to the country's poor populations, and what needs to be done for digital services to reach all Venezuelans?

A Gustavo Roosen, president of IESA in Caracas and former president of CANTV: "Part of the digitization of payments in dollars has already happened in Venezuela, thanks to the numerous accounts in dollars in the hands of Venezuelan individuals and companies. In the short term, it is necessary to integrate the large volumes of dollars that the population has as savings and as payment instruments. Commercial banks have created accounts to capture this cash, but the Superintendency of Banks has not authorized the ability to transfer this money from one institution to another, in order for it to be mobilized through debit cards or to create credit instruments supported by these resources. In Venezuela, there is no way to replace damaged banknotes or to introduce new banknotes to satisfy the growing transactional demand. Banks could try to cover the investments needed to deepen the digitization of payments if the government liberalizes the movements of funds between clients of different banks and authorizes financial intermediation in foreign currency with resources deposited by the public. An obstacle to the acceptance of the digitization of accounts is that there is a great fear that the government, in a worsening of the crisis, will decide to expropriate foreign currency held by individuals and companies. The low-income Venezuelan population is familiar with electronic payment applications through their smartphones. The informal economy uses phones as work tools, including applications to mobilize money in bolívars. In a process of privatization of telecommunications, the new operators are likely to offer plans to buy smartphones to grow the market. Subsidy programs can also be implemented to deepen the digitization of payment methods."

EDITOR'S NOTE: More commentary on this topic appears in the April 2 issue of the Latin America Advisor.

NEWS BRIEFS

U.S. Government's Special Envoy Starts Trip to Guatemala, El Salvador

Ricardo Zúñiga, the U.S. special envoy to the so-called Northern Triangle countries of Central America, on April 5 began a two-country trip to the region aimed at addressing a surge in migration to the United States, Reuters reported. Zúñiga met with Guatemalan President Alejandro Giammattei, though the Guatemalan government provided few details about the meeting. It added that Zúñiga is set to hold further talks on April 6 about economic development, security and immigration. He is also scheduled to visit El Salvador later in the week.

Bolsonaro's Appointment of New Army Chief Seen as Attempt to Heal Rift

Brazilian President Jair Bolsonaro's recent naming of Gen. Paulo Sérgio Nogueira as the army's new chief is seen as an attempt by the president to heal a rift he created by firing Defense Minister Gen. Fernando Azevedo e Silva, analysts told the Associated Press April 1. Azevedo e Silva's firing led to the resignations of Brazil's army, navy and air force chiefs. In the military, Nogueira has a reputation for being reliable and conscientious, the wire service reported.

Fitch Downgrades Suriname's Credit Ratings

Fitch Ratings on April 1 declared Suriname had defaulted on $49.8 million in external debt payments due March 31 and downgraded the South American country's ratings on $675 million in notes due between 2023 and 2026. Officials say they will continue to negotiate with creditors for a comprehensive restructuring of its external bonds, Fitch said in a statement. [Editor's note: See **Q&A** on Suriname in the Aug. 5 edition of the daily Advisor.]

Venezuelan armed forces and dissident allies have met in order to coordinate attacks against other former members of the FARC, Molano added. Venezuela's government denies having any links to drug trafficking groups or guerrillas, Reuters reported.

Chile Closes Borders for 30 Days Amid Rise in Covid Cases

Chile's government closed its borders to most activity amid a rise in Covid-19 cases in the South American nation, El Mercurio reported April 1. Among the restrictions, the country's international airport in Santiago will suspend the entry of nonresidents, and officials are narrowing the list of activities that are considered essential for crossing the border, the newspaper reported. Chile has been among the world's leaders in vaccinating its people against Covid-19, but a new wave of infections has still overburdened hospitals, bringing some to near-collapse, Reuters reported. Even Chilean citizens will be restricted from leaving and re-entering the country through April, and truck drivers transporting essential goods into the country will have to show negative Covid-19 test results, the Associated Press reported. Others will be allowed to enter Chile only for extraordinary reasons.

ECONOMIC NEWS

Mexico, Businesses Reach Deal on Outsourcing Ban

The government of Mexican President Andrés Manuel López Obrador has reached an agreement with union and business leaders on a bill to ban outsourcing, the government announced April 5, Bloomberg News reported. With the aim of closing tax loopholes, the legislation had sparked controversy when first proposed last year as business leaders said an increase in costs would hurt the country's economic recovery. The president claims the bill is necessary because current arrangements unfairly limit employer obligations and evade taxes. During a meeting at the National Palace in Mexico City on April 5, union and business chamber leaders and the government agreed to prohibit the outsourcing of personal to third-party firms, except for specialized work outside a company's main economic activity, the labor ministry said, Bloomberg News reported. They also agreed on a new profit-sharing model. During negotiations with the government, business leaders had reportedly proposed capping profit-sharing rates. Companies in Mexico commonly set up separate firms to employ workers as a way to avoid legal and tax burdens. The ban "will probably dampen the demand for outsourced workers in the formal sector," Tapen Sinha, professor at the Instituto Tecnológico Autónomo de México, told the daily Latin America Advisor in a **Q&A** published Dec. 3. "We only have to remember that in Mexico, more than half of the labor force is in the informal sector. No amount of regulation will make any dent on that part," he added.

Ecuador Economy Shrinks Less Than Expected in 2020

Ecuador's economy shrank by a smaller amount than the government had expected in 2020, said Finance Minister Mauricio Pozo, Agence France-Presse reported April 2. Due largely to the coronavirus pandemic, the Andean nation's gross domestic product decreased by 7.8 percent in 2020, compared to an International Monetary Fund forecast of an 11 percent decline, Pozo said at a press conference. Last November, the IMF readjusted its estimate to a 9.5 percent fall. A country of 17.4 million inhabitants, Ecuador received external financing of about $8 billion in 2020 in order to contend with the pandemic, according to the report. "The public debt has grown, but the structure is much cheaper, the terms are much longer and the interest rates are much lower," Pozo told reporters.

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use of cash is predominant, the longevity of these inclusion efforts is uncertain. Working with new users to understand the long-term benefits of participating in the formal banking system is essential to advancing inclusion efforts. However, it is not just about access to improve one's financial health. This is a prime time for public and private organizations to work hand-in-hand to cultivate trust in financial institutions, ensure basic infrastructure in rural areas to expand broadband access and demonstrate the value of engagement for customers. Focusing inclusion efforts with a long-term vision of financial health can support one's ability to conduct day-to-day transactions and also to help them pursue future opportunities. Supporting the financial health of customers is key to building long-term and sustainable relationships. Transparency in cost structures for financial products can encourage activities such as savings and long-term investments. Limiting access barriers such as minimum balance requirements for newly banked consumers and designing solutions guided by behavioral science principles will help to maintain inclusion efforts. Ultimately, aiming at financial health outcomes will not only facilitate increased adoption of banking products, but it is also a sustainable way for individuals in the region to spend, save, borrow and plan."

A **Ione Amorim, economist at the Brazilian Institute of Consumer Defense (IDEC):** "The need to help the population affected by the loss of income and the imposition of the use of digital banks and electronic commerce amid the pandemic were responsible for the greater financial inclusion in 2020. However, it was not a movement structured by public policies for this purpose, and there are challenges to maintaining it. Technological advances in the banking sector have been the main reason for the increase in financial inclusion. But the social inequalities that exist in Brazil present barriers that have become more profound with the health crisis. The lack of financial education, low levels of education and the high cost of banking services are still important barriers, exposing the vulnerability of many consumers with a high level of indebtedness and exposure to frequent financial fraud. With the end of emergency aid payments, it is possible that the level of financial inclusion reached will not be maintained for long. It won't happen without the adoption of measures to increase vaccination against Covid-19, policies to recover the economy, increase security in the use of virtual financial services and combat abuses committed by financial institutions. The environment for generating and maintaining domestic savings in the long run is very challenging. The scenario is not favorable in view of the increase in the number of Brazilians in situations of misery and hunger. The poor performance of macroeconomic indicators in the country, in addition to the increase in prices of food, essential services and fuels, will hinder the formation of domestic savings with return of inflation."

"With the end of emergency aid payments, it is possible that the level of financial inclusion reached will not be maintained for long."
— Ione Amorim

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

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