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FEATURED Q&A

How Big a Role Will Remittances Play in Economic Recovery?



Remittances to Latin America and the Caribbean rose last year, despite the Covid-19 pandemic.
// File Photo: Spatial Information Design Lab via Creative Commons.

Q Despite the Covid-19 pandemic, remittances to Latin America rose 8.3 percent in 2020, according to a March report by the Center for Monetary Studies in Latin America and the Caribbean. However, some parts of the region saw declines, such as the Andean nations, where remittances fell 4.2 percent last year, according to the report. How much has the Covid-19 pandemic changed the way remittances are being sent to Latin America and the Caribbean? How much will remittances be responsible for the speed at which countries in the region recover from the economic shock of the pandemic? How much will Latin America's governments be able to leverage remittances in order to foster long-term development?

A Chad Harper, global payments fellow at the Visa Economic Empowerment Institute: "Remittances are monetary lifelines, crucial for hundreds of millions of families. World Bank data shows that remittance flows account for 10 percent or more of GDP in several countries of Latin America and the Caribbean: Haiti, El Salvador, Honduras, Jamaica, Guatemala and Nicaragua. It also indicates that Mexico is one of the biggest global receivers, recently averaging more than \$35 billion a year. These flows go to families who support their communities and who often use these funds to start and maintain small businesses. So making them efficient will help the recovery. A recent Visa Economic Empowerment Institute study found that digital remittances (those that are initiated and paid for digitally) are increasing in prevalence and are significantly lowering the cost of sending money. Looking at 28 corridors across the globe, we found that digital remittances cost about 4

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BANKING

Banco Santander México Posts 39% Decline in Profit

Banco Santander's Mexico unit posted a 39 percent decline in profit year-on-year for the first quarter amid a decline in loan volumes.

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Caixa Seguridade Planning \$1 Billion IPO

Caixa Seguridade, the insurance unit of Caixa Econômica Federal and Brazil's largest mortgage provider, is planning a roughly \$1 billion initial public offering.

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PENSIONS

Chile's High Court Rejects Piñera's Attempt to Block Pension Measure

Chile's Constitutional Court rejected an attempt by President Sebastián Piñera to block legislation to allow a third round of early withdrawals from pension accounts.

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Piñera // File Photo: Chilean Government.

BANKING NEWS

Banco Santander México Posts 39% Decline in Profit

Banco Santander's Mexico unit on April 28 posted net income of 3.28 billion pesos (about \$164 million) for the first quarter of the year, a decline of 39.4 percent year-on-year and down 40.2 percent from the previous quarter. A drop in loan volumes, mainly in corporates, reflected the annual decrease, in line with market trends and soft demand conditions, and a higher base during the first quarter of 2020,



Grisi // File Photo: Banco Santander.

the bank said in a statement. Mortgages and auto loans maintained a solid performance, with Santander México growing above market. Likewise, individual demand deposits continued to expand at 23.5 percent year-over-year, the fourth consecutive quarter with demand deposits from individuals growing by more than 20 percent, the bank said. "We continued to advance on our strategic initiatives, while closing the quarter with a strong balance sheet and ample liquidity, despite the pandemic continuing to weigh on our results," Héctor Grisi, Banco Santander México's executive president and chief executive officer, said in a statement. "We have fully absorbed the negative impact of the pandemic, mainly in consumer loans, credit cards and SMEs and we are well positioned to support our customers on the recovery path ahead," he added. Despite what he called a solid performance, Grisi said the Mexican market is no longer the second largest for Santander outside Spain, with the top two global markets now being Brazil and the United States, Milenio reported.

Banco Modal Raises \$220 Million in IPO: Report

Brazil's Banco Modal has raised 1.17 reais (\$220 million) in its initial public offering, Reuters reported April 28, citing an unnamed source with knowledge of the matter. Banco Modal priced the units on offer at 20.01 reais apiece, below the original proposed range of 24.30 to 32.82 reais per unit. Each of the units consists of one common share and two preferred shares. The bank sold only one allotment of the units and raised the offering size by 15 percent to 58.7 million shares, according to the source. Several Brazilian companies have recently postponed initial public offerings because of lackluster demand from investors. Some IPOs that have proceeded were priced below their original ranges.

Loans to Micro, Small Businesses See Growth in Jamaica

Jamaica saw year-on-year growth in loans available to micro and small businesses during the last quarter of 2020, even as credit conditions tightened for larger firms, the economy contracted by more than 10 percent and debt increased to more than 29 billion Jamaican dollars (\$188.8 million), The Gleaner reported April 28. Despite a suspension of payments last year, business loans totaled 51.6 billion Jamaican dollars, according to statistics published by the Bank of Jamaica, or BOJ. "We kept all 50 members of staff without any loss of income because the human side of things is very important to us," said Anthony Pearson, managing director of Lloyd's Department Store, The Gleaner reported. "It's going to take a while, but we know [profits are] going to come back," he added. The Caribbean nation saw fewer credit issues to micro and small firms during the last three months of 2020 as compared to the previous quarter, including for the agriculture, manufacturing and electricity

NEWS BRIEFS

Chile's High Court Rejects Piñera's Attempt to Block Pension Bill

Chile's Constitutional Court rejected President Sebastián Piñera's attempt to block legislation to allow a third round of early pension withdrawals amid the Covid-19 pandemic, leading Piñera to concede that he would sign the measure, Bloomberg News reported April 27. The court rejected Piñera's request in a vote of 7-3 even before discussing the basis of the president's appeal. "We respect and accept the Constitutional Court's decision even though we don't agree with it," said Piñera, adding that the government would "do all in our power" to ensure that account holders received the proceeds the following week.

Caracas Air Starts Accepting Bitcoin

Venezuelan aviation academy Caracas Air announced April 24 that it will start accepting Bitcoin as a valid alternative payment method and will work to establish a "rate of the day," according to CEO Oliver Laufer, BelnCrypto reported. The decision makes Caracas Air the latest company in Venezuela to adopt the use of cryptocurrency, where peer-to-peer Bitcoin trading has been on the rise, as hyperinflation and a depreciating bolívar continue to sink the country's economy.

Pinheiro Reportedly Exiting BR Partners

Andrea Pinheiro, one of the top female bankers in Brazil, has left her position as managing director of BR Partners after 11 years with the company, according to sources close to the matter, Bloomberg News reported April 26. No official announcement has been made yet, and Pinheiro and a company representative declined to comment. Pinheiro previously worked at Banco BMC and SG Warburg & Co. before joining BR Partners in 2010.

industries. Liquidity support by the BOJ for the country's financial system, which equated to approximately 12 percent of GDP, largely helped credit availability. New loans for the micro sector had higher rates than did ones for small, medium and large businesses. However, loans for the micro sector averaged 17.7 percent in the fourth quarter, three percentage points cheaper than in the previous quarter. Business loan rates, on average, also dropped from 12.28 percent in September to 11.01 percent in December. The Covid-19 pandemic has severely hit the Jamaican economy, particularly the country's tourism industry. "We have gone through times like this before, so those who have been around long enough know that we always bounce back because we are resilient people," said Angella Whitter, managing director of the Whitter Group of Companies, The Gleaner reported.

PAYMENTS NEWS

Panama Joins Mastercard's Digital Country Partnership

Panama has become the first country in Latin America and the Caribbean to join Mastercard's Digital Country Partnership, an initiative that fosters the digitization of government, said Darren Ware, the payment company's vice pres-



Panamanian President Laurentino Cortizo (center) displayed the agreement alongside Mastercard executives. // Photo: Mastercard.

ident for government engagement in the region, EFE reported April 29. Mastercard and the government of President Laurentino "Nito" Cortizo the previous week reached an agreement

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percent on average—significantly lower than cash-initiated remittances (at 7 percent). In seven United States-to-Latin America corridors, we found that senders who could compare options online or through apps could get a cost of less than 3 percent in five of the corridors. For governments that would like to make remittances into—and out of—their countries more efficient, we recommend that they enable the digital initiation and receipt of remittances. Of course, digital infrastructure is the first step. But equally important is a streamlined regulatory environment and an open digital ecosystem. Ultimately, people will not be willing to receive a remittance on their debit card if they then cannot go out and use it in the community. It's a two-sided equation. Countries that have done a good job on digital enablement have focused on both sides of that equation, making it easy for consumers to use, and for merchants to accept, electronic payments."

A Manuel Orozco, member of the Financial Services Advisor board and director of the Center for Migration and Economic Stabilization at Creative Associates International: "The growth in remittances is associated with both individual and host-country factors. In the first case, migrants relied on their stock of savings to send money and made remittance sending a key economic priority. They also used digital financial vehicles in order to mitigate any disruption in the frequency of sending. In the second case, migrants sending capacity depended on economic and employment conditions in the host country. In the United States, where half of migrants reside but more than 70 per-

cent of the volume originates, the severity of unemployment was lower, ending with 7 percent last December, up from 4 percent in February, but down from 20 percent in the second quarter of 2020. However, for migrants in Europe and Latin America and the Caribbean (in Colombia, the Dominican Republic, Chile, Costa Rica and Panama), the severity of unemployment derailed the capacity of migrants to send money. Migrants in Spain were also struggling to send money to families. Thus, the decline is associated with this mix, with remittances to Bolivia, Paraguay and Venezuela suffered the main declines. As part of this process, there was an important change in the way remittances were sent because the use of digital remittance transfer vehicles increased. The overall growth in digital transfers went from 22 percent to more than 30 percent in a matter of months. That change is unlikely to decline and rather will spur an important economic impact in the spread of digital financial vehicles in Latin America. Both remittance growth during the first quarter of 2021 and continued use of digital transfers are important shock mitigators. In 2020, remittances were practically the only positive macroeconomic indicator, and it contributed to hold incomes constant despite the pandemic to more than 15 million households. Moving into the very slow recovery in 2021 and 2022, remittances continue to offer a cushion against the sluggish performance but also an opportunity to leverage these flows to introduce an economic stabilization strategy that relies on financial inclusion among remittance recipients and modernizing the informal economy through its digitization."

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that has a goal of digitizing state payments, combating cyber fraud and expanding financial inclusion over the next five years in response to problems worsened by the Covid-19 pandemic. Ware said that, through the partnership, Mastercard and the Panamanian government hope to reach people without a bank account, which

he called the "most vulnerable" during the pandemic, as well as recipients of government benefits. "We are working with the national government's financial institutions to try to reach those people, to include more people in the financial system using digital payments or a prepaid card," Ware added, EFE reported.

CAF-Development Bank of Latin America recently approved a \$350 million loan for Panama's digital transformation, including the digitization of government services. "The program approved for Panama is part of CAF's support for the government's strategy of creating an inclusive digital revolution, economic recovery and modernization of the state," Carlos Santiso, head of the governance practice on digital innovation in government at CAF, told the daily Advisor in a [Q&A](#) published March 24.

INSURANCE NEWS

Brazil's Caixa Seguridade Planning \$1 Billion IPO

Caixa Seguridade, the insurance unit of Brazilian state bank Caixa Econômica Federal and Brazil's biggest mortgage provider, is planning a roughly \$1 billion IPO in the government's third attempt to list the business after the Covid-19 pandemic delayed the process, Reuters reported April 27. If successful, this will be the first IPO by a Brazilian state-controlled

Caixa plans to open 400 new branches, which is expected to boost near-term revenues at Seguridade.

company during President Jair Bolsonaro's presidency, whose government already slashed the valuation of the company by a third. The IPO will help gauge foreign investor interest in the Brazilian market that has recently diminished due to Bolsonaro's interventionist methods, which led to the ousting of chief executives of state lender Banco do Brasil and state oil company Petrobras, analysts said. The IPO's success also hinges on whether investors are willing to wager that parent company Caixa's recent growth, under the guidance of Bolsonaro-friendly chief executive Pedro Guimarães, indicates a positive relationship

THE DIALOGUE CONTINUES

Why Don't More Mexicans Have Health Coverage?

Q Private hospitals in Mexico and multinational insurer AXA have launched a private insurance offering that provides unlimited medical consultations for 2,799 pesos (\$137) per year. The move is an effort to expand affordable private health insurance coverage in Mexico, where the public health care system is overburdened and out-of-pocket costs are high. Will the initiative be able to significantly increase the number of people in Mexico who have affordable private health insurance coverage? To what extent do Mexicans have adequate health insurance, and what barriers prevent more people from being covered? Will it improve quality of care and health outcomes? To what extent will the new AXA offering promote competition among private health insurers in Mexico?

A Rocío García Díaz, research professor at Tecnológico de Monterrey: "Mexico has a fragmented health system that aims to reach universal health coverage to reduce the amount of out-of-pocket health payments. This cannot be attained unless both health services and financial risk protection are accessible, affordable and acceptable. In 2018, more than 50 percent of households in Mexico spent privately on health, and more than 50 percent of that expenditure on medicines, according to the 2018 National

between the government and the company. "The more Bolsonaro uses Caixa as a monetary policy tool, the better, because if the bank grants more loans, Caixa Seguridade will sell more insurance," said Stefan Darakdjian, an equity analyst at asset manager Meraki, Reuters reported. Caixa is also opening 400 new branches, which analysts said will boost near-term revenues at Seguridade. "The bank has

Survey of Household Income and Expenditure (ENIGH). The amount of out-of-pocket health expenditure becomes catastrophic in almost 4 percent of households, with a threshold of 10 percent of the household budget. Mexico has specific coverage problems relating to health services, limiting effective access to good health care. As a consequence, families tend to cover their expenditures privately even when they are social insurance beneficiaries. According to the 2018 National Survey on Health and Nutrition (ENSANUT), only 9 percent of Mexico's households are unprotected by any social health insurance, however, 25 percent of those with financial protection end up paying privately. Effective access is a major challenge in Mexico, where families choose to pay privately for health services, many times choosing the doctors adjacent to private pharmacies (DAPPs). Over the last decade, DAPPs have adapted to changes in population demographics and have become a widely accepted and well preferred option among Mexican ambulatory health providers that follow no specific income-level population user group."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in the April 8-21 issue of the Financial Services Advisor.

an enormous footprint across Brazil and this is positive for Seguridade," said Luiz Missagia, asset manager at ACE Capital, Reuters reported. "If it outgrows BB Seguridade, it becomes cheaper," he added. However, some analysts have expressed concern about presidential interference in the company, although Guimarães has denied claims that the decisions to move branches was a result of political pressure.

NEWS BRIEFS

At Least 23 Killed in Collapse of Mexico City Metro Overpass

At least 23 people, including children, were killed May 3 when a 16-foot-high overpass carrying a Mexico City Metro train collapsed, sending a train car plunging toward a busy street below, the Associated Press reported. Some 70 people were also injured in the incident, which happened on Line 12, the newest of Mexico City's Metro lines, in the borough of Tláhuac in the southeast part of the city. The collapse occurred at about 10:25 p.m. local time, said Mexican Interior Minister Alfonso Suárez Del Real, CNN reported.

Polls Show Narrowing Lead for Castillo in Peru Presidential Race

Polls from Peru show presidential candidate Keiko Fujimori edging closer to left-wing front-runner Pedro Castillo ahead of the runoff scheduled for June 6, Reuters reported May 3. In polls prior to the April 11 first-round vote, Castillo had 43 percent support, while Fujimori garnered 34 percent, according to Ipsos Perú. In a more recent Ipsos poll, Fujimori has closed the gap by two percentage points. The poll also showed that around 23 percent of responders are still undecided.

Biden Administration to Cancel Contracts Related to Trump's Border Wall

The administration of U.S. President Joe Biden is returning to the Pentagon more than \$14 billion in funds that former President Donald Trump had directed toward constructing a wall at the U.S.-Mexico border, an unnamed administration official told ABC News on April 30. The official also said the Biden administration would scrap all construction contracts related to the border wall.

FINANCIAL TECHNOLOGY NEWS

Brazil's Nubank Begins Preparations for U.S. Listing

Brazilian fintech Nubank has started preparations for its listing on the U.S. stock market that could come as early as this year, making it one of the biggest stock market debuts of a South American company in the past few years, said sources close to the matter, Reuters reported April 23. After ending last year with a net loss of 230.2 million reais (\$41.9 million), Nubank was valued at approximately \$25 billion in a January private fundraising round. The company is currently working with advisors on hosting an initial public offering in New York, although the plans are confidential, according to the sources. "We will probably do an IPO at some point in time, but it is not among our current priorities," Nubank said in an emailed statement, Reuters reported. "We have the support of an amazing group of investors that share a long-term vision on our business," the company added, declining to comment specifically on details of the IPO. Since its founding in 2013, Nubank has garnered more than 35 million clients, launched new financial products and raised \$1.2 billion in several funding rounds. As of late January, Nubank is the fourth-most valuable financial institution in Latin America.

ECONOMIC NEWS

Colombia's Finance Minister Quits Amid Protests Over Tax Bill

Alberto Carrasquilla resigned as Colombia's finance minister on May 3 following days of deadly protests that forced the government to withdraw its unpopular tax reform proposal, the Financial Times reported. Carrasquilla said he was leaving his post to allow the

government to reach a consensus on a new tax reform package, which the administration says is crucial to maintaining fiscal sustainability. President Iván Duque said José Manuel Restrepo, who had been leading the commerce ministry, would replace Carrasquilla. Massive demonstrations continued on May 3 across Colombia, including in Bogotá, Medellín and Cali, even after Duque announced his withdrawal of the reform proposal a day earlier. Protests have turned violent, with the national human rights ombudsman identifying at least 18 civilians and one police officer who were killed during the five days of unrest, Reuters reported. Protests have continued in part because of what human rights groups have blasted as a heavy-handed state response in trying to quell demonstrators, The New York Times reported.

POLITICAL NEWS

El Salvador's Legislative Assembly Sacks High Court

El Salvador's new Legislative Assembly, which is controlled by the New Ideas party of President Nayib Bukele, in its first session on May 1 voted to remove the five magistrates of the constitutional chamber of the country's Supreme Court, the Associated Press reported. Just hours after the evening vote, lawmakers also voted early May 2 to fire the country's attorney general, Raúl Melara. New magistrates were immediately installed, and Rodolfo Delgado was named attorney general, Bloomberg News reported. "And the Salvadoran people, through their representatives, said FIRED," Bukele said in a tweet. He later tweeted that he was "extremely pleased" with the legislative session. Business groups and international actors, including members of U.S. President Joe Biden's administration, expressed concerns over the developments. U.S. State Department spokesman Ned Price said Secretary of State Antony Blinken spoke with Bukele by phone to express concerns over the firings of the magistrates and the attorney general.

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A **Julia Yansura, Latin America research analyst at Global Financial Integrity:** “Remittances are typically countercyclical, increasing when economic conditions in migrants’ home countries worsen. Indeed, in 2020-2021 we’ve seen strong growth in the United States-Latin America corridor, though intraregional flows have been less robust. For the families who receive them, remittances are an economic lifeline. That said, remittances should not be considered a replacement for a social safety net or an economic recovery strategy. Governments, not migrants, need to be responsible for

“**Governments, not migrants, need to be responsible for economic recovery..”**
— **Julia Yansura**

economic recovery, implementing programs that strengthen human capital, improve access to quality jobs, promote financial inclusion and tackle official corruption. As for sending methods, the pandemic has accelerated the trend toward online or mobile remittances, but incrementally. Even today, I would estimate that these represent only one-third of U.S.-outbound transactions, with the remaining two-thirds conducted at brick-and-mortar agencies. Moreover, the growth we’ve seen in digital transactions has been largely on the sending side. On the receiving side, cash dominates, and options to receive remittances digitally are more limited. Such methods require access to either a bank account or a smartphone with Internet, both of which present limitations. One silver lining, amid the challenging events of 2020-2021, is the growing recognition of the importance of financial inclusion and access to digital financial services. And in coming years, it

will be interesting to see whether the digital trend truly extends all the way to the ‘last mile,’ where it could facilitate not only family remittances, but also innovative relief efforts and economic development approaches.”

A **Kai Schmitz, partner at Crestone Venture Capital:** “Remittances have been subject to the same digitization trend as other sectors. Traditional money transfer companies and fintech companies have reported significant increases in their digital channels. This likely also leads to a positive reporting effect as these channels are formal, and flows are easier to record than transfers sent through smaller companies or informal methods that typically operate through physical means and have been affected by Covid-19. I suspect that transfers from the United States have suffered less than from Europe, due to less-stringent lockdowns and the overall more limited economic effect of the pandemic. In fact, some sectors with a high share of immigrant labor, construction in particular, have boomed in the United States during the pandemic. That may explain the decline in remittances to the Andean countries, which have a higher share of migrants in Europe and the Southern Cone. The economies there have been hit harder by lockdowns or Covid-19 than in the United States, where most Mexicans and Central Americans tend to migrate. Crisis situations in home countries and a deterioration of exchange rates of local currencies against the U.S. dollar have in the past led to an increase of remittance flows as migrants liquidate savings to help their relatives or make use of favorable exchange rates. It seems likely that we are seeing a similar effect now.”

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

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