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FEATURED Q&A

How Could Leftists Change Chile's Pension System?



Protesters, including the ones pictured from 2019, for years have demanded changes to Chile's pension system. The rewrite of the country's constitution may include such changes. // File Photo: Conframet.

Q Among the major changes that could emerge from a new constitution in Chile is a reform of the country's pension system. The current constitution gives the private sector a central role in managing pensions for millions of Chileans. What will the relatively high number of independents and leftists elected to the constitutional assembly mean for the country's pension system? What are the main problems with Chile's current pension system, and what changes are most needed to make it function better for retirees? What role should the private sector have in the reform process?

A Alfonso De Urresti, member of the Chilean Senate: "Undoubtedly, the pension system will be one of the issues that the Constitutional Convention will discuss. The main problems have more to do with the fact that it is a forced savings system that has been used as a permanent source for the capital market, rather than simply a social security system. As socialist senators have been proposing since 2018, we believe that what is needed is a new mixed pension system, with an incentive to save, but framed in a social security scheme. This would initiate a transition to a pension system transforming the current individual capitalization system into one made up of four pillars: a basic solidarity pillar, a collective solidarity capitalization pillar, an individual capitalization pillar and a voluntary savings pillar, all with intergenerational solidarity. The political conformation of the Constitutional Convention should not be a problem for the substantive discussion that allows moving toward a new system, which will undoubtedly have a state component, in which it is feasible to contemplate some

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TOP NEWS

BANKING

Cuba to Temporarily Stop Allowing U.S. Cash Bank Deposits

Cuba's government said it would temporarily stop allowing cash bank deposits in U.S. dollars, though it said it would continue allowing money transfers.

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FINANCIAL TECHNOLOGY

Brazil's Nubank Raises \$750 Mn in Funding Round

Brazilian digital bank Nubank announced it raised \$750 million in its latest investment round, which was led by U.S. business magnate Warren Buffett's Berkshire Hathaway.

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REMITTANCES

Remittance Firms Cautious on Digital Currencies

At President Nayib Bukele's urging, El Salvador's Legislative Assembly made Bitcoin a legal tender, but remittance firms are reportedly cautious about offering services in cryptocurrencies.

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Bukele // File Photo: Salvadoran Government.

BANKING NEWS

Cuba to Temporarily Stop Allowing U.S. Cash Bank Deposits

The Cuban government said June 10 that it would temporarily stop allowing cash bank deposits in U.S. dollars while still accepting transfers, Reuters reported. It was unclear how long the suspension will last, the Miami Herald reported. The announcement came just before Cuba's government was due to present its annual resolution to end the longtime U.S.

Some Cuba analysts saw the move as an attempt to control the black-market price of the dollar.

embargo on the Caribbean nation at the United Nations General Assembly. In announcing the move, the Cuban central bank shifted the blame to U.S. sanctions, saying they restricted the country's ability to use dollars abroad. "It is ever more difficult for Cuba to find international banking or financing institutions willing to receive, convert or process U.S. currency in cash," the bank said in a statement disseminated by state-run news media. Some Cuba analysts saw the move as an attempt to control the black-market price of the dollar, which has spiraled to more than twice the official exchange rate since the Communist-run country began opening stores selling hard currency and stopped selling dollars due to a lack of cash available, Reuters reported. More than 20 banks have stopped processing transactions involving Cuba since former U.S. President Donald Trump tightened sanctions on the country, said central bank Vice President Yamile Berra Cires. Cuban and foreign bank account holders on the island will have until June 21 to deposit dollars in their accounts, the Miami Herald reported.

FINANCIAL TECHNOLOGY NEWS

Brazil's Nubank Raises \$750 Million in Latest Round

Brazilian digital bank Nubank announced June 8 it raised \$750 million in its latest investment round, led by U.S. business magnate Warren Buffett's Berkshire Hathaway, Folha de S.Paulo reported. Berkshire Hathaway invested \$500 million in the Brazilian fintech in the round, which was an extension of Nubank's \$400 million Series G round announced in January, Forbes reported. A second extension totaled \$250 million and was led by Sands Capital, with several other funds including Invest, Sunley House Capital, CPP Investments, MSA Capital, Tarsadia Capital and Chinese tech company Tencent participating, as well as Brazil's Absoluto Partners and Verde Asset Management. With both extensions, Nubank's eighth fundraising round reached \$1.15 billion, the largest ever raised by a technology company in Latin America, Forbes reported. The latest investments give the bank a valuation of \$30 billion, up from \$25 billion at the time of its previous fundraising, Reuters reported, citing an unnamed source familiar with the situation. That figure would make Nubank worth just slightly less than Banco Santander Brasil, the South American nation's third-largest lender with more than 2,000 branches. The valuation also puts Nubank on par with technology start-ups such as California-based Robinhood Markets and China's Lufax, although it still lags Chinese company Ant Group, Reuters reported.

REMITTANCES NEWS

Remittance Firms Reportedly Cautious on Crypto Services

Despite El Salvador's move to make Bitcoin a legal tender, remittance firms are being

NEWS BRIEFS

Brazil's BTG Pactual Acquires Minority Stake in Perfin

Brazil's Banco BTG Pactual has acquired a minority stake in Perfin, an asset manager and wealth management platform, Reuters reported June 14. Perfin has 21 billion reais (\$4.11 billion) under custody and is likely to enhance BTG's investment platform. BTG Pactual did not disclose the size of the stake nor the amount it paid for it.

Mastercard Temporarily Drops Branding From Copa América Games

Mastercard has decided to temporarily drop its branding from the Copa América soccer tournament, which is taking place in Brazil, over concerns about Covid-19 in the South American country, Reuters reported. Mastercard said in a statement that it decided not to "activate" its sponsorship, though it remains a sponsor, as it has been since 1992, the wire service reported. Earlier this month, the tournament's organizers unexpectedly relocated the tournament to Brazil, despite the country's struggle with one of the world's worst rates of Covid-19 cases and deaths. Co-hosts Colombia and Argentina were dropped because of civil unrest and a surge in Covid-19 cases, respectively.

Mexican Fintech Clip Receives \$250 Million in Capital Investments

Clip, a payments financial technology start-up, has received \$250 million in capital investment from SoftBank's Latin American Fund and Viking Global Investors, Bloomberg News reported June 10, citing the company's founder and chief executive officer, Adolfo Babatz. The investments give the start-up a valuation of \$2 billion, the news service reported. "We are planning to grow aggressively and hire about 320 people in the next 18 months," said Babatz.

cautious about offering services related to cryptocurrencies, Reuters reported June 11. Salvadoran President Nayib Bukele has touted Bitcoin's use as a currency for remittance transfers to the Central American nation. However, just a few money-transfer companies are dabbling in the digital currency, the wire service reported. "For Western Union and some of the other remittance providers keep in mind that most of the volume in the remittance industry is going from developed markets to emerging markets primarily to people—families and friends—that operate in cash," Kenneth Suchoski, U.S. payments and fintech analyst at Autonomous Research, told Reuters. "To the extent that Bitcoin isn't adopted and there's not widespread acceptance, these remittance providers are still going to be relevant for the years to come." Western Union had tested the use of Bitcoin and other digital currencies in the past but has not found a good "use case" that significantly saved costs, Suchoski added. Less than 1 percent of global remittance transfers are in Bitcoin, he estimated. However, cryptocurrencies are expected to account for a growing share of remittances, which total more than \$500 billion annually. Among the companies that do offer services related to digital currencies is MoneyGram International, which announced last month that it would allow its customers to use cash to buy and sell Bitcoin at 12,000 retail locations in the United States, Reuters reported. MoneyGram is offering the service in partnership with Coinme, the largest licensed crypto cash exchange in the United States. "We've built a bridge to connect bitcoin and other digital currencies to local fiat currency," MoneyGram told the wire service in a statement. "As crypto and digital currencies rise in prominence, a core barrier to further growth is the on/off ramps to local fiat currencies." Western Union and other money-transfer companies including Wise, WorldRemit, Remitly, Xoom and Ria Money Transfer did not respond to the wire service's requests for comment. El Salvador on June 9 became the first country in the world to make Bitcoin a legal tender. Bukele had called for the move, and the country's Legislative Assembly approved the measure with 62 out of a possible 84 votes. "It will bring financial inclusion, investment, tourism, innovation and

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type of private participation, but with a different framework and objectives. The fact that the most conservative political forces have become more underrepresented than they had expected will prevent them from making a corporate defense of institutions such as the AFPs and having to undertake a debate that makes it possible to have a system that establishes truly decent pensions for workers."

A **Alejandra Cox Edwards, president of the AFP Association of Chile:** "Chile's constitution establishes the right to social security, and the state has the responsibility to regulate the provision of benefits through public or private institutions, with the possibility of mandating contributions toward such provisions. The pension system established by law mandates contributions toward pensions, giving individuals the right to choose the administrator of these contributions. The administrators are private and highly regulated by the pension authority. Pensions are determined by the sum of two benefits: one resulting from individually accumulated contributions (mandated and voluntary) and their returns; and the solidarity pension provided by the state. Currently, the vast majority of individuals arrive to pension age with fewer than 30 years of contributions, which cannot generate a complete pension. In the last four years, 72 percent of women and 44 percent of men have retired with fewer than 20 years of contributions. In addition, the solidarity pillar has proven to be insufficient as it covers only the poorest 60 percent. Chile has just elected a Constitutional Convention with important representation of independents and the extreme left. The convention will likely examine the reasons behind the long delay in reaching a political agreement on pensions, a policy area where citizens have demanded changes. There are deep ideological differences among citizens and among members of Congress with respect

to the role of private versus public providers in pensions, although the majority wants to maintain ownership of the accumulated funds in the current system. We don't know the final solution to this impasse, but it is unlikely to emanate from the new constitution."

A **Olivia S. Mitchell, director of the Boettner Center for Pensions and Retirement Research at the Wharton School of the**

University of Pennsylvania: "Chile is the fastest-aging country in Latin America: by 2030, almost one quarter of the population will be over age 60. Moreover, Chileans live long after age 60, requiring them to work longer and save much more to be able to care for themselves for decades in retirement. There needs to be a common retirement age for both men and women, and the retirement age will have to rise—70 will soon become the norm in a number of countries around the world, and work to age 75 or 80 is likely to become necessary for many people who have failed to make provisions for their own old age. I served on the last Pension Reform Commission in Chile in 2014-2015, and even then it was clear that there was a deep divide between those who wanted to reform the existing system (I was in that group), and another group who wanted to eliminate the AFP system. Some of the members wished to destroy it quickly, and others sought to kill it slowly, but their push was to end funded pensions and move to a complete pay-as-you-go program. The problem then was, and it is worse now, that Chile's aging work force cannot sustain such a program. There are simply too few young people entering the work force to be able to bear the kinds of taxes that would be required to keep all the older people financially secure. Moreover, imposing such high taxes on the young would be an important disincentive for the young to keep working. Unfortunately, there have been no new ideas since that time. Instead, the anti-AFP group has grown stronger, and it appears to have won

Continued on page 6

economic development for our country," Bukele said before the vote, CBS News reported. The same day, Bukele said in a tweet that he had instructed the head of the state-owned geothermal company to put together a plan to use volcanic energy for mining Bitcoin.

POLITICAL NEWS

Nicaraguan Police Arrest Another Opposition Politician

Police in Nicaragua have arrested another opposition politician, bringing to 13 the number of opposition members detained since the beginning of June in an expanding crackdown on foes of President Daniel Ortega, the Associated Press reported June 14. In the latest arrest, 10 agents in plainclothes and wearing hoods seized Víctor Hugo Tinoco, the leader of political movement Unamos and a former Nica-

The crackdown comes ahead of Nicaragua's presidential election, which is scheduled for Nov. 7.

raguan foreign minister and ambassador to the United Nations, the wire service reported. Tinoco was detained late June 13 at a shopping mall. Tinoco's arrest brought to six the number of opposition members detained that weekend. Another Unamos party leader, Suyen Barahona, was seized earlier on June 13. Unamos activist Tamara Dávila was also arrested, as were ex-Sandinista dissidents Dora María Téllez and Hugo Torres and another opposition member, Ana Margarita Vijil. Former Sandinistas who have criticized Ortega for nepotism and autocratic ways as well as continual re-elections formed Unamos. Nicaraguan police said they arrested the opposition members on charges related to a law that the ruling-party dominat-

THE DIALOGUE CONTINUES

Would Reversing U.S. Remittance Rules Help Cubans?

Q **White House officials have said the administration of U.S. President Joe Biden will lift Trump-era restrictions on the amount of remittances that Cuban-Americans can send to relatives on the island. The administration is also expected to allow Western Union to restart remittance services to Cuba, which the Trump government had blocked, the Los Angeles Times reported earlier this year. What has been the result of the previous administration's restrictions on remittances to Cuba? What would come from the lifting of those restrictions? How much do Cuban citizens benefit from remittances, and to what extent does Cuba's government gain from them?**

A **Hugo Cuevas-Mohr, director of Mohr World Consulting and IMTC Conferences:** "The result of the Trump administration's restrictions on remittances to Cuba was to stop larger, more U.S.-dependent companies from sending money to Cuba. They also pushed remittances to the island to alternative channels—relatives are now sending money through other countries and an array of informal pathways. This has always been the case when governments try to stop remittances or make it harder for

migrants to send money home to their loved ones. The volume of remittances to Cuba might have dropped, and the cost of sending has increased. When the restrictions are lifted, compliant companies will come back online and begin, once more, to build their customers' trust. And the industry will again begin to strive for transparency. Every country benefits from receiving remittances, and Cuba is no different. Most of the very small private businesses that have been allowed in Cuba have started, and are being maintained by relatives living abroad, through remittances. As to opposed to other Latin American governments that allow banks to control the distribution of remittances, Cuba does it through government-controlled institutions. For remittance-dependent families, it is a matter of having a better life; for countries, it is a matter of getting access to cheaper dollars from remittances to improve their balance of payments. In the end, remittances should be a human right."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the May 20-June 2 issue of the Financial Services Advisor.

ed National Assembly passed in December that gives Ortega's government the power to unilaterally declare citizens "terrorists" and "traitors to the homeland" and prohibit them from running as candidates, the AP reported. The law also allows for punishing people "who lead or finance a coup ... encourage foreign interference, ask for military intervention ... propose or plan economic blockades, applaud and champion the imposition of sanctions against Nicaragua or its citizens." The crackdown comes ahead of Nicaragua's presidential

election, which is scheduled for Nov. 7. Ortega, who has been in office since 2007, is seeking to extend his rule. In a statement June 13, Nicaragua's government characterized the arrests as legitimate. "The only thing that this group of opposition usurpers share in common is their allegiance to the government of the United States of America and the fact that they have directly or through their respective NGOs, received millions of dollars in U.S. taxpayer money through USAID, NED, IRI and other agencies, aimed at overthrowing the elected govern-

NEWS BRIEFS

Colombia's Duque Taps Pinzón as Ambassador to U.S.

Colombian President Iván Duque on June 14 tapped Juan Carlos Pinzón, a former defense minister, to be the country's new ambassador to the United States, the Associated Press reported. Pinzón, 49, is expected to take over the embassy in August. He had previously held the post between 2015 and 2017, when Colombia's government signed a peace deal with the Revolutionary Armed Forces of Colombia, or FARC. Pinzón later became a critic of the peace agreement, saying its terms were too lenient on the top commanders of the former rebel group, the AP reported.

No Evidence of Serious Irregularities in Peru Presidential Election: OAS

The Organization of American States has said it found no evidence of serious irregularities in Peru's presidential runoff, but it also called on candidates "not to be proclaimed winners until all the challenges have been resolved," BBC News reported. Results from Peru's election on June 6 are not yet final, though socialist Pedro Castillo has held on to a razor-thin lead of about 60,000 votes when ballot counting was finalized. Right-wing Keiko Fujimori has claimed fraud without providing evidence.

Grynspar Approved as Head of U.N. Trade & Development Body

The U.N. General Assembly on June 11 approved the nomination of Costa Rican economist Rebecca Grynspar to be the secretary general of the United Nations Conference on Trade and Development, or UNCTAD, the Associated Press reported. Grynspar, a former vice president of Costa Rica, is the first woman and Central American to head the Geneva-based trade and development agency.

ment of President Comandante Daniel Ortega Saavedra," Nicaragua's government said in a statement. The U.S. government has criticized the crackdown. "The United States condemns this ongoing campaign of terror in the most unequivocal terms and considers President Ortega, Vice President Murillo, and those complicit in these actions responsible" for the safety of those arrested, a State Department spokesperson told The Wall Street Journal.

Authorities in Costa Rica Make Arrests in Large Graft Probe

Costa Rican authorities on June 14 carried out dozens of searches and arrests in connection with a massive public corruption investigation related to the awarding of road construction and maintenance contracts, the Associated Press reported. The probe is one of the most impactful public corruption investigations in the country, according to the director of the Judicial Investigation Organization, Walter Espinoza. The case allegedly involves a series of bribes, from cars to properties, cash and personal favors, by a group of private firms to public officials in exchange for securing government contracts, Espinoza said, the AP reported. He added that the scheme caused a \$127 million deficit in the budget for road works from 2018 to 2020, Reuters reported. Authorities executed 57 searches, 14 of them of public institutions, including the offices of the president. Eighteen officials and 11 businessmen were arrested, and Espinoza said dozens more were under investigation. One of the judicial orders was for the arrest of one of President Carlos Alvarado's closest advisors, Camilo Saldarriaga, who resigned from his post on June 14, Reuters reported. Saldarriaga, 29, advised the president on infrastructure matters. He is under investigation for allegedly participating in the scheme in exchange for money, cars and sexual services. Saldarriaga has denied wrongdoing and said he was resigning to focus on his defense. "I feel enormous indignation, frustration and anger at the acts of corruption in the public works contracts,"

Alvarado said on June 14 in an appearance on Facebook Live. "This type of behavior is absolutely unacceptable," he added.

ECONOMIC NEWS

Economic Impact of Lockdowns Will Be Mild: Chile's Marcel

The economic impact of continued coronavirus-related lockdowns in Chile will be mild, central bank President Mario Marcel told Bloomberg TV in an interview broadcast June 11. He said the country's economy is more resilient to lockdowns than it was last year. Chile's output gap is closing faster than expected, and it is experiencing inflationary pressure from oil and transportation costs, Marcel said in the interview. In this context, the central bank board is evaluating the possibility of raising interest rates over the next several meetings. His comments came as President Sebastián Piñera recently announced sprawling new restrictions in Santiago amid a surge in cases of Covid-19 despite the Andean nation having nearly 60 percent of the population fully vaccinated, BBC News reported.

Colombia to Propose 'Consensus' Tax Reform: Restrepo

Colombia's government will submit a "consensus" tax reform plan to Congress in the coming weeks, new Finance Minister José Manuel Restrepo said June 10, Reuters reported. President Iván Duque's administration in April had presented a proposal that sparked massive and sometimes deadly demonstrations, pushing it to withdraw its initial reform plan. However, there are less than two weeks until the current legislative session is set to end. Senator Carlos Abraham, who accompanied Restrepo during the announcement, said the proposal is unlikely to be debated this session.

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now that people have been allowed to take three withdrawals from their accounts. The damage may be irreparable.”

A **Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile:** “In July, Chile will begin to develop a new constitution through a democratically elected constitutional convention representing broad diversity, rather than traditional political branding of left or right. The process represents the institutional channeling of civil unrest and offers an opportunity to establish a legitimate and sustainable social compact going forward. A critical topic in the discussion will be the role of the state, including with respect to pensions. Currently in Chile, the pension system is composed of private obligatory savings (AFPs), a solidarity pillar for 60 percent of the most vulnerable population and military pensions. To date, these programs have been unable to deliver adequate pensions to a significant proportion of the population due to: 1.) large numbers of informal workers and independent workers who do not save; 2.) the low level of pensions for those in the solidarity pillar; and 3.) gaps in savings, for example, in the case of women who do not work during child-bearing

years. Additionally, the political class has responded with too little too late to address the aforementioned issues, as well as to changing demographics including much longer life expectancy in Chile. The new constitution is expected to increase the state’s role in social issues including pensions. This

“**The private AFP system will most likely continue in some form but with the state playing a more central role.**”

— Kathleen C. Barclay

will probably mean a redistribution of funds within and among generations. The private AFP system will most likely continue in some form but with the state playing a more central role. The exact operation of that will require implementing legislation once a new constitution is approved. It is expected that the topic will be actively under evaluation over the next several years.”

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

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Advisor Video

Peru's Presidential Runoff Election

A Latin America Advisor interview with
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