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FEATURED Q&A

Will Remittance Providers Lose Ground to Bitcoin?



Traditional money-service providers could lose \$400 million annually because of El Salvador's adoption of Bitcoin, Salvadoran President Nayib Bukele has estimated. // File Photo: Salvadoran Government.

Q Salvadoran President Nayib Bukele has estimated that money-services providers may lose some \$400 million per year in remittances commissions due to the Central American nation's adoption of Bitcoin as a legal tender in September. El Salvador's recent move to officially recognize the cryptocurrency has also led central banks in other countries, including Guatemala and Honduras, to study its potential introduction to their economies. How much of the remittances business in Central America will shift away from traditional money-transfer companies in favor of cryptocurrencies? How accurate is Bukele's assessment of the amount of commissions that established money-services providers could lose? How much do financial services companies need to change their remittances businesses in order to counter new competition from cryptocurrencies?

A Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity: "The Salvadoran government is right to look for ways to leverage remittances for development, but I'm not convinced that Bitcoin is the solution, and I don't think migrants are convinced of it, either. Remittances are a key economic force in El Salvador, where they represent approximately 25 percent of GDP. Assuming that remittances to El Salvador will reach \$7.5 billion in 2021, the costs of sending money home via the remittance market would be around \$200 million per year. At approximately 2.5 percent per transaction, this is one of the most economical remittance corridors in the world, and costs have been declining steadily since 2012. While it is admirable to look for ways to further reduce consumer costs,

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TOP NEWS

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France's Natixis Opens Chile Office

French multinational financial services firm Natixis has opened an office in Chile. Roberto Zaldivar, who was previously a company consultant, will head the office, Natixis said.

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INSURANCE

Mexico's Super to Start Offering Coverage for Hurricanes

Mexican start-up Super, which currently offers earthquake insurance, is planning to also offer insurance coverage for hurricanes.

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DIGITAL CURRENCIES

Brazil's BTG Pactual Launches Digital Platform

Brazil's BTG Pactual has launched a platform for investing in digital currencies. André Portilho, BTG's head of digital assets, said the platform will first accommodate Bitcoin and Ether but will expand to other digital currencies.

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Portilho // File Photo: LinkedIn.

FINANCIAL SERVICES NEWS

France's Natixis Opens Chile Office, Zaldivar to Head It

French multinational financial services firm Natixis Corporate & Investment Banking announced Sept. 28 that it has opened an office in Chile following approval by Chile's financial regulator. Natixis said Roberto Zaldivar, who was previously a company consultant, will head the new office as senior country manager. The Chile office is Natixis' sixth in Latin America. The company already has offices in Argentina, Brazil, Colombia, Mexico and Peru, the com-

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pany said in a statement. "Latin America has been a strategic region for Natixis Corporate & Investment Banking for the past 45 years," the company said. The Chile office will help Natixis to "deepen its relationship with clients and enhance their access to the bank's global offering." Natixis manages its coverage of Latin America through its Latin American platform, which is based in New York. It offers financing including in infrastructure, mining, aviation, trade and export, as well as acquisition finance, the company said. Natixis is also active in capital markets, debt capital markets and economic and cross asset research. "We are delighted to deepen our commitment to Chile by opening a representative office and by naming Roberto as senior country manager, as part of our strategy to better support our clients operating in the country," said Helena Radzyski, the head of Natixis' Latin America platform and the executive to whom Zaldivar will report. Before starting at Natixis, Zaldivar worked in debt capital markets at Scotiabank Chile and focused in local bond offerings and international debt capital markets origination. He previously was debt capital markets head at

ABM Amro Chile and also worked for Bank of America and Banco Santander Chile.

REMITTANCES NEWS

Mexico's Remittances Set New Record in August at \$4.74 Billion

Remittances sent to Mexico set a fresh record in August, as people living abroad sent \$4.74 billion back to the country, Mexico's central bank said Oct. 1. The amount of money transfers grew 4.5 percent as compared to July and beat economists' median estimate of \$4.42 billion in a Bloomberg survey. The economic recovery in the United States has allowed Mexican workers there to send a growing amount of money back home, Bloomberg News reported. Transfers in August averaged \$387, according to the central bank. The increase in remittances in August was the sixth consecutive month in which the money transfers exceeded \$4 billion, Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs, said in a note. The amount that Mexico received in remittances in August was 32.7 percent higher than the same month last year. When measured in local currency, the transfers rose 19.7 percent year-on-year in August due to a 10.9 percent strengthening of the Mexican peso against the dollar during that period, said Ramos. From January through August this year, remittances to Mexico grew 24.8 percent year-on-year, Ramos added. In the second quarter, dollar remittances grew 31.7 percent year-on-year, as compared to 13 percent year-on-year in the first quarter. Moreover, record levels of remittances in addition to Mexico's trade balance surplus "have more than offset the loss of income from international travel/tourism, leading to a current account surplus in 2020 of 2.4 percent of GDP, the strongest current account outturn in more than 30 years," said Ramos. "Generous wage/income support fiscal transfers in the U.S., a competitive MXN/USD level, and a deep contraction of activity and employment in Mexico have acted as both

NEWS BRIEFS

Citi Blocked Attempt by PDVSA to Make Debt Payment: Exec

Citigroup blocked an attempt by Venezuelan state oil company PDVSA to make a debt payment to a unit of Germany's Siemens, a Citi executive testified on Sept. 22 in a U.S. trial over whether PDVSA is liable for the payments, Reuters reported. PDVSA has claimed that U.S. sanctions implemented in August 2017 made it impossible for it to make the payment. The dispute goes back as far as January 2017, when PDVSA issued a promissory note to oil-field equipment provider Dresser-Rand for \$120 million, plus interest.

Brazil's BTG Pactual Launches Crypto Platform

Brazil's BTG Pactual announced Sept. 20 that it has launched a platform for investing in cryptocurrencies, CoinDesk reported. The platform, known as Mynt, will be available later this year to users of BTG Pactual Digital and BTG's digital bank, BTG+. The platform will initially allow trading in Bitcoin and Ether, the bank said. "At this first moment, we will have the two main assets of the market, but we will include other cryptos for trading over time," André Portilho, the head of digital assets at BTG Pactual, said in a statement.

Costa Rica's Banco Nacional to Finance Coffee Productivity Program

Costa Rica's Banco Nacional is allocating four billion colones (\$6.3 million) for a coffee-sector productivity program, El Mundo reported Oct. 4. The program will seek to boost production in the Central American country's coffee sector through replacing old plantings with more productive varieties of coffee plants that are also more resistant to disease, the newspaper reported.

push and pull drivers of dollar remittances from the U.S. to Mexico,” he added. However, Ramos said “moderating activity and income growth” in the United States is likely to lead to moderating remittance flows to Mexico in the coming quarters.

Western Union Expanding Service in Guatemala

Western Union announced Sept. 29 that, through a partnership with Banco Industrial, it is expanding the number of locations in Guatemala where customers can send and receive money transfers. The deal between Western Union and Banco Industrial will add more than 580 locations to the U.S.-based company’s network and will provide greater access to the company’s services in Guatemala, Western Union said. “This is a great alliance that will reinforce our growth strategy, which is based on receiving family remittances. It will become a great option in the portfolio of services that we have firmly provided to our clients for 52 years,” said Edgar Chavarría, manager of Banco Industrial’s personal banking division. Western Union said the deal between the companies will enhance cross-border payment capabilities of Banco Industrial’s customers. “Banco Industrial has distinguished itself as one of the Guatemalan leaders in cross-border payments for being at the forefront in the adoption of payment technology. This alliance strengthens its position in the market,” Pablo Porro, Western Union’s general manager for Mexico and Central America, said in a statement.

INSURANCE NEWS

Mexico-Based Super Plans to Expand Into Hurricane Insurance

Mexico-based start-up Super, which currently offers insurance coverage for property damage

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sending via Bitcoin is at least as expensive as traditional options, if not more so. A migrant sending a Bitcoin remittance from the United States to El Salvador, for example, would have to pay fees related to transactions between wallets as well as costs related to converting from U.S. dollars to Bitcoin. To leverage remittances for economic development, I would urge the Salvadoran government to focus on asset-building among remittance recipients. The government can do this by promoting access to user-friendly, low-cost, low-risk financial services. Because the value of Bitcoin fluctuates, it is attractive for investors willing to take on risk in exchange for possible reward. However, it is not going to be attractive for families with \$800 in assets who want to ensure that those funds stay there for when they need them.”

A **Laura Porras, program manager at Plan International USA:** “Discussions on the use of cryptocurrencies for remittances has been a topic of interest and debate for more than five years, and it is full of pros and cons. We are still awaiting the promised revolution of cryptocurrency, but there are a number of ways the technology, and specifically Blockchain, has been quite well received by the financial sector, including remittances. The main barriers so far are the technological gap and the high volatility of cryptocurrencies. No sender wants to bet

on how much money recipients will get to cover expenditures back home. El Salvador’s move will likely be similarly lackluster, and the amount of savings presented does not seem to match current central bank numbers of 25 million operations per year (including top-ups) at a cost of \$8 per transaction if you consider the high average. All that said,

“**The main barriers so far are the technological gap and the high volatility of cryptocurrencies.”**

— Laura Porras

as President Bukele said in a recent interview with a foreign Bitcoin channel, he has nothing to lose with this move. El Salvador is a dollarized economy, and using an existing currency minimized investment and risk. So far, President Bukele has won a lot of Internet fans in the cryptocurrency space and beyond. If he wants to also achieve financial inclusion and savings for senders, more efforts will be definitely needed. Financial inclusion and literacy will be key, as using Bitcoin in a safe and responsible manner requires information and education. No less is needed from the financial sector, including the government, to put in place adequate risk management.”

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caused by earthquakes, is planning to also offer hurricane insurance, Bloomberg News reported Sept. 24, citing Chief Executive Officer Sebastián Villareal. Super, which was launched in 2019, offers earthquake insurance that is based on acceleration models that external seismic engineering firm ERN developed, the news service reported. ERN’s models determines potential damage to homes located thousands of miles away to an epicenter, Bloomberg News reported. Super will now provide coverage for hurricanes and

is focused on the Mexican states of Quintana Roo, Campeche, Veracruz and Mexico’s Baja California Peninsula. “We will be launching by mid next year. It will take into consideration the hurricane category, its path, and wind speed where you live,” Villareal told Bloomberg News in an interview. Super also offers its customers life and health insurance. Villareal added that Super currently has adequate funding, but he said that the company could seek additional financing through a Series B funding round next year, Bloomberg News reported. The funding

round could bring the start-up as much as \$30 million in order to help fuel its growth in Mexico. “We won’t raise money again if it is not from a fund of the highest caliber,” said Villarreal. The CEO declined to name potential backers in a Series B round. Super previously raised \$9.6 million in seed money and in its Series A round.

POLITICAL NEWS

Haitian Foreign Minister Asks U.N. for Help Fighting Gangs

Haitian Foreign Minister Claude Joseph on Oct. 4 asked the United Nations Security Council for help in battling gang violence and crime, saying that the existing U.N. political mission needs to focus on strengthening security and law enforcement institutions in the crisis-ridden country, the Associated Press reported. “It’s vital to take account of the new realities that the country is facing and that the mandate is adjusted accordingly,” Joseph told the council. Haiti has been immersed in a political crisis following the July 7 assassination of President Jovenel Moïse, exacerbated by back-to-back natural disasters, with an earthquake and a hurricane killing more than 2,200 people and destroying tens of thousands of homes in August, the AP reported. Even before those events, gang violence had been on the rise, with kidnappings tripling last year, according to the United Nations. “The Haitian state has practically disappeared,” Juan Gabriel Valdés, a former special representative and head of the U.N. mission in Haiti, told the daily Latin America Advisor in a Q&A published May 5, when Moïse was still in power. “The increase in poverty and urbanization in neighborhoods of Port-au-Prince has multiplied an evil that Haiti has carried for a long time: the existence of armed gangs that live off the kidnapping of people,” Valdés said, adding that “police lack sufficient preparation” and “support from the government has not been clear.” With Moïse’s death, gangs have become even more powerful,

ADVISOR Q&A

Have Latin America Forums Outlived Their Usefulness?

Q The September meeting of the Community of Latin American and Caribbean States, or CELAC, produced sharply different views about the Organization of American States from participating heads of state—from Mexican President Andrés Manuel López Obrador, who hosted the meeting and suggested that the OAS is a tool of the United States, to Uruguayan President Luis Lacalle Pou, who defended the OAS and decried eroding democratic practices among several participating countries. Latin American presidents were also on a world stage in September in New York, where several addressed the U.N. General Assembly. What did the CELAC and U.N. General Assembly meetings show about the current state of relations among Latin American and Caribbean countries? How much consensus did leaders find at the CELAC meeting, and what will come of the gathering? What were the most notable themes that Latin American leaders raised at the U.N. General Assembly?

A Carlos Mesa, former president of Bolivia: “The challenge for Latin America is to establish what form its regional integration will take. The articulation of subregional blocs must be defined beyond rhetoric (the region’s geographical dimension and diversity demand it), following the E.U. model in the search for results that are efficient in the social, economic and political spheres. But, without a doubt, whatever route it follows,

at times disrupting the delivery of humanitarian aid for victims of the August earthquake. The United Nations said violence has forced 19,000 Haitians from their homes in recent months, pushing them into makeshift shelters

the region must count on the OAS as an essential lever. The OAS is a very important hemispheric forum because all the nations of the Americas and the Caribbean (except Cuba) participate in it. It is a body that has generated action of fundamental relevance on issues crucial to democracy. I will mention three. First, the OAS provides credible monitoring and oversight of electoral processes in which it has almost always made an accurate judgment (Peru in 2000 or Bolivia in 2019, for example). Second, it has a court and an Inter-American Human Rights Commission, which do great work, and have their respective governing documents. Third, it has achieved a historic document: the Inter-American Democratic Charter, whose principles and values—accepted unanimously—mark the path of respect for our common way of life in society and which, despite the great obstacles of today, is the guiding document of the democratic values of the hemisphere. For just these aspects, the debate about its existence is part of the absurd ideologization that seeks confrontation from a partial political perspective. Strengthening the OAS seems to me not only useful, but essential. It certainly requires changes, improvements and balances, but the history of its existence has shown many more benefits than drawbacks.”

EDITOR’S NOTE: More commentary on this topic appears in the Oct. 4 issue of the Latin America Advisor.

in unsanitary conditions, the AP reported. “The insecurity challenges in Haiti are incredibly nuanced and multifaceted,” Haiti’s ambassador to the United States, Bocchit Edmond, told the daily Advisor in the same Q&A. He added that

NEWS BRIEFS

Nine Cuban Baseball Players Defect During Tournament in Mexico

Nine of the 24 players on Cuba's national baseball team at the U-23 World Cup in Mexico defected during the competition, the Cuban government confirmed Oct. 3, the Associated Press reported. Cuban officials slammed the players' actions as "vile abandonments" in a note published on the web portal of the country's National Sports Institute. Officials did not identify the players who remained in Mexico. The nine-player defection is one of the biggest for Cuban teams playing abroad.

Tens of Thousands Protest Brazil's Bolsonaro

Tens of thousands of protesters took to the streets of São Paulo, Rio de Janeiro and dozens of other cities across Brazil on Oct. 2 calling for the impeachment of President Jair Bolsonaro over his government's response to the Covid-19 pandemic, the Associated Press reported. However, the demonstrations were smaller than pro-Bolsonaro marches held last Sept. 7. Bolsonaro has underplayed the seriousness of the novel coronavirus since the pandemic hit Brazil in March 2020. More than 597,000 people have died of Covid-19 in Brazil.

Fire Destroys 40% of Honduras' Guanaja Cay

A fire that tore through the small, densely populated Honduran island of Guanaja Cay destroyed some 40 percent of the cay's area and left hundreds homeless, Mayor Spurgeon Miller told the Associated Press Oct. 2. There were no reports of deaths, but at least six people were injured, the AP reported. More than 800 people were left homeless, said Miller. He added that 130 homes were completely destroyed on Guanaja and 10 more were damaged on nearby Bonacca Cay. Approximately 5,700 people live on Guanaja.

Moïse's government had increased the budget for the National Police and implemented "an aggressive strategy to dismantle gangs."

Biden Administration Shifts Focus on Migrants' Detention

Amid bipartisan criticism over its approach to undocumented migrants, the administration of U.S. President Joe Biden announced Sept. 30 that immigration authorities would no longer be required to detain people illegally in the country solely because of their status, the Associated Press reported. The new rules, which Homeland Security Secretary Alejandro Mayorkas announced, will require authorities to pursue migrants only if they are deemed a threat to public safety or if they crossed into the United States after Nov. 1, 2020, the wire service reported. The new rules are a break from immigration policy under former President Donald Trump, who directed authorities to detain anyone who was in the United States illegally. "We are guided by the knowledge that there are individuals in our country who have been here for generations and contributed to our country's well-being," Mayorkas said in a memorandum to immigration and border agency officials, CNBC reported. "As we strive to provide them with a path to status, we will not work in conflict by spending resources seeking to remove those who do not pose a threat and, in fact, make our nation stronger." The new policy takes effect Nov. 29. The changes follow criticism of the Biden administration, which has used a Trump-era policy known as Title 42 to rapidly expel migrants from areas along the U.S.-Mexico border. The administration has deported approximately 5,000 Haitian migrants from an encampment in Del Rio, Tex., over the past weeks, the AP reported. On Sept. 30, a federal appeals court in Washington ruled that the administration can continue expelling families under Title 42, overruling a lower court order that barred the expulsions. Also on Sept. 30, four agencies of the United Nations called on countries to refrain from deporting migrants to Haiti without thoroughly assessing

whether they are eligible for refugee status, CNBC reported. In the statement, the U.N. Refugee Agency, the International Organization for Migration, the U.N. Children's Fund and the U.N. Human Rights Office emphasized the need to recognize the human rights of Haitians who have fled, and they urged countries to offer them protection or arrangements for their legal status in order to address "profound vulnerabilities." The agencies also urged countries in the Americas to coordinate on protecting Haitians.

ECONOMIC NEWS

Venezuela Slashes Six Zeros From Currency Amid Hyperinflation

Venezuela on Oct. 1 launched a new currency with six fewer zeros as the bolívar continues to slump after years of hyperinflation, the Associated Press reported. The highest denomination is now a one million bolívar bill that as of Sept. 30 was worth slightly less than a quarter of a U.S. dollar. The ceiling for the new currency is

The highest denomination is now a one million bolívar bill, which is worth slightly less than a quarter of a U.S. dollar.

100 bolívares, the equivalent of nearly \$25. The new digital bolívar will replace the so-called sovereign bolívar, which started circulating three years ago, Bloomberg News reported. The slashing of zeros is intended to help both with cash transactions and book-keeping calculations in bolívares that before had multiple zeros, the AP reported. "The most important and fundamental reason is that the payment systems are already collapsed because the number of digits make the payment systems and doing the math practically unmanageable," José Guerra, economics professor at the Central University of Venezuela, told the AP.

FEATURED Q&A / Continued from page 3

A **Rasheed Griffith, nonresident senior fellow with the Asia & Latin America Program at the Inter-American Dialogue and head of operations at Merkle Hedge:** "In the short to medium term, it is not likely that Bitcoin will offer a cheaper alternative to traditional remittance services. Seventy percent of Salvadorans do not have bank accounts and will need to convert Bitcoin into cash. The Chivo wallet allows users to convert Bitcoin into a dollar-denominated unit of account, but 45 percent of Salvadorans do not have Internet access. It is also estimated that only 10 percent of rural Salvadorans have Internet access, and this is the population that depends on remittances the most. Bitcoin ATMs would need to be distributed throughout the country, and cash would need to be constantly available in them. This is not free. Cash management and ATM maintenance are expensive. Customer support for all of the potential problems is expensive. Anti-money laundering compliance and security surveillance is expensive. The cost of remittances is not just the fee for exchanging currencies. All of these operational transaction costs have to be taken into account. Traditional remittance companies are not in the business of simply

'sending dollars.' They are in the business of coordinating and reducing transaction costs for people to send money. They are currency agnostic and technology agnostic. Accordingly, cryptocurrencies are not

“ **In the short to medium term, it is not likely that Bitcoin will offer a cheaper alternative to traditional remittance services.**”

— Rasheed Griffith

competitors. If in the future cryptocurrencies actually help reduce costs, then traditional remittance services can adopt them as the currency exchange intermediary instead of traditional banking channels—as this is merely one aspect of operational costs. There is no threat, just opportunity. At the present moment, there are many reasons for adopting cryptocurrency-native transactions, but remittances is not one of them.”

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

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