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FEATURED Q&A

Does Colombia's Pension System Need Big Changes?



Leftist Colombian presidential candidate Gustavo Petro is proposing an overhaul of the country's pension system. // File Photo: Facebook Page of Gustavo Petro.

Q **Gustavo Petro, the front-runner ahead of Colombia's May 29 presidential election, wants to redistribute as much as \$4.7 billion in private pension fund assets to public pension funds and also make payments to some three million people who lack pensions. Petro has also accused private pension fund providers of charging excessively high fees. How well does Colombia's current pension system function, and what types of reforms does it need, if any? If Petro is elected president, how likely is it that he will be able to implement his pension reforms? What effect would the reform have on current and future pensioners and on Colombia's economy?**

A **Maria F. Valdés, coordinator of tax issues at Friedrich-Ebert-Stiftung in Colombia:** "In Colombia, less than 25 percent of people of retirement age receive a pension, which means that the country has one of the lowest coverage rates in the region, and a high number of elders are in a significantly vulnerable position. The system is also markedly regressive, meaning that the amount of subsidy granted for every pensioner grows according to income, so the rich get subsidized mega pensions while many poor get no pension at all. Thus, the country urgently needs comprehensive systemic reform. Most experts recommend the creation of a pillar system pension format, as outlined by the World Bank and other national and international organizations; this is the system proposed both by centrist candidate Sergio Fajardo and by leftist candidate Gustavo Petro. Passing a pension reform will be arduous regardless of who wins the presidency, as the March congressional election saw no single bloc gain a majority,

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Online Payments Company PayU Buys Tecnipagos

Netherlands-based online payments company PayU struck a deal to acquire Tecnipagos from Bogotá-based CredibanCo.

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INSURANCE

U.S. Authorities Charge Former IRB CFO With Securities Fraud

U.S. authorities have charged a former chief financial officer of IRB Brasil Resseguros with securities and wire fraud in connection with an alleged scheme to push up the reinsurance provider's stock price.

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BANKING

Nationality Won't Decide Sale of Citibanamex: Exec

Nationality won't be the factor that determines who purchases Citibanamex, Citi's Mexico unit, said bank executive Paco Ybarra. Citibanamex could sell for between \$4 billion and \$8 billion.

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Ybarra // File Photo: Citigroup.

BANKING NEWS

Nationality Won't Decide Citibanamex Sale: Executive

Nationality will not be the factor that determines who purchases Citibanamex, Citigroup's Mexico unit, a bank executive told *El Financiero* in an interview published April 12. Mexican President Andrés Manuel López Obrador has said Citibanamex should be sold to a Mexican buyer, such as Banco Azteca's Ricardo Salinas or Banorte's Carlos Hank González, Reuters reported. Banco Azteca and Banorte have demonstrated interest in acquiring Citibanamex, as has Spain's Santander, Bloomberg Línea reported. Paco Ybarra, the chief executive of Citi's institutional clients group, told *El Financiero* that "It's completely reasonable that the government has a vision of who is the best manager for one of the country's largest financial entities." He added that while nationality is a factor in the decision process, it is "not something that we consider to be decisive, and it is open to as many options as possible," Reuters reported. Citibanamex could sell for \$4 billion to \$8 billion, analysts estimate.

Brazil's Stark Bank Receives \$45 Million in Venture Capital

Brazil's Stark Bank on April 11 said it received a \$45 million investment led by venture capital funds including Ribbit Capital, Lachy Groom and Bezos Expeditions, which is led by Amazon founder Jeff Bezos, Reuters reported. Created in 2018 by entrepreneur Rafael Stark, Stark Bank raised \$13 million from venture capital investors in an initial round four months ago. The company says it is the first fintech in the country to offer services via the central bank's popular Pix electronic payment system to the corporate market through API. "We believe that Pix is the future of payments in Brazil," Stark said April 11, noting that 50 million

Brazilians have taken up the Pix service since it launched less than two years ago. Stark Bank charges a fixed fee of about 10 cents for each Pix transaction. Critics say the central bank's system needs more security and authentication protocols, however, due to high potential for scams and abuses. [Editor's note: See related [Q&A](#) in the Dec. 2-15 issue of the Financial Services Advisor.]

FINANCIAL TECHNOLOGY NEWS

Ritmo Receives \$200 Million in New Funding

Spain-based Ritmo Capital has closed on a \$200 million debt financing round led by i80 Group and Avellinia Capital, Bloomberg News reported April 8. In a statement, the companies said it is one of the largest funding rounds of any e-commerce finance business in Europe and Latin America. Ritmo was founded in late 2020 with a vision to provide digital entrepreneurs with the capital they need to scale their investment in online marketing campaigns. The new capital will be used to fund more than 2,000 e-commerce clients over the next 18 months in European and Latin American countries. Ritmo's platform provides working capital financing and an automated Buy Now, Pay Later (BNPL) payment system. [Editor's note: See related [Q&A](#) on Latin America's startups in the Jan. 27-Feb. 9 issue of the Financial Services Advisor.]

Online Payments Company PayU Buys Tecnipagos

Netherlands-based online payments company PayU has struck a deal to acquire Tecnipagos, which operates payments and electronic deposits platform Ding, from Bogotá-headquartered CredibanCo, Pymnts.com reported April 5. The acquisition will broaden PayU's coverage

NEWS BRIEFS

Chile's Lower House Votes Down Bills for Early Pension Withdrawals

The lower house of Chile's Congress on April 18 rejected two rival bills that would have allowed for early pension withdrawals, Bloomberg News reported. One of the measures would have allowed for as much as \$15 billion in withdrawals, but it failed to get the three-fifths majority needed for passage. A rival bill that President Gabriel Boric's government presented failed to win a simple majority. Three prior rounds of early pension withdrawals injected \$50 billion into Chile's economy but are also blamed for worsening inflation.

Bank Robberies Down by 36 Percent in Brazil

The number of bank robberies and attempts in Brazil fell by 36 percent in 2021 as compared to the previous year, according to the Brazilian Federation of Banks, Agência Brasil reported April 6. The data includes 90 percent of the country's banks. Attacks on ATMs also fell last year, by 38 percent. The banking industry association said that investments in security and digital channels helped lower the number of attempted bank thefts.

Santander Private Bank Seeking to Hire 20 Advisors in Brazil

Santander Private Bank is seeking to hire as many as 20 advisors in Brazil this year as it works to grow its wealth management business, Citywire Americas reported April 18. The bank's wealth management business grew 15 percent last year, and the bank is expecting 20 percent growth this year, said Vitor Ohtsuki, a private banking director at Santander Brasil. Ohtsuki told Citywire Brasil that the bank launched the plan in response to the increasing levels of competition in the South American country's wealth management market.

in Colombia and will give it a presence in more than 50 other countries, the website reported. The transaction is subject to regulatory approval in Colombia, PayU and Tecnipagos said in a statement. "PayU is a company that has accompanied the evolution of online payments in Colombia and now seeks to extend its service offering to increase the financial inclusion of small and medium-sized businesses in the country," Francisco León, PayU's chief executive officer for Latin America, said in a statement. "This acquisition is part of our growth plan, aiming to respond to the permanent challenges that a dynamic market with enormous possibilities demands from us," he added. The acquisition also "reflects PayU's desire to build valuable Internet businesses for merchants and consumers that provide useful products and services to millions of people in their daily lives," chief executive Mario Shiliashki said in a statement. He added that Colombia is the company's "most important hub in Latin America." PayU allows users to receive online payments that are made with credit cards, bank transfers, cash and other forms of payment, according to PayU's website. The company also says it is integrated "with all processing networks."

INSURANCE NEWS

U.S. Authorities Charge Former IRB Exec With Fraud

U.S. authorities have charged a former chief financial officer of Brazilian reinsurance company IRB Brasil Resseguros with one count of securities fraud and three counts of wire fraud in connection with an alleged scheme to push up the company's share price, the U.S. Department of Justice said April 18. Fernando Passos, a Brazilian, is accused of spreading false information that U.S. investment firm Berkshire Hathaway had invested in the reinsurance company, according to the indictment, which was unsealed in the Southern District of Iowa. Passos is alleged to have executed the purport-

FEATURED Q&A / Continued from page 1

revealing a fragmented Congress. Moreover, migrating from the actual system to a pillar system as proposed by the centrist and leftist candidates implies touching the interests of powerful pension fund companies, which will defend their interests to the hilt and will make reforms more complicated. In fact, representatives of the funds have started to attack some proposals—particularly Petro's—stating that it amounts to 'expropriation of savings,' a statement that is shocking and scary to ordinary citizens and one that provides a glimpse of the rough dispute ahead."

A **Vicente Umaña, partner, and Carolina Castro, senior associate, at the Bogotá office of Holland & Knight:** "In Colombia, all employees and contractors are currently obliged to make monthly contributions to the pension system. Contributors may choose one of two pension subsystems: the public system (Régimen de Prima Media) and the private system (Régimen de Ahorro Individual). In the first one, collected funds go to a public, communal account, and employees' contributions are used to pay pensions of those who have already retired. In the latter, all money goes to an individual savings account of which each employee is the account holder. Today, out of 20 million contributors, only four million are affiliated with the public system, creating an enormous gap between the amounts that the system receives and the amounts the system must pay monthly to pensioners. This deficit is covered with taxes and public resources. Petro is proposing a 'Single Pillar System' in which every contributor must pay an amount to the public fund in order to guarantee a

ed scheme starting in February 2020 after an investment company questioned the accuracy of IRB's financial results and said it had taken a short position against the company's stock, the Justice Department said. IRB's shares fell on the news of the report, and Passos allegedly sought to mislead shareholders by "disseminat-

ing and causing to be disseminated materially false information" that Berkshire Hathaway had invested in the company, the Justice Department said. Passos also is alleged to have discussed the plan to spread the false information with investor relations employees at IRB, saying in a text message, "I will spread this

“**At a glance, it does not seem like a bad idea, but several questions arise, and no answers have yet been provided...**”

— Vicente Umaña & Carolina Castro

counts? Why is Petro talking about democratizing these funds, and what does that even mean? Is it a euphemism for expropriation? How will the demographic risk be mitigated? It is clear that there is a current trend among young people not to have children, and the number of children per family is decreasing, so how can current contributors guarantee minimum pensions for all pensioners? Perhaps it is not a totally bad idea, but it has not been thought through, and the highest risk of all would be implementing it without considering all the variables."

A **Flor Esther Salazar, professor in the School of Business Administration and Public Accounting at the National University of Colombia:** "Petro is proposing a reform aimed at structuring a multipillar pension system with three components: first, a noncontributory pillar for those who do not get a pen-

Continued on page 6

ing and causing to be disseminated materially false information" that Berkshire Hathaway had invested in the company, the Justice Department said. Passos also is alleged to have discussed the plan to spread the false information with investor relations employees at IRB, saying in a text message, "I will spread this

story that [Berkshire Hathaway] bought 28MM of shares," adding "and then it becomes true," the Justice Department said. As part of the alleged scheme, Passos is accused of falsifying documents and other information to support the claims and providing it to the press, as well as directors and investors in IRB. News outlets in Brazil and the United States then incorrectly reported that Berkshire Hathaway had invested in the company, which Berkshire ultimately denied on March 3, 2020, leading to a fall in IRB's shares, the Justice Department said. If convicted of the charges against him, Passos faces up to 20 years in prison on each of the four counts. He remains at large, the Justice Department said. The U.S. Securities and Exchange Commission filed related charges, Reuters reported. Neither Passos, Berkshire nor IRB immediately responded to the wire service's requests for comment.

POLITICAL NEWS

U.S., Cuban Officials to Discuss Migration Issues: Report

U.S. and Cuban officials are planning to meet on April 21 in order to discuss migration-related issues, Reuters reported, citing unnamed sources familiar with the matter. The meetings would be the highest-level talks between officials of the two countries' governments since U.S. President Joe Biden took office more than a year ago. The meeting is happening as the Biden administration is facing rising numbers of migrants trying to cross into the United States from Mexico, and a rising proportion of those migrants are Cuban, Reuters reported. More than 46,000 Cubans arrived in the United States between October and February, and the U.S. Coast Guard has also reported an increase in the number of Cubans seeking to reach the U.S. shoreline, the Miami Herald reported. However, authorities in Cuba have refused to accept deported nationals from the United States, the newspaper reported. "We regularly engage with Cuban officials on issues of importance to the

ADVISOR Q&A

Is Chile's Rewrite of the Constitution Going Off Course?

Q Recent opinion polls in Chile indicate that, for the first time, more Chileans would reject the new draft of the constitution than approve it. Survey results released on April 4 show that 40 percent of respondents would vote in favor of the new constitution, while 46 percent would reject it, according to Reuters. An elected assembly is tasked with rewriting Chile's dictatorship-era constitution, which will be put to voters in a referendum this year. What accounts for the sharp decline in support for the constitutional initiative? What specific proposals drafted by the assembly—which is dominated by leftists and independents—have been the most polarizing? What are the consequences for the country if the new constitution is rejected by a majority of Chileans?

A Carolina Goic, Chilean senator and former presidential candidate: "Chile's Constitutional Convention is responsible for the weighty task of drafting a new document that addresses widespread citizen discontent that led to months-long street protests. It is hoped that a new constitution will allow a new political era to begin. The challenge is to build 'everyone's house,' or in other words, a constitutional framework that builds a new social contract—one that abandons the divisions of the Pinochet dictatorship. The text of the constitution will be put to Chileans in

a plebiscite to be held on Sept. 4. Several recent surveys and opinion polls show that more people would now reject the constitution rather than approve it. Among the proposals that generate the most concerns are those centered around pension funds, changes to the justice system, questions around the definition of a plurinational state and the implications of having new autonomous territories. The proposed political system under discussion would also put an end to bicameralism—doing away with the Senate—and in so doing, putting at risk the checks and balances needed for a healthy democracy. The truth is that beyond the details of the proposals, the main task of the constitutional assembly is to build a great national agreement across multiple sectors of society, but there are still many groups that feel excluded from the conversation. So, the draft of the constitution needs to be designed in such a way that people's uncertainties are lowered rather than heightened. If the draft text that is presented to the Chilean people isn't clear, or doesn't address the concerns of certain groups, then it will most likely be rejected."

EDITOR'S NOTE: More commentary on this topic appears in the April 15 issue of the *Latin America Advisor*.

U.S. government, such as human rights and migration," an unnamed U.S. State Department spokesperson told the Miami Herald. "We have seen a significant increase in irregular Cuban migrants to the United States, both via land and maritime routes. Cubans currently rank the third largest group arriving to the United States' southwest border," the spokesperson added. Cuba's deputy foreign minister, Carlos

Fernández de Cossío, will lead the country's delegation in the talks, Reuters reported, citing two unnamed sources familiar with the talks. The Cuban delegation is to meet with top officials at the State Department and other U.S. government agencies. Cuba has blamed the United States for the increase in migration, saying Cold War-era sanctions and the U.S. move to close its consular section in Havana have

NEWS BRIEFS

Colombia's Petro Vows Not to Pursue Expropriations

Leftist Colombian presidential candidate Gustavo Petro vowed April 18 not to expropriate private property if he is elected, the Associated Press reported. Petro signed the pledge amid claims from critics that he wants to make radical changes to Colombia's economy. "The campaign for profound and true change in Colombia is being attacked constantly with rumors and misinformation," the document said, the AP reported. "With clarity, I affirm that my proposal to transform this country is not based on, or includes any kind of expropriation."

Peru's Fujimori Hospitalized for Second Time in a Month

Former Peruvian President Alberto Fujimori, who is serving a 25-year prison term for committing crimes against humanity, was hospitalized on April 17 for the second time in a month, Agence France-Presse reported. Fujimori, 83, suffered a drop in blood pressure and an irregular heartbeat, according to Peru's National Penitentiary Institute.

Venezuelan Civil Society Leaders, Economists Call for New Political Talks

A group of Venezuelan economists, civil society leaders and analysts on April 14 urged new political talks between the United States, Venezuela's government and its opposition in order to ease oil sanctions, Bloomberg News reported. The group, which includes Ricardo Cusanno, who formerly headed the Fedecamaras business chamber, political analysts Michael Penfold and Luis Vicente León, as well as economists José Guerra and José Manuel Puente. They called on the U.S. government and lawmakers to overcome "domestic political pressures" that they said have stymied progress on negotiations.

led to the uptick, the wire service reported. Last month, the State Department said it would restart visa processing for Cubans in Havana, though progress on that has been slow.

Blinken Headed to Panama to Discuss Migration

U.S. Secretary of State Antony Blinken will travel to Panama on April 19 to co-host a Ministerial Conference of Migration and Protection with the government of Panamanian President Laurentino Cortizo, the State Department said Friday. Blinken will be joined by Secretary of Homeland Security Alejandro Mayorkas, among other U.S. officials. They will meet with representatives of Latin American and Caribbean governments to "discuss collaboration on safe, orderly, and humane migration" in the Western Hemisphere, the State Department said in a statement. U.S. President Joe Biden has vowed to address the "root causes" that lead migrants from Central America—as well as other parts of Latin America—to leave their homes and countries, Reuters reported. Brian Nichols, the U.S. assistant secretary of State for Western Hemisphere affairs, told reporters that the migratory "challenges" in Latin America "did not begin yesterday, and they will take time for us to resolve alongside our partners," the wire service reported.

Chile's Boric Sees Disapproval Rating Rise to 57 Percent

The disapproval rating of new Chilean President Gabriel Boric has risen to 57 percent just a month into his term, Bloomberg News reported April 17. His disapproval rating rose 10 percentage points since he took office in mid-March, according to the survey by Santiago-based polling firm Activa. The same poll showed his approval rating falling 6.2 percentage points to 28 percent. Boric's approval rating has fallen along with support for the

assembly that is drafting a new constitution for Chile. "The text that the Constitutional Convention is drafting is far too radical for what most Chileans want," Patricio Navia, a professor of liberal studies at New York University, told the Dialogue's daily Latin America Advisor in a [Q&A](#) published April 15. "While people wanted to amend the document and make it better, the Constitutional Convention is fixated on starting everything from scratch," he added.

ECONOMIC NEWS

Russia Asks for Brazil to Help it Blunt Effects of Sanctions

Russia has asked for Brazil's assistance in global finance and trade institutions in a bid to blunt the effects of sanctions on Russia's economy, Reuters reported April 14. In a letter to Brazilian Economy Minister Paulo Guedes, Russian Finance Minister Anton Siluanov said Moscow needs Brazil's "support to prevent political accusations and discrimination attempts in international financial institutions and multilateral fora," Reuters reported. The letter urges Brazilian officials to support the government of Russian President Vladimir Putin in the International Monetary Fund, World Bank and G20. "Behind the scenes work is underway in the IMF and World Bank to limit or even expel Russia from the decision-making process," Siluanov wrote, without referring to the war in Ukraine, Reuters reported. In February, Brazilian President Jair Bolsonaro met with Putin in Moscow and said, "we stand in solidarity with Russia." The visit happened just eight days before Putin launched an invasion of neighboring Ukraine. Asked about the letter from Russia, Brazilian economy ministry official Erivaldo Gomes, told Reuters, "From Brazil's point of view ... keeping open dialogue is essential. Our bridges are the international bodies, and our assessment is that these bridges have to be preserved." [Editor's note: See related [Q&A](#) in the Feb. 23 issue of the Dialogue's daily Latin America Advisor.]

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sion; second, a contributory pillar; and third, a pillar for people whose income is higher than four times the minimum wage, who will contribute to an individual capitalization scheme. Of the total number of participants of the pension system, 72 percent participate in the capitalization system (RAIS), and 28 percent are in the public pay-as-you-go system (RPM). While the RPM pays 87 percent of pensioners, the RAIS pays only 13 percent of them. This means the government must transfer to the public system what it does not collect from affiliates in order to be able to pay pensions. The public system is credited with subsidizing high pensions. For its part, the individual capitalization system has proven to be very expensive for its participants, reinforcing the problems of inequity in the case of women. Additionally, the fund management industry is highly concentrated, the probability of a pension is very low and the replacement rates of those who retire without a subsidy could reach 30 percent or less. This private system also generates pension liabilities for minimum wage pensions that receive a subsidy. In general, with the current state of the pension system, it is projected that more and more

people will depend on government financing or will not be entitled to an old-age pension without a government guarantee. The reform that is needed is one that eliminates competition between the capitalization scheme and the public pay-as-you-go system, unifying system resources and expanding coverage. Petro's ability to implement a pension reform would depend on the plan's support in Congress. It would face opposition from the pension administrators, who advocate maintaining and strengthening the individual capitalization scheme and have a high capacity for lobbying. The reform's effect on current pensioners would depend on the characteristics of the transition that is adopted, although previously acquired rights will be respected."

[Editor's note: The commentaries above were submitted to the Financial Services Advisor before Gustavo Petro signed a pledge on April 18 vowing not to expropriate property if elected Colombia's president.]

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

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