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FEATURED Q&A

Will Boric Be Able to Reform Chile's Pension System?



Chilean President Gabriel Boric is expected to present a plan to reform the country's pension system in September. // File Photo: Chilean Government.

Q Now two months into his term, Chilean President Gabriel Boric campaigned on comprehensive pension reform and intends to present a proposal this September 2022, according to media reports. How are Boric's pension reforms and proposals shaping up, and what is the legislative process and timeline for enacting them? How might the reform proposals affect the private-run funds that have been operating in Chile for decades, and would the reforms have any consequences for Chile's local capital markets? Will Boric's reforms improve the financial stability of Chileans in future generations, and what else should Boric do to improve the pension system in Chile?

A Sergio Urzua, professor in the Department of Economics at the University of Maryland: "Chile's pension reform is long overdue. The nation's contribution rate to its individual accounts scheme (10 percent) is below OECD standards, and labor market rigidities have kept informality rates above 25 percent for years. At the same time, the old-age dependency ratio continues to rise, tallying to the fiscal pressure of the distributive pillar. In 2021, efforts under President Sebastian Piñera's administration strengthened the system's solidarity pillar. Still, they will not counterweight the long-lasting harmful impact of three pension withdrawals, which vaporized \$50 billion of assets in retirement savings and stressed the country's capital market and financial system. This complex scenario sets the scene for President Gabriel Boric's intention to present a comprehensive pension reform. Although details remain largely unknown, based on his presidential

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TOP NEWS

FINANCIAL TECHNOLOGY

China's Huobi Buys Crypto Exchange Bitex

Huobi Global announced that it has acquired Bitex, a Latin American cryptocurrency exchange active in Argentina, Chile, Paraguay and Uruguay.

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MONEY LAUNDERING

Corruption Cost Mexicans \$452 Mn in 2021: Report

Corruption cost Mexicans \$452 million last year, according to a report by state statistics agency INEGI. Graft cost the average person \$150 last year, the report added.

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BANKING

Banorte, UNDP to Provide Training to Mexico Officials

Grupo Financiero Banorte, which is chaired by Carlos Hank González, said it will work with the United Nations Development Programme to provide training on constructing budgets to officials in Mexican states and municipalities.

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Hank González // File Photo: carloshankgonzalez.com.

BANKING NEWS

Banorte, UNDP to Provide Training to Mexican Officials

Grupo Financiero Banorte announced May 19 that it will work with the United Nations Development Programme to provide training to officials in Mexican states and municipalities in order to construct budgets that include “results-based” goals for sustainable development. The program, which the United Nations designed, will involve tools for financial discipline and also offer ideas for productive public works projects, Banorte said. “I am convinced that together we can promote sustainable development in Mexico,” Banorte Chairman Carlos Hank González said in a statement. “Today, we strongly recognize the importance of reaching this goal, and we want to help motivate and support others to achieve it as well,” he added. The program will include training sessions for officials who oversee state and local public works and expenditures, as well as development of “a methodological guide” to support the United Nations’ sustainable development goals, as well as assistance for state and local government officials who are involved in budgeting in order to help them develop technical capabilities to use “sustainable-centric tools,” Banorte said.

FINANCIAL TECHNOLOGY NEWS

China’s Huobi Buys Crypto Firm Bitex, Targets Unbanked

Hong Kong-listed blockchain firm Huobi Global on May 26 said it had acquired Bitex, which describes itself as one of the first regional cryptocurrency exchanges in Latin America, for an undisclosed sum. Founded in 2014, Bitex maintains a network in Argentina, Chile, Paraguay and Uruguay. Huobi said it plans to

integrate Bitex’s exchange operations with its platform, enabling users in Latin America to trade digital assets it lists. Under the deal, Bitex will retain its branding and continue to be independently run by its current management team. “Currently, only about half of Latin America’s population own bank accounts,” Caleb Lim, senior investment manager at Huobi Group, said in a statement. “Through this acquisition, Huobi Global hopes to meet this growing appetite for alternative financial services through blockchain technology,” he added. Lim said the company intends to add more local fiat currencies and work with local partners to expand its ecosystem into Latin America. Founded in China and now headquartered in the Seychelles, Huobi entered Latin America with the launch of operations in Argentina in 2019. The fintech sector in Latin America and the Caribbean more than doubled in size between 2018 and 2021, according to an April report from the Inter-American Development Bank.

Mexico’s Nowports Becomes Latest Latin American Unicorn

Mexico-based startup Nowports, an automated digital freight forwarder in Latin America, has raised \$150 million in a funding round that values the company at \$1.1 billion, making it Latin America’s latest unicorn, Tech Crunch reported May 24. Founded in 2018, the company aims to digitize the freight forwarding industry, which to date has lacked transparency and efficiency, Nowports executives say. Led by SoftBank Latin America Fund, the round of funding comes just six months after the Monterey-based startup announced it had secured \$60 million in a funding round and brings its total funding to over \$240 million since its inception four years ago, according to the report. In the first quarter of this year, Nowports started operations in Panama and expanded into the Chilean city of Concepción as well as Medellín, Colombia. The startup has 10 active offices in seven countries, with more than 500 employees. Other Mexican unicorns include small business lender Konfío, payments provider Clip and used

NEWS BRIEFS

Chileans Prefer Options in Health Insurance: Survey

A majority of Chileans are uneasy about the possibility of a universal public health system and would prefer to choose between complementary insurance options, La Tercera reported May 23, citing a Cadem survey commissioned by insurance company MetLife. Nearly two-thirds of workers said they feel little or no peace of mind regarding the possibility that their health depends solely on a public system, according to the survey. A constitutional convention is currently debating the private sector’s role in the health and pension systems.

BBVA Argentina Reports Decline in Adjusted Net Income for First Quarter

BBVA Argentina on May 19 reported \$4 billion in inflation-adjusted net income for the first quarter, a 27.1 percent decline from the \$5.5 billion the bank reported in the fourth quarter of last year and a 12.3 percent decline from the \$4.6 billion total from last year’s first quarter. BBVA Argentina also posted an inflation-adjusted average return on assets of 1.4 percent and an inflation-adjusted average return on equity of 9 percent, the bank said in a statement.

Peru’s Government Creates National Center on Digital Security

Peru’s government has created a National Center for Digital Security in order to “identify, protect, detect, respond, recover and collect information on digital security incidents at the national level,” state news agency Andina reported May 22. The country’s Ministry of the Interior, Ministry of Justice and telecommunications regulator Osiptel, among other agencies, as well as the four telecommunications companies operating in the country, will participate in the initiative, according to the report.

car platform Kavak, all of which are also Soft-Bank-funded, according to Reuters. [Editor's note: See related [Q&A](#) in the Feb. 9 issue of the Financial Services Advisor.]

ANTI-MONEY LAUNDERING NEWS

Glencore to Pay \$39 Million to Brazil in Corruption Case

Anglo-Swiss commodities company Glencore on May 24 said it will pay at least \$1.2 billion and that two business units will plead guilty to corruption charges in Brazil, the United States and United Kingdom, The Wall Street Journal reported. Glencore will pay about \$700 million to resolve a U.S. Justice Department foreign-bribery investigation and \$39.6 million to settle bribery claims in Brazil. Another unit has agreed to pay \$485 million to settle U.S. criminal and civil investigations into manipulation of fuel-oil prices, Glencore said. The Brazil fine stems from Glencore's part in a corruption probe known as Operation Car Wash, which involved payments related to state-controlled oil company Petrobras.

Corruption Cost Mexicans \$452 Mn in 2021: Report

Corruption in Mexico costs the average person affected some 3,000 pesos (\$150), according to a survey published by state statistics agency INEGI, El Universal reported May 24. The total cost of acts of corruption last year reached \$452 million. The survey includes only acts of corruption in activities related to the daily life of households and not corrupt activities of companies or between public servants. Corruption for people in contact with public security authorities had the greatest weight in the survey. Officials said use of the Internet to carry out public procedures helps reduce corrupt acts.

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campaign, one can conclude that the future bill will seek to reset Chile's pension system. In principle, the flow of resources from the mandatory individual accounts would be managed by a public entity, limiting, if not eliminating, the private management of retirement savings. A higher contribution rate would also direct funds to a new pay-as-you-go scheme, and inherited pension accounts might end under the new system. Overall, the reform will most likely enhance the role of the public sector. Uncertainty, however, remains high across multiple critical fronts: Would the contributory pillar lead to defined benefit plans? What would the administrative fees under the new system be? Would the system be cheaper for the average Chilean than the current one? What would happen with the pre-reform stock of retirement savings? Would Chileans be able to select between public and private management of retirement savings? And, critically, would the new system secure higher replacement rates for everyone? Among Chileans, aspirations are high, but a decade of mediocre economic growth has fueled and propagated frustration. And, to a large extent, the lack of reforms can be explained by a dysfunctional political system more than by the absence of technical consensus. Unfortunately, it is not possible to envision a moderate reform on the horizon. But who knows—perhaps President Boric's administration is up to the challenge."

A **Richard Francis, senior director at Fitch Ratings in New York:** "In 1981, Chile became the first country in the world to replace its pay-as-you go system with a private defined contribution pension system. Large pension fund assets have supported its creditworthiness by providing long-term financing in local currency, reducing exchange rate and rollover risks. It has also helped increase domestic savings and investment, underpinning growth prospects. However, low pension income has been a source

of public discontent for years. Both the Bachelet and Piñera administrations submitted comprehensive pension proposals that didn't make it through Congress, seeking to boost poor replacement rates. During the pandemic, Congress approved laws allowing Chileans to withdraw funds from their individual accounts in three rounds, totaling

“Both the Bachelet and Piñera administrations submitted comprehensive pension proposals that didn't make it through Congress.”

— Richard Francis

approximately \$50 billion from the AFPs (16 percent of 2021 GDP). Many people entirely depleted their private pension fund assets. The outflow of long-term savings reduced capital market liquidity, affecting long-term interest rates and increasing foreign-exchange volatility. In April, Chile's Congress proposed another pension withdrawal while the government submitted a counterproposal allowing limited withdrawals in limited circumstances, such as paying mortgages and student loans. Both proposals failed but highlighted the fact that withdrawals remain popular. The weakening of the pension system increases risk that future fiscal liabilities could materialize with political pressures for greater spending on pensions through the budget or larger government involvement in the system. President Boric campaigned on comprehensive pension reform with a proposal expected this September. The reform would likely be a multi-pillar reform that includes a universal pay-as-you-go pension for all while maintaining individual accounts (either public or privately run funds), creating a solidarity pillar and expanding a voluntary scheme. In addition to the expected reform proposal from the new

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POLITICAL NEWS

Petro, Hernández Head to Runoff in Colombia Election

Leftist senator and former guerrilla Gustavo Petro and independent businessman Rodolfo Hernández emerged as the top vote-getters in the first round of Colombia's presidential election on May 29 and will face each other in a runoff on June 19. With nearly all the votes counted, Petro won 40.32 percent of the vote, and Hernández garnered 28.15 percent, according to Colombia's election authority. A candidate would have needed more than 50 percent of the vote to win the election outright in the first round. Federico "Fico" Gutiérrez, a center-right former mayor of Medellín, came in third, with 23.91 percent of the vote. Vote totals for other candidates, including Sergio Fajardo, a former mayor of Medellín and former governor of Antioquia province, were in the single digits. The election was seen as a repudiation of Colombia's political class. If elected, Petro would be Colombia's first leftist president, and Gutiérrez, who failed to win a spot in the runoff, had the support of current President Iván Duque's conservative party. "What is in dispute today is change. The political parties allied to the government of Duque, his political project, has been defeated in Colombia," Petro told celebrating supporters in Bogotá, the Associated Press reported. "Colombia's total vote launches that message to the world: A period is ending; an era is ending," he added. Soon after the results were announced, Gutiérrez conceded defeat and endorsed Hernández. "Knowing that our position is decisive for the future of Colombia, we have made a decision ... we do not want to lose the country," said Gutiérrez, the AP reported. Petro has vowed to make economic changes, including a tax reform, and has said he wants to change how the country fights drug cartels and other armed groups, the AP reported. Hernández, a former mayor of Bucaramanga, has promised to fight corruption and donate his presidential salary if elected. A recent poll by Invaer showed

COMINGS & GOINGS

Angelo Named Director of the Perry Center

Paul Angelo has been named the new director of the William J. Perry Center for Hemispheric Defense Studies, effective June 21. He succeeds retired Army Lt. Gen. Frederick S. Rudesheim, who served in the position for about four years. Angelo is a fellow for Latin America studies at the Council on Foreign Relations, where he researches migration, insecurity and strategic competition in the Western Hemisphere. He has served several tours with the U.S. Navy, including one as an instructor at the Naval Academy, where he previously studied. The Perry Center is located at the National Defense University in Washington.

Liberty Latin America Names Jacobson to Board

Former United States Ambassador to Mexico Roberta Jacobson has been appointed to the board of directors of Liberty Latin America, a leading communications company in Latin America and the Caribbean. Jacobson brings more than 30 years of experience in U.S. and Latin American relations to the role, including as a former assistant secretary of state for Western Hemisphere affairs and a former member of the National Security Council. She is a member of the Inter-American Dialogue.

Colombia's Goebertus to Direct Latin America Region at Human Rights Watch

Colombian activist and politician Juanita Goebertus has been named the new Americas Division director at Human Rights Watch. She begins work in August and replaces longtime director José Miguel Vivanco, who recently stepped down. Goebertus is currently a congresswoman in Colombia. Tamara Taraciuk, who has been serving as acting Americas director, will continue to run the division through July, after which she will become deputy director, a newly created leadership position at the organization.

MetLife Hires Stein as Latin America Data Chief

New York-based MetLife has hired Carolina Stein as chief data and analytics officer for Latin America, effective May 23. She will be based in Buenos Aires. Previously, Stein was head of product at Coface, a global credit insurance company, where she led market strategy and execution. Her experience includes a role as vice president of data and analytics at Equifax.

Lozano Named EVP and President for Latin America at Mondelez International

Snack foods maker Mondelez International in May named Mariano Lozano its executive vice president and president for Latin America. Previously, he spent more than two decades at Danone working in Europe, Africa and North America. Lozano holds an industrial engineering degree from the University of Buenos Aires in Argentina.

NEWS BRIEFS

Brazilian Authorities Confirm 91 Deaths Amid Floods in Northeast

Officials in Brazil's northeastern Pernambuco state on May 30 confirmed 91 deaths due to flooding over the weekend, the Associated Press reported. Rescue crews were still searching for 26 people who remain missing, officials said. Brazilian President Jair Bolsonaro flew over parts of the state capital, Recife, as well as neighboring Jaboatão dos Guararapes, the AP reported. The government is making emergency funds available to municipalities, said Daniel Ferreira, the minister of regional development.

World Bank Loans Ecuador \$200 Million for Child Nutrition

The World Bank has approved \$200 million in additional financing for the Social Protection Systems project in Ecuador, El Comercio reported May 26. The new resources will be used to support the fight against chronic child malnutrition in Ecuador, where 30 percent of children under the age of three lack sufficient food. The project aims to reduce malnutrition in pregnant women and children under 24 months with a complete package of education for parents and health check-ups.

USTR Pushes Canada on Dairy Dispute

U.S. Trade Representative Katherine Tai recently requested a second panel for a dispute settlement with Canada under the U.S.-Mexico-Canada Agreement, or USMCA, over dairy import quotas, Reuters reported May 25. Canadian dairy tariff-rate quota allocations deny eligible applicants from the United States access to Canadian markets, Tai's office alleged. Canadian Trade Minister Mary Ng said that the country has met its obligations and that the quota system is compliant.

that Petro would have 50 percent support in a runoff, with Hernández getting 47.4 percent, The Wall Street Journal reported.

Leftist Nations Blast Exclusions From Los Angeles Summit

A group of leftist countries meeting in Havana on May 27 blasted the United States for excluding some countries from the Summit of the Americas, which is to be held June 6-10 in Los Angeles, Reuters reported. The U.S. government has said it will not invite the governments of Venezuela or Nicaragua, saying that only governments that respect democracy are welcome at the gathering, the wire service reported. The summit coordinator has said that it is up to the White House whether Cuba would be invited, though Cuban civil society activists have reportedly been invited to attend, Reuters reported. However, even if invited, Cuban President Miguel Díaz-Canel said May 25 that he would not attend "under any circumstances." The 10 countries that make up the ALBA bloc, which includes Cuba, Nicaragua and Venezuela, released a joint statement from Havana saying that they "reject the exclusions and discriminatory treatment at the so-called Summit of the Americas in Los Angeles."

New Poll Shows Falling Support for Brazil's Bolsonaro

Leftist former President Luiz Inácio Lula da Silva has increased his polling lead over incumbent Jair Bolsonaro ahead of Brazil's October presidential election, Reuters reported May 26, citing a new survey by pollster Datafolha. Meanwhile, Bolsonaro's approval rating fell to 25 percent, with his disapproval rating rising to 48 percent, a two percentage point increase from the previous survey in March, Folha de S.Paulo reported. Lula now has a 25 percentage-point lead over Bolsonaro in a hypothetical runoff election, according to the survey, which

was Datafolha's first election poll since former Justice Minister Sergio Moro dropped out of the race, and it was carried out after São Paulo Governor João Doria quit the race on May 23, Reuters reported.

ECONOMIC NEWS

Mexico Economy Ends First Quarter on a Positive Note

Mexico's economy ended the first quarter on a positive note, expanding in March with gains in industrial output and services, according to data released by the National Statistics Institute on May 25. Gross domestic product expanded 1 percent from the previous quarter in seasonally adjusted terms. Despite the stronger indicators, however, Mexico's economy remains about 1 percent smaller than it was before the pandemic outbreak in 2020, and lingering supply chain problems and soft business confidence could weigh on the growth outlook, according to Goldman Sachs. Meanwhile, INEGI said May 25 that the country recorded a \$1.88 billion trade deficit in April.

Brazil Consumer Confidence Falls

A closely followed measure of consumer confidence in Brazil fell by 3.1 points in May, the Getulio Vargas Foundation said May 25. The Rio de Janeiro-based research center's ICC index fell to 75.5 points, the same level as in December 2021, despite the government's recent economic stimulus efforts aimed at buoying voters in a national election year. "The latest consumer confidence results show that despite the improvement of the pandemic and the package of incentives to relieve the financial pressure of families, inflation and the difficulty of obtaining a job continue to negatively impact families, especially those with lower incomes," said the ICC index's survey coordinator, Viviane Seda Bittencourt.

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president, the draft constitution specifies pensions as a right, adding pressure for further state involvement.”

A **Peter Winn, professor emeritus of history at Tufts University:** “The origin of General Augusto Pinochet’s privatization of Chile’s social security and retirement systems was the financial crisis of the 1980s. The privatization of social security was intended to be one of the neoliberal ‘seven modernizations’ that would institutionalize neoliberalism in Chile. But once the financial crisis hit in 1982, the unspoken purpose behind the privatization of social security became shoring up capital markets through the control of worker savings. The Pension Fund Administrators (AFP) became the center of the new privatized system. They are private, for-profit financial institutions that manage the savings of individual Chileans for their future retirement pensions, but for a substantial fee. The privatized pension system has been criticized for its low pensions and high administrative costs, and has been subject to partial reforms. These partial reforms ameliorated some of the system’s worst features but did not change its character. As a result, pension reform

was one of the most prominent demands during the ‘social explosion’ of October 2019, a demand that Boric made his own during his victorious election campaign. Chile has allowed early withdrawals three times to

“**There are roughly three million Chileans with little or no retirement savings.**”

— Peter Winn

enable Chileans to pay the costs of Covid-19, but there are roughly three million Chileans with little or no retirement savings. They depend on the state’s Universal Guaranteed Pension of \$217 for their retirement, not on the privatized pensions. The larger reform that Boric has promised Chileans is likely to be a mix of private and public, with a place for the AFP, but with a stronger role for the state. Whether it satisfies Boric’s base or solves Chile’s pension problems remains to be seen.”

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

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