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FEATURED Q&A

What Trends Will Shape Financial Services in 2017?



The growth of financial technology, or fintech, will be among the most important trends in the region's financial services sectors, experts point out below. // Image: technasia.com.

Q Financial services firms in Latin America and the Caribbean over the past year have been watching several industry-wide trends unfold, including major innovations such as blockchain and Bitcoin, the widespread de-risking of correspondent banking relationships and the rapidly increasing use of technology among bank customers, coupled with a rise in cyber-threats. What changes and trends will most affect financial services sectors in the region in 2017? Which segments of the financial services sectors in the region are most primed for growth amid these changes, and which are likely to struggle as a consequence?

A Felipe Carvalho Mendoza, member of the Financial Services Advisor board and vice president and senior analyst in the Financial Institutions Group at Moody's de México: "Fintech has great potential to alter the competitive landscape for banking in Latin America, but its success will hinge on broader efforts to expand financial inclusion and access to the Internet, especially in the region's considerable informal sector. Although advances in Latin American fintech have lagged behind other parts of the world, large and small banks in the region, especially in Brazil, have responded to technology trends by investing in digital apps, upgrading their IT infrastructures and even directly funding fintech startups. At stake for incumbent lenders in Latin American banking systems, which are typically dominated by a handful of large banks, are the high fees they have historically charged for services and their ability to inexpensively capture deposits. The head of Mexico's anti-trust commission, Alejandra Palacios, recently highlighted that large

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TOP NEWS

INSURANCE

Marsh Acquiring AD Corretora de Seguros

The insurance broker and risk management provider is acquiring the Brazilian company for an undisclosed sum. AD Corretora provides insurance brokerage services in São Paulo state.

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FINANCIAL SERVICES

Authorities Search Offices of Itaú

Brazilian federal police officers searched the bank's offices as part of the "Operation Zealots" investigation into allegations of tax fraud and bribery. The bank has denied wrongdoing.

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FINANCIAL SERVICES

Citi May 'Re-Pace' Mexico Investment Amid Uncertainty

John Gerspach, the chief financial officer of New York-based Citigroup said the bank may "re-pace" its investment in Mexico amid uncertainty about the country's economy ahead of Donald Trump becoming U.S. president next month.

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Gerspach // File Photo: Citigroup.

FINANCIAL SERVICES NEWS

Citi May 'Re-Pace' Mexico Investment Amid Uncertainty

The chief financial officer of U.S. lender Citigroup on Dec. 7 said the bank may "re-pace" its \$1 billion planned investment in Mexico amid uncertainty over President-elect Donald Trump's policies toward the country, the Fi-

“We still feel broadly constructive about Mexico.”

— John Gerspach

ancial Times reported. John Gerspach added that Citi was "still planning to go ahead" with the investment, which includes adding 2,500 new ATMs and improving its mobile services, and that the bank is still planning to complete its operations by 2020. Citigroup announced the investment plans a month before the Nov.

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banks in the country's highly concentrated banking system are much more likely to lose market share to small fintech firms that can offer more competitive pricing than to a large new market entrant. That said, obstacles to more widespread adoption of fintech among customers remain high, which presents both opportunities and challenges. Financial services market penetration is low in most Latin American countries when compared with more developed markets, and new technologies (such as distributed ledger technologies like blockchain) can help create digital identities for Latin America's sizable unbanked population. Mobile technology solutions will gain the greatest

traction in these market segments, allowing customers to execute basic financial transactions and to send and receive remittances at a lower cost than they would pay under the current infrastructure.”

8 U.S. presidential election. "It's really unclear as to what [the Trump administration] is going to do, how they're going to do it and where that impact is going to be," Gerspach said. "We still feel very good about Mexico's ability to compete based upon labor rates, access to natural resources. We like the reforms that their new administration has put in. So we still feel broadly constructive about Mexico." Citigroup's Mexican business, Citibanamex, has 5.7 million credit card accounts and handles approximately 17.5 million transactions a day. Other companies, including Ford, AT&T and Nestlé, are also preparing large investments for Mexico.

Brazilian Authorities Search Itaú Offices

Brazil's federal police on Dec. 1 searched the offices of Banco Itaú, the country's largest bank, as part of the Operation Zealots probe into allegations of tax fraud and bribery, The Wall Street Journal reported. The probe is focusing on allegations that companies avoided paying taxes by bribing members of Brazil's tax-appeals council, known as CARF. Police say they have evidence of "collusion" between a member of CARF and "a financial institution" between 2006 and 2015. CARF resolves

traction in these market segments, allowing customers to execute basic financial transactions and to send and receive remittances at a lower cost than they would pay under the current infrastructure.”

A Jan Smith, partner at KoreFusion in Mexico City: "The most influential financial services trend in Latin America is the continuous advance of digital payments as a means of displacing cash. More than 20 percent of Latin Americans have smartphones, which is bolstering the adoption of head-line-grabbing consumer and merchant-facing technologies. The most important drivers of

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NEWS BRIEFS

Bradesco Names Gluher as Head of Investor Relations

Brazil's Banco Bradesco announced Dec. 12 that it had named Alexandre Gluher, a senior executive vice president, as its head of investor relations, Reuters reported. The bank said Gluher will replace Luiz Carlos Angelotti, who will remain in charge of accounting at the bank.

Meier Tapped for Latin America Role at Lombard

Global life insurance company Lombard International announced on Nov. 16 that Andreas Meier would serve as the provider's head for Latin America. Meier will be responsible for the Luxembourg-based company's business development in the region in his newly created role. Lombard International said Latin America "is a strategically important region" for the company, and that Meier will be "instrumental in growing new opportunities, both for the offshore market via key hubs in Miami and Switzerland, and in leading the sales and implementation strategy for the onshore market in the region." Meier will start in his role on Jan. 1. Prior to working at Lombard International, Meier served as head of wealth management for Latin America at UBS Deutschland.

CCRIF Pays Nicaragua's Government \$1.1 Million Following Hurricane Otto

The Caribbean Catastrophe Risk Insurance Facility, or CCRIF, on Dec. 9 made a payout of approximately \$1.1 million to Nicaragua's government after Hurricane Otto struck the Central American country, the Caribbean News Service reported Dec. 13. CCRIF also made a payment of \$500,000 to Nicaragua's government in June after a 6.1 magnitude earthquake struck the country on June 9. Since its formation in 2007, CCRIF has made 22 payouts to 10 member governments for a total of \$69 million.

disputes between Brazil's tax agency and the country's top taxpayers. Itaú denied any wrongdoing and said the documents the police searched for had to do with tax issues at BankBoston, which the Brazilian lender acquired in 2006 from Bank of America. BankBoston's "tax processes," were not included in the acquisition, according to Itaú, which "remain the full responsibility of Bank of America." A Bank of America spokesman said the company is "fully cooperating with the documentation request presented by Brazilian authorities." Brazil's Finance Ministry, which oversees CARF, said its comptroller is part of the Operation Zealots probe and is investigating the case alongside other authorities. The ministry also said it has taken internal disciplinary measures and that in September it provided prosecutors with a report that is to be used for criminal investigations. Finance Minister Henrique Meirelles worked for 28 years at BankBoston as president and chief operating officer before leaving in 2002. He declined through a spokesman to comment on the investigation into his former employer. Operation Zealots began in March of 2015 and has implicated a number of Brazilian firms.

INSURANCE NEWS

Marsh Acquiring AD Corretora de Seguros

Insurance broker and risk management provider Marsh announced Dec. 13 that it has agreed to acquire Brazil-based AD Corretora de Seguros for an undisclosed sum, Marsh said in a statement. An insurance broker, AD Corretora is based in Bauru, in São Paulo state. It also has offices in the municipalities of Ribeirão Preto and Araçatuba, as well as in the city of São Paulo. "The acquisition of AD Corretora de Seguros further demonstrates Marsh's commitment to expanding our footprint in Latin America, and Brazil in particular, to meet the evolving needs of businesses across the region," said Marsh's president, John Doyle. "It further enables us to provide enhanced services to

SUBSCRIBER NOTICE

Felipe Carvalho Mendoza Joins the Board

We are pleased to announce that Felipe Carvalho Mendoza has joined the Financial Services Advisor's Board of Advisors.

Based in Mexico City, Carvalho is vice president and senior analyst in the Financial Institutions Group of Moody's de México, where he is responsible for covering financial institutions in Mexico, Chile and Colombia.

Before beginning that position in 2013, Carvalho was an assistant vice president and analyst at Moody's Investors Service. Carvalho also served as an analyst and associate analyst at Moody's after starting with the ratings agency as a senior associate in 2000.



Carvalho

Carvalho graduated with a bachelor of business administration from Boston University and a master of business administration from New York University. He is fluent in English, Spanish and Portuguese and is conversational in French.

local and multinational organizations operating across some of the most important sectors in the Brazilian economy." [Editor's note: See [Q&A](#) on Brazil's insurance sector in the Nov. 3-16 issue of the Financial Services Advisor.]

PENSIONS NEWS

Brazil's Temer Proposes Pension System Overhaul

Brazilian President Michel Temer on Dec. 6 submitted a proposal to Congress to overhaul the country's public pension system, The Wall Street Journal reported. Temer argued that the changes to the system through the bill are necessary in order to make sure the country's social security system is sustainable in the future as Brazil continues to face deficits. The bill would increase the minimum retirement age from 58 to 65, and it would require an individual to work for 49 years in order to

receive full pension benefits, The Rio Times reported. Workers would also have to contribute to the pension system for a minimum of 25 years, rather than the current 15, in order to later receive the benefits. Men older than 50 and women older than 45 will be included in a transitional system, if the bill is passed into law. Government officials say the reform would

The bill would increase the minimum retirement age from 58 to 65.

save 700 billion reais, or approximately \$200 billion, in social security costs in the first 10 years of implementation, Reuters reported. The move is seen by investors as perhaps the most important reform of Temer's austerity agenda to stabilize Brazil's finances, Pension Secretary Marcelo Caetano said. The bill has been met with criticism from workers' unions, who claim that poorer individuals and those who live in regions with relatively low life expectancies will suffer the most from the changes.

ECONOMIC NEWS

Brazilian Senate Approves Temer's Austerity Measures

Brazil's Senate on Dec. 13 approved a controversial austerity measure that puts a spending cap on public spending at the level of inflation for the next 20 years, The Guardian reported. The decision came despite widespread public demonstrations, including a violent protest in Brasília, against the measure. President Michel Temer is expected to sign the measure into law on Thursday. The passage of the legislation has been viewed as integral to Temer's wider austerity plan, through which he hopes to curb public spending to help pull Brazil out of its worst recession in decades. "Today was a show of force that Temer still has a majority in Congress to approve these reforms," said João Augusto de Castro Neves, Latin America director at the Eurasia Group. "From a more market perspective it's also a victory because it's a first step towards a more sound fiscal framework." Despite the fact that the legislation will instill confidence for the markets, the United Nations has called the bill the most socially regressive austerity package in the world, and critics in Brazil say it will do the most damage to the country's education and health systems.

POLITICAL NEWS

Colombian Court Grants Santos Fast-Track for Peace Deal

Colombia's Constitutional Court on Dec. 13 granted President Juan Manuel Santos "fast-track" authority in order to quickly implement reforms mandated by the government's peace accord with the Revolutionary Armed Forces of Colombia, or FARC, rebels, the Associated Press reported. Under the 8-1 court decision, Colombia's Congress can begin passing

THE DIALOGUE CONTINUES

What Is Driving Deals in Brazil's Insurance Sector?

Q Itaú Unibanco is selling its group life insurance operations to Prudential do Brasil Seguros de Vida, the Brazilian bank said in a September securities filing. A month later, Swiss Re and Bradesco announced a joint venture to create a commercial large-risk insurer in the South American country. What factors are driving deal making in Brazil's insurance sector? How are Brazil's broader economic conditions affecting the insurance sector? What policies of Brazilian President Michel Temer will affect the sector the most?

A Carlos Alberto Trindade Filho, vice president of strategy and marketing at SulAmérica Seguros e Previdência: "With regard to health insurance, the need of loss ratio controls and administrative efficiency costs require scale, and consolidation may provide leverage for the larger insurers/operators to have advantage over smaller operators. Additionally, the 'Unimed' business model failure throughout some regions will create some disruptive opportunities in specific geographic locations where they currently join preferable relationships with customers and providers. Concerning property and casualty insurance, new distribution channels that arise from a digital context and new forms of consumption may be attractive targets for exclusivity distribution agreements with insurers, by using a similar model to bancassurance. Also, selective

legislation to implement the accords, some of which requires constitutional changes. Among the top legislative priorities is an amnesty bill for jailed rebels. The amnesty measure would shield rebels who have not been involved in war crimes or human rights violations from prosecution, Reuters reported. The fast-track

movements across the value chain, such as providers or post-sales activities, may occur in order to create competitive advantage sources and avoid distortion bargain relationships. In Brazil, the GDP and consumption growth rate affect the consumption rate and the willingness of consumers to accept higher prices that result from escalation factors of the inflation rate. Also, a higher unemployment rate in the country has direct effects on health insurance plan consumption, since such plans are mainly sold under corporate plans. The expected decrease of interest rates may also negatively affect financial income, which has been the one of main sources of resilience in the insurance sector. The market is also expecting some recovery in the loss ratio of auto insurance, given the more favorable exchange rates which will positively affect prices for the major spare parts. The government's monetary easing policies that may occur and the improvement of fiscal policies may affect interest rates. Finally, the expected economic recovery may be positive in property and casualty by reducing loss ratios, either due to the inflation rate or negative consequences of the unemployment rate."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Nov. 3-16 issue of the Financial Services Advisor.

authority will mean a quicker approval process, including fewer debates, and will protect the bilateral cease-fire, Santos' government has said. Colombia's Congress gave final approval to the government's renegotiated accord with the FARC on Nov. 30, less than two months after voters rejected the original accord.

NEWS BRIEFS

Trump Selects Tillerson as Secretary of State

U.S. President-elect Donald Trump announced Dec. 13 that he had selected ExxonMobil CEO Rex Tillerson as his secretary of state, the Associated Press reported. Trump said Tillerson was "among the most accomplished business leaders and international deal makers in the world," adding that his career "is the embodiment of the American dream." Tillerson is known for having close ties to Russian President Vladimir Putin and was awarded the Russian Order of Friendship in 2013. The Senate Foreign Relations Committee will hear confirmation hearings for Tillerson in January.

China, Mexico Pledge to Deepen Relations

China and Mexico on Dec. 13 pledged to boost ties after a meeting between the countries' top diplomats following the election of Donald Trump as U.S. president, Reuters reported. Before traveling to Mexico, Chinese State Councilor Yang Jiechi met with members of Trump's transition team in New York, including retired Army Lieutenant General Michael Flynn, Trump's pick for national security advisor. Mexico has been looking for ways to limit its dependence on the U.S. economy, especially in light of Trump's campaign promises to restrict trade between the two countries and keep U.S. jobs from leaving the country.

Mexico's Drug War Reaches 10-Year Mark

Dec. 11 marked the 10th anniversary of Mexico's war on drugs, started when then-President Felipe Calderón ordered the military into the country's fight against drug traffickers. A decade later, drug cartels are weaker and less centralized, but the efforts have done little to mitigate crime or violence in the regions of Mexico most affected by drug trafficking, the Associated Press reported.

Brazil's Senate President Slapped With New Charges

Brazil's attorney general on Dec. 12 filed new corruption charges against the country's embattled Senate president, Renan Calheiros, The Wall Street Journal reported. Attorney General Rodrigo Janot accused Calheiros and another lawmaker of graft and money laundering, accusing them of pocketing 800,000 reais

(\$240,000) from Grupo Serveng, a construction company. The charges are related to the massive corruption scandal at state-run oil company Petrobras. It is now up to the Supreme Court to decide whether to accept the charges. Both Calheiros and Grupo Serveng have denied wrongdoing. The new charges came less than a week after Calheiros was nearly removed from his position when a Supreme Court justice ordered his removal after his indictment on unrelated embezzlement charges. The full court later ruled that Calheiros could remain Senate president but would be removed from the presidential line of succession.

Subscriber Notice

Remittance Transfers, Competition and Financial Inclusion in Latin America and the Caribbean: A Scorecard

REPORT PRESENTATION

Manuel Orozco

Director, Migration, Remittances and Development Program, Inter-American Dialogue

SPEAKERS

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CEO, Viamericas Corporation

Gene Nigro

Regional Director, Xoom, a PayPal service

Alberto Laureano

CEO, Barri International

Friday, December 16

Inter-American Dialogue
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Washington, D.C.

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change stem from regulatory efforts, however. Various countries are penalizing large cash deposits, and many have mandated the adoption of e-invoicing. (Indeed, Latin America is the global leader in the adoption of e-invoicing). These actions reduce fiscal evasion and improve transparency. They are also a catalyst to the adoption of credit and debit cards, which stimulates higher penetration of banking services. The higher use of card payments combined with e-invoicing is converging with the arrival of mobile point of sale (mPOS) solutions for merchants. Small merchants can now harness their phone or tablet to accept digital payments and make use of the ever-growing, and ever-cheaper, supply of inventory management, delivery tracking, social marketing and financial administration tools that will make them more efficient. Governments' efforts to replace cash welfare payments and salaries to public workers with card-based payments is another shot in the arm for these trends. Although not sophisticated solutions per se, e-invoicing is also paving the way for bleeding-edge, shared-ledger technologies. With the blockchain, suppliers and manufacturers will be able to improve efficiency and transparency in activities related to trade and trade financing, which in turn will permit easier access to credit."

A **José Carlos Rodríguez Pueblita, senior director at ManattJones Global Strategies in Mexico City:** "Fintech offers an area of great opportunity for nations with low financial penetration. This is exemplified by the increase in financial activity in countries like India and China, where traditional financial services are outdated or nonexistent. Mobile devices and connectivity are coalescing with demographics dominated by youth and technological know-how, leading to an increase in the use of nontraditional technologies to

complete tasks from sending remittances to paying a phone bill. One key example is the rise of digital payments companies like Paytm in India. Latin America shares these characteristics and potential for growth. A strong entrepreneurial base has begun to form, supported by a government focused on financial inclusion. Nevertheless, fintech lacks the flow of investment and a well-defined regulatory framework that fosters

“Banks have in fintech a channel to enhance access, lower costs and decrease technology expenditures.”

— José Carlos Rodríguez Pueblita

innovation and mitigates risks in a balanced manner. We see an opportunity for traditional financial institutions and fintech companies. Banks have in fintech a channel to enhance access, lower costs and decrease technology expenditures. On the other side, fintech firms can gain market credibility and access by becoming and or allying with banks. One of the sectors with the most revolutionary potential is payments and money transfers, mainly through blockchain, given its potential to reduce costs and increase security. Two data points to consider to assess its potential: In 2015, companies in this area only made up roughly 1 percent of the valuation of the largest fintech businesses, while remittances to Mexico represent more than twice the value of oil exports, and growing."

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

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