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FEATURED Q&A

Do Cryptocurrency Exchanges Need More Regulation?



Several banks in Chile recently closed the accounts of cryptocurrency exchanges. Banco del Estado de Chile was among the ones ordered to reopen the accounts, at least for now. // File Photo: Banco del Estado de Chile.

Q Some of Chile's largest banks have closed the corporate accounts of cryptocurrency platforms in recent weeks, forcing companies such as Orionx and CryptoMarket to find alternate ways to operate in the South American country. Chile's anti-monopoly court later ordered Banco del Estado de Chile and Corpbanca to reopen cryptocurrency exchange Buda's accounts while its lawsuit continues against those two banks and eight others. Executives from some of the exchanges assert that the account closures were arbitrary and risk choking out a growing and vital new industry. What is behind the dispute over the closed accounts, and which side will prevail? What regulations and policies need to be put in place so Chile's banks and cryptocurrency firms have more clarity and predictability? How are these concerns playing out in other countries of Latin America and the Caribbean?

A Michael Carter, director, and Larry Iwanski, managing director, both at Alvarez & Marsal Disputes and Investigations: "Chile's banks are likely concerned with the risks associated with banking cryptocurrency platforms. The concerns may revolve around the internal controls of their cryptocurrency customers, specifically with customer due diligence, transaction monitoring and suspicious activity reporting. It is possible that Chilean bank compliance leaders are concerned about being designated as 'high risk' by their global banking partners; maintaining business customers in an emerging industry without validated compliance controls could contribute to that risk. The outcomes of these disputes will likely rely on: the regulatory clarification

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BANKING

Mexico Fuels BBVA's Profits in First Quarter

Spain's BBVA announced that its profit for the first quarter grew 12 percent in, due in part to solid performance at its Mexico unit.

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INSURANCE

Zurich Subsidiary Acquiring Chile Units of EuroAmerica

A Zurich Insurance Group unit is acquiring the personal and group life insurance businesses of EuroAmerica in Chile. The deal is reportedly worth \$155 million.

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BANKING

Brazil Helps Boost Profits of Spain's Santander

Spain's Santander said strong growth in Brazil and elsewhere in Latin America helped boost its profits by 10 percent in the first quarter. The year has "started well," said Santander's chairwoman, Ana Patricia Botín.

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Botín // File Photo: Banco Santander.

BANKING NEWS

Brazil Helps Boost Santander's Profit by 10% in First Quarter

Madrid-based banking giant Santander said April 24 that strong growth in Brazil and elsewhere in Latin America helped push overall profits up 10 percent in the first quarter of the year. "2018 has started well, with the group generating double-digit profit growth driven by strong results in Brazil, Spain and Mexico and improved performance in the U.S.," Santander's chairwoman, Ana Patricia Botín, said in an earnings release. Profit from Latin America grew to nearly 1.1 billion euros (\$1.34 billion) in the first quarter, 23 percent higher year-on-year. Higher net interest income and fee income reflected a rise in volumes, higher spreads and greater loyalty from customers in Latin America, the bank said. Operating expenses also grew in the region, however, which the bank attributed to investment plans in Mexico and the expansion of the bank's business in Argentina, where it recently acquired Citibank's retail network. Despite the rise in profit, Santander's shares fell the most in six months on April 24 during trading in Madrid, Bloomberg News reported. Market analysts said investors reacted negatively to a 23 percent slump at Santander's business in the United Kingdom, as well as concerns about its capital levels.

Inflation Decimates Assets of Venezuelan Banking Sector

Hyperinflation in Venezuela has crippled the country's economy and reduced the assets of its banking sector to that of a mid-sized bank in the Dominican Republic, Reuters reported on April 24, citing regulatory data. Venezuela's private sector banks, among the world's most powerful during the oil boom of the mid-2000s, currently have assets of about \$40 million. The country's annual inflation rate is the world's

highest, and the International Monetary Fund estimated in January that it could soar to 13,000 percent this year. Venezuela's government mandates interest rates, leaving banks to lend around 28 percent of reserves and hold onto cash, the value of which is disappearing.

Venezuela's inflation rate could reach 13,000 percent this year, according the IMF.

Citibank's Venezuela subsidiary reported a return of negative 43.1 percent on credit last year. Citi, which is seeking a buyer for its business in Venezuela but has yet to find one, has been suspending accounts and credit cards in the country in an effort to minimize its operations and reduce losses. Banks are failing to break even under the 15-year-old currency control regime, which limits their ability to make hard currency transactions. The lack of available credit has hurt both consumers and businesses. The country's private banks have capped lending to businesses at \$25,000 and require guarantees in scarce dollars. Beglis Villanueva, a Caracas-based schoolteacher, told Reuters her three credit cards have a combined credit limit of \$2. "They used to get me out of trouble in an emergency situation," she told Reuters. "I showed my new salary to the bank but they won't raise my credit limit."

Chilean, Brazilian Governments OK Investor Protections

Brazilian and Chilean officials on April 27 signed a protocol for financial investor protection during a visit to Brazil by Chilean President Sebastián Piñera. "It is a guarantee that, if a financial institution were to have a problem, there will be a government-to-government mechanism to settle it," Paulo Estivallet, Brazil's sub-general secretary of foreign relations

NEWS BRIEFS

Brazilian Regulator Eyes Guidelines for Investments in Virtual Currencies

Brazil's securities and exchange commission, the Comissão de Valores Mobiliários, or CVM, is preparing to publish guidelines that will give investment fund managers legal clarity to invest indirectly in virtual currencies abroad, Folha de S.Paulo reported April 18. In January, CVM declared that Brazilian fund managers could not invest directly in cryptocurrencies, leaving open the question over indirect investments. CVM officials say fraud is a major problem with virtual currencies.

Mexico Unit Fuels Profits of Spain's BBVA in First Quarter

Spain-based BBVA announced April 27 that its profit for the first quarter grew 12 percent year-on-year due to a solid performance at its Mexico operation as well as lower loan-loss provisions, Reuters reported. The bank reported net profit of 1.34 billion euros (\$1.62 billion) in the first quarter, beating analysts' estimates. In a poll by the wire service, analysts had forecast profit of 1.19 billion euros, on average. Net interest income amounted to 4.29 billion euros, a decline of 0.8 percent year-on-year.

Crédit Agricole CIB Opening Offices in Bogotá, Santiago

The corporate and investment banking arm of France-based Crédit Agricole Group announced April 23 that it is opening new offices in the capitals of Colombia and Chile. At the same time, the Crédit Agricole CIB unit also said it was naming Juan Carlos Álvarez as its representative for Colombia and Julio Hochschild as its representative for Chile. Hochschild also will oversee Crédit Agricole CIB's operations in Peru.

for Latin America and the Caribbean, said before the visit, O Estado de S.Paulo reported. "It eliminates the necessity for seeking international mediation, as there will be a commitment



Estivallet // File Photo: Brazilian Government.

to resolving any issue." Since 2015, Brazil has signed several such accords, which include the delegation of a local ombudsman to support businesses that encounter problems with the courts or the government. The Brazilian government signed similar agreements with Colombia, Mexico, Peru and the member countries of Mercosur, among others. Brazil is the top destination for Chilean foreign investment, as Chileans have approximately \$32 billion invested in the country. Brazilians have roughly \$4 billion invested in Chile.

Blockchain Association Begins Operating in Brazil

Brazil on April 23 saw the launch of the country's first-ever blockchain association, the Brazilian Association of Cryptocurrencies and Blockchain, or ABCB, CryptoGlobe reported. The project, which was started by Brazilian fintech firm Atlas Project, is intended to improve discourse, regulation and business in the blockchain sector in the South American country. Some Brazilian officials have been highly critical of cryptocurrency and blockchain sectors, including Central Bank President Ilan Goldfajn, who made a point of calling the technology "crypto-assets." "I don't refer to them as money because money has to have stability in its value and be able to facilitate payments," Goldfajn told Folha de S.Paulo on March 19. "I see them more as an asset, and a risk, because

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tion from governments; implementation of financial crimes compliance controls by the crypto platforms; and verification of those controls by the banks. Specifically, crypto platforms benefit from implementing strong anti-money laundering, consumer protection, data and information security, and anti-fraud

“Ironically, South American financial institutions may be hesitant to risk exposure to the ‘de-banking’ trend...”

— Michael Carter & Larry Iwanski

controls in their programs. Their licensed U.S. counterparts have generally been proactive in mirroring compliance practices from established financial institutions, as well as partnering with regulatory agencies for guidance. Digital currency exchanges serve as on/off ramps to the traditional financial

they don't have the support of a central bank." He went on to warn that the technology, if not properly regulated, could support money laundering and tax evasion.

INSURANCE NEWS

Zurich Subsidiary to Acquire Chilean Units of EuroAmerica

A subsidiary of Swiss insurance firm Zurich Insurance Group has reached an agreement to acquire the personal and group life insurance businesses of EuroAmerica in Chile, along with its savings administrator, Zurich announced April 20. The deal is reportedly worth \$155

systems, and therefore should be diligent in knowing, monitoring and evaluating their customers and activity in order to maintain those important banking and vendor relationships. Ironically, South American financial institutions may be hesitant to risk exposure to the 'de-banking' trend that has shrunk global financial connectivity over the past decade, to which digital currencies have somewhat served as a market gap filler. That real and perceived risk of dealing with under-regulated crypto platforms is unlikely to subside without prescriptive regulatory guidance and disciplined compliance initiatives by the exchanges."

A Juan Llanos, independent global compliance advisor: "There are valid concerns about risks, but a blanket reaction such as this is disproportionate and unwarranted. Over the past few decades, banks have operated as de facto, discretionary enforcers of the law, with no transparency or accountability with respect to why they close accounts. What should really matter is the long-term impact

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million and will make Zurich the largest life insurance firm in the country, according to Claudia Dill, Zurich's CEO for Latin America. "This deal expands our capacity and is part of our strategy to become the preferred choice in the personal and business sectors in Latin America," Dill added. Chilena Consolidada, Zurich's Chilean subsidiary, has said it hopes to double its market presence over the next three years. The deal follows 10 months of negotiations. Zurich, which has operated in Chile for more than 165 years, added that it will seek a capital increase of an amount greater than or equal to the value of the sale to finance the purchase. The deal is still subject to review by Chilean financial regulators. EuroAmerica, a Santiago-based insurer, has said it will keep the rest of its assets and focus on growing in the annuities, factoring, real estate and factoring sectors.

ECONOMIC NEWS

Trump Delays Tariffs on Mexico, Canada, E.U.

U.S. President Donald Trump on April 30 postponed the imposition of tariffs of imported steel and aluminum from Mexico, Canada and the European Union, Reuters reported. The White House's announcement came just hours before a previous measure exempting those countries was to expire May 1 at 12:01 a.m. In addition, the White House said more details of tariff exemptions with Brazil, Argentina and Australia would be made final within 30 days, though it did not release terms of those agreements, The Washington Post reported. The Trump administration is also extending negotiations with Canada, Mexico and the European Union for 30 days. "In all of these negotiations, the administration is focused on quotas that will restrain imports, prevent transshipment, and protect the national security," the White House said, Reuters reported. The exemptions will not be extended past June 1, an unnamed source familiar with the decision told the wire service. In March, Trump put in place tariffs of 25 percent on imported steel and 10 percent on imported aluminum, but allowed temporary exemptions for Mexico, Brazil, Argentina, Canada, Australia and the European Union. He also granted South Korea a permanent exemption. [Editor's note: See related [Q&A](#) in the March 12 issue of the Dialogue's daily Latin America Advisor.]

Mexico's AMLO Would Respect a NAFTA Deal: Aide

Front-running Mexican presidential candidate Andrés Manuel López Obrador would respect a renegotiated North American Free Trade Agreement if the United States, Mexico and Canada reach a deal before the July 1 election, the leftist candidate's pick for economy minis-

ADVISOR Q&A

Do Deadly Protests in Nicaragua Mark the Beginning of the End for the Ortegas?

Q **Spurred by public anger over a planned social security reform, Nicaragua has been wracked by some of its biggest protests since the country's civil war ended in 1990. President Daniel Ortega has backed off the reform, but protesters have continued taking to the streets to demand his resignation. Why has there been so much violence and carnage now in Nicaragua, which had enjoyed decades of relative calm? Will the Ortega family dynasty fall, and will authorities be held accountable for the deaths and repressive tactics that they are accused of by human rights activists? What will it take to appease protesters? Why has Nicaragua's state-run pension system run out of money?**

A **Christine Wade, professor of political science and international studies at Washington College in Chestertown, Md.:** "Though Nicaragua has generally received good marks from international creditors in fiscal management, there have been allegations that the Ortega administration was using pension funds to benefit programs and supporters. The reforms Ortega implemented were significantly milder than those proposed by the IMF and COSEP, Nicaragua's private business association which initially called for protests, but many are wary about paying into a system rife with abuse. Anger surrounding the protests quickly escalated in

response to repression by police and Sandinista Youth mobs. This very quickly became an anti-government protest. Based on the massive turnout for the April 28 protests, the scale of which appears to be growing, not diminishing. Protesters have made numerous demands, ranging from accountability for the violence to the resignations of Ortega and his wife, Vice President Rosario Murillo. In recent days, the government has announced that it will install a truth commission to investigate the violence. It's imperative that this commission be independent and represent a broad cross section of Nicaraguan society. Aminta Granera, the once-popular police chief, has resigned. The demand that Ortega resign is unrealistic. There's no clear political alternative to Ortega at this moment, and he still enjoys popular support across a variety of sectors. A destabilized Nicaragua serves no one's interests. With general elections in 2021, there's a window for reforms that could lead to more democratic conditions. In addition to institutional reforms, Nicaragua needs new leadership across all political parties. It would help the current crisis if Ortega and Murillo would commit to not running in 2021."

EDITOR'S NOTE: More commentary on this topic appears in the April 30 issue of the Latin America Advisor.

ter told The Wall Street Journal in an interview published April 25. "We can't be renegotiating NAFTA [permanently]," Graciela Márquez told the newspaper, noting that an efficient implementation of an agreement would reduce economic uncertainty. With a 22 percent lead over his nearest rival in recent polls, López Obrador has insisted that a new NAFTA agree-

ment should include measures to lift Mexican workers' wages, putting him at odds with many in the private sector and investor community. Meanwhile, Mexican officials in Washington for ministerial-level talks on NAFTA said April 26 that a deal is close at hand but talks to arrive at a finishing point are not easy, Reuters reported. "I think we are reasonably close.

NEWS BRIEFS

Peru's Humala, Wife Released From Prison

Former Peruvian President Ollanta Humala and his wife, Nadine Heredia, were freed from prison on April 30, four days after a court ruled that they could not be detained while prosecutors investigated them, *El Comercio* reported. They had been imprisoned since July. Prosecutors allege that the two received kickbacks from Brazilian construction firm Odebrecht during Humala's 2011-16 term in office. Humala has denied wrongdoing, saying the charges are politically motivated.

Former Guatemalan President Arzú Dies of Heart Attack

Álvaro Arzú, 72, the former Guatemalan president who signed the peace accord that ended a bloody 36-year civil war, died April 27 of a heart attack while playing golf, the Associated Press reported. Last year, prosecutors accused Arzú of campaign finance violations involving the use of city funds, but he was immune from prosecution while holding elected office. At the time of his death, he was serving his fifth term as mayor of Guatemala City. One of Guatemala's most influential politicians, Arzú served as president from 1996 to 2000.

Colombian Central Bank Reverses Course With Interest Rate Cut

Colombia's central bank lowered its benchmark interest rate from 4.5 percent to 4.25 percent on April 27, just three months after it declared its year-long easing cycle to be over, the *Financial Times* reported. The bank said that price pressures had eased and that it has lowered inflation forecasts for both this year and next. Analysts expect inflation to dip below the 3 percent mark this month for the first time since late 2014, according to the report.

Certainly this has been a very good week," Mexico's foreign minister, Luis Videgaray, told reporters. Mexican Economy Minister Ildefonso Guajardo gave a more tempered view, saying there was movement in the right direction but "we're still in the process." Major sticking points have been disagreements over dispute resolution practices and auto-sector rules of origin, according to media reports.

POLITICAL NEWS

Dominican Republic Severs Taiwan Ties in Order to Favor China

The Dominican Republic cut diplomatic ties with Taiwan and established them with China May 1 during a visit by Dominican Foreign Minister Miguel Vargas to Beijing, the Associated Press reported. The shift was the latest blow to Taiwan, which China claims as its territory but is run by an independent democratic government. Taiwanese officials blasted the move, accusing Beijing of offering the Dominican Republic "vast financial incentives" in exchange for the diplomatic shift. Taiwan was "deeply upset" by the move, but would "not bow down to pressure from Beijing," said Foreign Minister Joseph Wu.

Chilean President Retracts Brother's Appointment

Chilean President Sebastián Piñera on April 28 officially withdrew the appointment of his brother, Pablo Piñera, as ambassador to Argentina, *TeleTrece* reported. Opposition legislators criticized the appointment as nepotism and filed an appeal challenging it. The president, who took office in March, said in a statement that he had named his brother to the post because of the importance and "urgency" of Chile's relationship with neighboring Argentina. Meanwhile, Piñera in April wrapped up his first

international tour as president, which included visits to Brazil and Argentina, *La Tercera* reported. In a meeting with Brazilian President Michel Temer on April 27, Piñera said he hoped that the Mercosur trade bloc, which includes Brazil but not Chile, and the Pacific Alliance countries, of which Chile has been a leader, could create closer commercial ties. "We have to take the lead in integrating the continent," Piñera told Temer. The two presidents signed accords related to energy integration, environmental protection, cybersecurity, drug trafficking and organized crime. During the trip, Piñera also met with Argentine President Mauricio Macri in Buenos Aires, where he was received with full honors.

Prosecutors to Indict Fujimori in Forced Sterilizations Case

Peruvian prosecutors are planning to indict former President Alberto Fujimori and three former health ministers in connection with the forced sterilizations of five women while Fujimori was in office, *Agence France-Presse* reported April 27. More than 2,000 people have filed lawsuits related to forced sterilizations that occurred during Fujimori's 1990-2000 administration, Milton Campos of Peruvian women's rights group DEMUS told the wire service. At the beginning of Fujimori's second term, in 1996, his government started a family-planning program that included tubal ligation. Some 300,000 women underwent the procedure, which was originally supposed to have been voluntary. However, thousands of women reported being harassed or threatened to undergo the procedure, *BBC News* reported. Most of the victims involved were poor, indigenous Quechua-speaking women from rural areas. Fujimori reportedly believed the program would reduce the birth rate and aid economic development. Fujimori was cleared of wrongdoing in relation to the program in a 2014 investigation. Fujimori was serving a 25-year prison sentence on human rights violations until then-President Pedro Pablo Kuczynski controversially pardoned him in December.

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on consumers and society at large. It is also very unfortunate that we consumers and marketplace participants tolerate governments and regulators always lagging behind technologies. We can put a man on the moon but are not able or willing to design adaptable policy-making and governance mechanisms so that regulatory regimes are able to more easily adapt to fast advances in technology. There are risks in any emerging technology, including and especially in the nascent blockchain technology. Yet governments and markets have the strategic choice to be open-minded, enlightened and future-focused, or conservative, protectionist and past-focused. Some get it, but most don't. Initially, the latter will prevail, but not for long. Open and massively supported technologies always win. And the blockchain is such a technology. Regulation, like nature, abhors a vacuum. Either the marketplace will find ways to self-regulate and operate responsibly, or governments and legacy players will do anything in their power to mitigate real or perceived risks. Derisking, unbanking and denial of banking services has already reached global, epidemic, proportions. It started in the early 2000s, and intensified after 9/11, with money transmitters, then with prepaid debit cards and mobile payment systems. More recently, Operation Choke Point, a coordinated effort against certain merchant categories considered unacceptable by the Department of Justice under U.S. President Barack Obama, caused a new wave in Jamaica and Somalia. And now it's happening on a global basis against bit, crypto and blockchain businesses. Unless seriously addressed once and for all, this will continue to harm innovation and society at large in Latin America, the Caribbean and globally."

A **Rodrigo Sainz, co-founder and CIO of mifutu.ro:** "Due to issues related to money laundering and know-your-customer regulations, banks in Chile decided to close the accounts of some exchanges. The banks' point of view is not against the cryptocurrencies' underlying blockchain technology and its potential. Rather, it's all about origins of funds and regulation around cryptocurrencies. Different initiatives are already being put

“**Banks that closed exchanges' accounts say that the exchanges are not rigorous enough in their internal controls...**"

— **Rodrigo Sainz**

in place in Chile, including from the central bank, the economy ministry and market regulators as well as private companies such as banks and other financial players including the Santiago Stock Exchange. Banks that closed exchanges' accounts say that the exchanges are not rigorous enough in their internal controls, so a minimum standard is needed in order to identify each client of the exchange. Banks in Colombia and Argentina are still doing business with cryptocurrency exchanges, but in Brazil, some exchanges have had their accounts closed, and it differs from one state to another. Most of the rest of Latin America operates mostly on U.S. exchanges through the use of credit cards."

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

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