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FEATURED Q&A

What Is Driving the Growth of Fintech in Latin America?



Latin America is experiencing strong growth in the financial technology sector, with Brazil leading the region. // File Photo: pxhere.com.

Q The financial technology sector in Brazil has become the region's largest, with 377 startups, Finnovista, a Mexico-based fintech accelerator said in a May report. Other countries, including Colombia, Argentina and Chile, have also seen strong growth in their fintech sectors. What are the main reasons behind the growth, and which players are best positioned to benefit from the trend? How much promise do fintech companies have for reducing informality and increasing access to financial services? Are new fintech companies proving to be more of a partner or more of a competitor to traditional banks? Which countries in the region have put in place the best frameworks for security and government regulation governing the sector?

A Richard Fogarty and Tony Moroney, managing directors at Berkeley Research Group: "Fintech is one of the most rapid drivers of change in financial services. It is causing firms to transform how they operate, redefine how markets work, how payments and remittances are made, how credit is assessed and how services are designed for customers including customers and businesses that are currently underserved or unbanked. For fintechs, the relentless pace of technology innovation, coupled with a rapid shift in consumer expectations, is creating countless opportunities. By definition, fintechs design their businesses from the 'customer in' and as a byproduct are forcing incumbents to address their legacy analogue business models or risk losing their customer franchise. Fintech will continue to simplify financial services and will underpin a move away from product sales to

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TOP NEWS

BANKING

Banco do Brasil Boosting Stake in Banco Patagonia

State-run Banco do Brasil plans to pay \$202 million to boost its stake in Argentina-based Banco Patagonia. The deal will boost the Brazilian bank's stake to approximately 80 percent.

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INSURANCE

XL Catlin Offering Aviation Insurance in Mexico

The insurer is beginning to offer coverage in Mexico for jets, turbo-propelled planes and other types of aircraft.

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BANKING

BBVA Bancomer Taps Serra as Board Chairman

Mexico's BBVA Bancomer has nominated Jaime Serra Puche as its new board chairman. He replaces retiring chairman Luis Robles. Serra handled Mexico's negotiations for the North American Free Trade Agreement in the 1990s.

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Serra // File Photo: SAI Derecho y Economía.

BANKING NEWS

Banco do Brasil to Boost Stake in Banco Patagonia

State-run Banco do Brasil said June 13 it will pay \$202 million to increase its stake in Argentina's Banco Patagonia after some shareholders exercised their right to sell the shares, Reuters reported. According to a securities filing, Banco do Brasil's stake in Patagonia will rise to 80.38 percent from 58.97 percent

“Argentines remain confident in the banking system and have not withdrawn deposits as they did during previous crises...”

— Moody's Investors Service

currently. Last year, Banco do Brasil was considering a potential sale or share offering of its Patagonia holdings but later changed its mind. Chief Executive Paulo Caffarelli said in February that Patagonia was not up for sale, Reuters reported. After a period of investor enthusiasm for Argentine assets following the election of business-friendly conservative President Mauricio Macri in 2015, market jitters have shaken the Argentine peso more recently, shaving more than 30 percent of the currency's value against the dollar this year to date. But Argentine banks so far have been “largely unscathed” by credit market volatility, Moody's Investors Service told clients in a June 21 report. “While the peso has plunged and interest rates have surged, thus far Argentines remain confident in the banking system and have not withdrawn deposits as they did during previous crises,” said Moody's analyst Valeria Azconegui. Local banks have limited reliance on cross-border market funding and liquid assets remain ample in both U.S. dollars and pesos, limiting funding and foreign currency risks, she added.

However, funding costs have risen sharply for Argentine banks, which will reduce margins in the short term, according to the report.

FINANCIAL TECHNOLOGY NEWS

Bahamas to Launch Pilot Digital Currency Program

The Central Bank of The Bahamas will introduce a pilot digital currency program in an effort to improve access to financial services and reduce corruption, Deputy Prime Minister and Minister of Finance K. Peter Turnquest said at a blockchain industry conference June 20, the Jamaica Gleaner reported. “As an island nation, where transportation can be an inconvenience for many, especially the elderly, and costly, we must offer financial services digitally and securely,” Turnquest said. Commercial banks have been closing brick-and-mortar branches in the country in recent years, leaving some communities on the Bahamas' nearly 30



Turnquest // Photo: Government of the Bahamas.

inhabited islands lacking convenient banking services. While the government eventually hopes to make the islands cashless, Turnquest recognized the difficulty faced by many older citizens not yet adept at using mobile devices and electronic banking. Speaking at an event hosted by Royal Bank of Canada, Turnquest said his government “recognizes and understands” why the branch closures had to happen from a business perspective, but he implored bankers to find digital solutions for those islands where many people have been left unbanked, the Nassau Guardian reported

NEWS BRIEFS

BBVA Bancomer Taps Serra as Board Chairman

BBVA Bancomer, the Mexico unit of Spain's Banco Bilbao Vizcaya Argentaria, has nominated Jaime Serra Puche to lead its board, Bloomberg News reported June 18. Serra, who replaces retiring chairman Luis Robles, headed Mexico's negotiations for the North American Free Trade Agreement in the early 1990s as trade minister under President Carlos Salinas. After negotiating NAFTA, Serra went on to serve as finance minister for the first weeks of President Ernesto Zedillo's administration. He has been a board member at BBVA Bancomer since 2007.

Samsung Pay Adds Itaú to List of Partner Banks in Brazil

Samsung Pay has added Itaú Unibanco to its list of partner banks in Brazil, Samsung announced Thursday. The agreement will allow holders of Itaú-issued credit cards to use Samsung's mobile payment system for transactions in the South American country. Samsung Pay now has partnerships with 11 Brazilian banks, the South Korean company said. Bradesco, Banco do Brasil and Santander also have such partnerships.

XL Catlin Starts Offering Aviation Insurance in Mexico

XL Catlin on June 21 announced it has begun offering new specialty aviation insurance in Mexico. The new product will initially focus on general aviation hull and liability risks for aircraft with a maximum age of 28 years, underwriting jets, some turbo-propelled aircraft and helicopters. The Bermuda-based insurer cited Mexico's consistent increases in passenger traffic, aging fleets and local business aircraft production and service centers for its decision to enter the market.

June 22. Turnquest added that he expected blockchain technologies could be used to make it easier to establish businesses in the country and reduce corruption in government services by eliminating opportunities for bribes.

Brazil Central Bank Creating New Blockchain Platform

Brazil's central bank is creating a new blockchain platform that it plans to use to allow for the sharing of secure data between itself and other financial regulators in Brazil, Coindesk reported June 20. The platform will allow the central bank to exchange information with authorities including the Superintendence of



Goldfajn // File Photo: Brazilian Central Bank.

Private Insurance, the Brazilian Securities and Exchange Commission and the National Superintendency of Complementary Pensions. The central bank said in a statement that it will use the new platform, called "Pier," to exchange data related to financial institutions' authorization processes. Such processes include punitive procedures, as well as the performance of administrators and the management of corporate entities that the central bank regulates. The Pier platform is expected to allow regulators to communicate more effectively among themselves, bypassing central organizations. The platform will also store every request for data through the use of cryptographic signatures, which can help prevent third parties from tampering with the data, the central bank said. Last October, central bank chief Ilan Goldfajn likened the then-soaring price of bitcoin to a "pyramid scheme," adding that it was important to separate the digital currency from other uses

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holistically meeting customer needs while simultaneously creating a great experience. While scale can be an issue, incumbent firms are not only competing, but increasingly are collaborating or acquiring fintechs—often times all three—in a bid to reinvent their existing business, acquire capabilities or create future business models; interestingly, large technology firms and retailers are adopting similar strategies. From a regulatory perspective, fintech may pose risks if consumer protection proves inadequate, monetary policies including AML fail or financial stability is undermined. Regulatory authorities will balance trade-offs between innovation and protection. Over time, we believe authorities will regulate based on the services provided rather than distinguishing between types of firms. Ultimately, the consumer benefits, and firms that genuinely put customers at the heart of their business deserve to succeed."

A **Fabian Saide, CEO, and Monica Velasco, vice president of global development, at Paykii:** "With a clear objective of creating economic growth in Latin America, entrepreneurship has been growing exponentially in recent years, attracting investors from around the world while disrupting financial and banking systems; Brazil, Colombia and Mexico are leading in this new fintech era. This growth will continue as financial regulations unfold. Companies, especially small- and medium-sized enterprises, are best positioned to benefit from the trend as they gain alternative finance mechanisms and have access to credit coming from loans and crowdfunding platforms. The development of fintech startups will continue to foster SMEs' digitalization and formalization, mainstreaming better payments and electronic accounting solutions. Fintech startups in Brazil, Colombia, Argentina, Mexico and Chile are mainly focusing on lending, payments, insurance and digital

banking, presenting new offerings that solve important issues for the underserved market. As services such as financial risk evaluation and fraud mitigation keep flourishing, financial exclusion will continue to decrease. With a set of local adaptations, entrepreneurs have emulated models validated in the United States or Europe with better success due to its deeper understanding of the consumer dynamics and a profound knowledge of domestic regulations. Brazil, Mexico and Colombia have set in place the best frameworks for government regulation by creating associations that have empowered the sector and enabled strong dialogue and negotiations with governments. The associations consult directly with entrepreneurs, considering their requirements and needs, and pressure governments to take further action and execute changes in the current regulation."

A **Bianca C. Borja, Ecuador-licensed attorney and law clerk at Diaz Reus & Targ:** "Latin American countries have a challenge of providing a stable and sustainable community for fintech projects. While the industry in Chile and Brazil keeps growing at a fast pace, most of the region still needs to step up and build trust in their entrepreneurial ecosystems. There is a need for collaboration with the new players and adaptation from the different actors, mainly the traditional banking system, which still see the new players as competitors rather than partners. Because of Latin America's financial instability, the user of new technologies is very skeptical. The banking system is not willing to risk the trust it has built after several crises. In the same way, users are not willing to jeopardize their financial security. As a result, most fintech startups stay segmented to a very specific target of the population that is knowledgeable and willing to take the risk. While the failures of the banking system can create attractive

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of its underlying technology. It is unclear which blockchain the central bank used for the Pier platform. However, in November, the central bank said it was working on projects involving four platforms—Ethereum, JPMorgan’s Quorum, Hyperlogic Fabric and Corda, Coindesk reported.

POLITICAL NEWS

U.S. Has Stopped Prosecuting Migrants at Border: Official

U.S. President Donald Trump’s executive order to stop the separation of migrant families after a national outcry has brought changes to the zero-tolerance immigration policy enacted at the U.S.-Mexico border, the Associated Press reported. Customs and Border Protection Commissioner Kevin McAleenan said on June



McAleenan // File Photo: U.S. Customs & Border Protection.

25 that authorities have stopped prosecuting parents and guardians for illegally entering the United States, unless they have criminal records or the children’s safety is in question. He said he is working on a plan to resume prosecutions that do not entail family separations. “We can work on a plan where adults who bring kids across, who violate our laws ... could be prosecuted without an extended separation from their children,” McAleenan said, according to the AP. His remarks followed a speech by Attorney General Jeff Sessions in Nevada, where he claimed 80 percent of children crossing the border do so alone or with a smuggler, and that the international MS-13 gang recruits them to “replenish the gang,” the AP reported.

ADVISOR Q&A

Will Costa Rica’s Government Be Able to Fix its Budget Problems?

Q **Costa Rican President Carlos Alvarado on June 12 visited Washington in his first foreign trip since taking office in May, telling the Advisor in an exclusive interview that he is committed to getting spending cuts and tax reforms approved this year in order to shrink the country’s fiscal deficit. The Organization for Economic Cooperation and Development recently issued a warning about Costa Rica’s fiscal deficit, which amounted to 6.2 percent of gross domestic product last year. How big of an economic problem is Alvarado facing? What will it take to restore sustainable public finances? Is Costa Rica’s admired social safety net at risk of fraying apart?**

A **Alberto Trejos, professor of economics at INCAE Business School:** “The Alvarado administration is facing a huge problem: since the difficult years of the 1980s dealing with the consequences of fiscal excesses, Costa Rica carefully kept financial and macroeconomic stability, aiding both its economic transformation and its social and environmental achievements. In the last decade, fiscal excesses are back, and although the underlying economy is now much stronger and more modern, this type of problem always takes its toll. It is nearly impossible for the administration to escape major financial crisis unless it fixes the problem. Massive expansion in the public sector payroll and the average wages paid to the bureaucracy at the very top created the problem. Relative to its paying capacity, Costa Rica is the OECD member/candidate with

the second most expensive public payroll, and with abundant examples of individually abusive salaries, ‘benefits’ and pensions. As such, macroeconomic instability was brought about by expenditures aimed at something the population never quite asked (over-paying the same people to do the same job descriptions under the same standards), rather than spending on something we care for (the safety net, the environment) or desperately need (for example, infrastructure). It can only be solved with a combination of tax increases (hard to justify since the population does not feel it is getting or would get anything more from the state than it was before) and expenditure cuts. The only way to do the latter is to bring the payroll back to normal. There are reasons to be optimistic: the new president seems to have the right attitude, is a smart political strategist, and has appointed a good economic team. The composition of the new congress seems to be far more apt at taking this kind of decision than previous legislatures. But there are also motives to be cautious: the president’s party is a political movement representing first and foremost the very bureaucracy that benefits from the status quo, and congressional rules make the approval of anything glacially slow. The administration’s initial proposals have been insufficient and incomplete, but one can hope they can put something together soon.”

EDITOR’S NOTE: More commentary on this topic appears in the June 25 issue of the Latin America Advisor.

The comments came as Guatemala’s president, Jimmy Morales, formally petitioned the United States to grant temporary protected status to

migrants seeking to enter the country after eruptions of Guatemala’s Volcán de Fuego, or Volcano of Fire, left dozens of people dead and

NEWS BRIEFS

Pence Leaves for Latin America Trip

U.S. Vice President Mike Pence departed June 25 for a trip to Latin America, which includes stops in Brazil, Ecuador and Guatemala, the Associated Press reported. On Pence's agenda are topics such as trade, Venezuelan migration and security ties, the White House said. However, his agenda includes no plans to discuss the growing number of Central Americans seeking asylum in the United States and the administration's zero-tolerance policy at the border, the AP reported.

Talks Between Ortega's Government, Opposition Resume in Nicaragua

Talks between President Daniel Ortega's administration and Nicaraguan opposition resumed on June 25, as violence between police and rebels continued in the northern departments of León and Managua, Agence France-Presse reported. More than 200 people have been killed since unrest began in April. Nicaragua's Catholic bishops, who are mediating the talks, said both sides are discussing the possibility of re-scheduling presidential elections for March 2019 rather than late 2021, AFP reported.

Mexico's Economy Shrinks 0.6 Percent in April

Mexico's economy contracted 0.6 percent in April as compared to March amid declining output across several sectors, the country's national statistics agency announced Friday, Reuters reported. The country's agricultural sector saw the largest decline, shrinking 1.7 percent in April as compared to the previous month in seasonally adjusted terms. The services sector contracted 0.5 percent, while the industrial sector shrank 0.4 percent, the statistics agency said. The economy grew 4.5 percent in April, year-on-year.

hundreds displaced earlier this month, Reuters reported.

Colombia's Coca Cultivation Rises to Record High

Coca cultivation in Colombia increased by 11 percent last year, reaching 516,450 acres, according to an official report by the U.S. Office of National Drug Control Policy (ONDCP) published on June 25. The figure marked the fourth consecutive annual increase and a new record high. Potential pure cocaine production rose by 19 percent. Colombian cocaine production has a direct correlation with U.S. consumption and overdose deaths, ONDCP Deputy Director Jim Carroll said in a statement. The production increase may bring additional pressure on the Colombian government from the Trump administration, according to The Wall Street Journal. The two governments in March agreed to develop a strategy to sharply reduce cultivation and production of the coca plant over the next five years. On June 22, U.S. Vice President Mike Pence spoke on the phone with Colombian President-elect Iván Duque and highlighted "the necessity of moving decisively to cut drug production and trafficking," according to U.S. officials.

Mexican Town's Police Held After Candidate's Killing

The entire police force of the town of Ocampo, in Mexico's Michoacán State was arrested June 24 following the killing of a mayoral candidate, El Universal reported. Nearly 30 police officers were detained by the state's Deputy Office of Public Security. Among them was the director of Ocampo's police department, Óscar González García. Several officers resisted arrest, including González García, the newspaper reported. Michoacán's public security director, Venancio Colín attempted to arrest the police officers on Saturday, but was "chased out in a

hail of bullets" by more than a dozen Ocampo police officers, El Universal reported. A new operation to arrest the officers was launched the following morning. The arrests follow the killing of Fernando Ángeles Juárez, the Democratic Revolution Party's candidate for mayor of Ocampo. The police officers arrested are suspected of having ties to criminal groups and alleged involvement in Juárez's June 21 murder.

ECONOMIC NEWS

Union-Led Strike Paralyzes Much of Argentina

A general strike led by Argentina's largest labor union confederation shut down trains, subways, flights and buses on June 25 in protest of President Mauricio Macri's austerity policies and his government's deal with the International Monetary Fund, Clarín reported. The General Confederation of Workers, or CGT, called only for workers to strike, but more radical groups blocked access to Buenos Aires in a series of demonstrations, Agence France-Presse reported. At about 7 a.m., protesters began blocking roads into Buenos Aires. Much of the capital was deserted, including schools, which were shut down. The strike also affected more than 70,000 airline passengers, the Associated Press reported, citing the country's Transportation Ministry. Juan Carlos Schmid, the director of the CGT, called the strike "the biggest in eight years," AFP reported. He added that the confederation called the strike in response to Macri's agreement with the International Monetary Fund, which last week approved a \$50 billion loan package for Argentina. "The IMF has always brought hardship to the Argentines," Schmid told AFP. Many Argentines blame the IMF for worsening the country's 2001-2002 economic crisis. Labor unions in Argentina are also demanding a reopening of salary negotiations to compensate for inflation, which the central bank has said stands at 27 percent and may reach 30 percent by the end of the year.

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business opportunities for fintech startups, there is still a need to implement a legal framework and proper institutions that will provide confidence to users—especially in the field of cybersecurity. Chile seems to take the lead in offering legal certainty in these matters. The rest of the countries have a lot to learn to set a legal framework that will allow technological innovations position in the market, so disruption and innovation will be bursting in the whole region.”

A **Juan Llanos, global compliance advisor for multiple startups:**

“The surge in fintech innovation is a global phenomenon that has now reached Latin America. The general reason it’s a phenomenon is that innovation is not coming from existing players, and emerging technologies are enabling very small players to propose alternative financial services and ancillary services at an unprecedented pace. The goal is for consumers, especially unserved or underserved segments, to benefit the most. However, given the Latin American landscape, it’s the larger legacy players that are bound to benefit from the trend. I believe the larger, well-established players stand to benefit the most because they operate behind a deep protective moat—regulation. The smaller fintech startups can’t afford the highly onerous authorizations and controls that current regulations require, but the large banks can. Therefore, smaller startups are forced to partner with the large banks. If they break out as successful companies, large institutions immediately acquire them, and their value to the consumer fizzles away. It’s a perverse dynamic that will be broken only if there are substantial regulatory changes. Mexico stands out as the first country in the region to identify the mega trend and attempt to create an environment that would both promote innovation and establish prudential safeguards. Mexico’s new fintech law is a good first step and model for other countries, but it’s yet to be seen whether its

implementing regulations will achieve the public policy objectives in a balanced way. I fear that lobbying from larger organizations may hinder the emergence of true high-impact innovations that compete with the large banks.”

A **Laura Gaviria Halaby, Miami-based digital innovation and fintech advisor:** “Latin America is an ideal destination for fintech companies. With a population of more than 600 million people who share a similar culture and speak primarily Spanish and Portuguese, companies can grow and scale more easily as compared to other regions of the world where many languages are spoken and cultural differences are wider. In addition, half of Latin America’s adult population lacks access to a bank account or alternative methods of credit. However, according to GSMA, the association of mobile operators, half of the region’s population will have access to the Internet using mobile phones by 2020. Latin America’s ideal market conditions, combined with consumers, regulators, venture capitalists, multilaterals and corporates embracing fintech, has created a financial technology boom in the region. Regulators are starting to remove gray areas with fintech laws that are generating a safer space for innovation and cooperation between institutions. Mexico designed a fintech law that promotes financial inclusion, consumer protection, financial stability and competitiveness, while preventing money laundering. Countries are following in Mexico’s footsteps and are discussing fintech laws for a clear and level playing field. Fintech companies are offering beautifully designed and easy to use products that are reaching not only banked customers but the bottom of the pyramid as well. As key ecosystem players continue to collaborate, the fintech landscape will continue to mature democratizing access to financial services, which will translate to economic growth and prosperity for the region.”

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