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FEATURED Q&A

Is Bank De-Risking Choking Caribbean Growth Prospects?

Timothy Harris, the prime minister of St. Kitts and Nevis, addressed the United Nations General Assembly in September. // Photo: United Nations.

Q During the U.N. General Assembly meeting in October, three Caribbean leaders, including two prime ministers, said bank "de-risking" and the loss of correspondent banking relationships have severely harmed their economies. Among them, Timothy Harris of St. Kitts and Nevis said the trend is hindering the island nation's development trajectory. How big a problem is bank de-risking for Caribbean economies and their banking sectors? Has compliance with international financial regulations, many of which originate in the United States and Europe, become too onerous for Caribbean banks to cope with? What would it take to reverse the de-risking trend?

A Georges Hatcherian, assistant vice president and analyst in the financial institutions group at Moody's de México: "The loss of global correspondent banking relationships (CBRs) has increased external refinancing and repayment risks for banks in emerging markets, including in the Caribbean and Central America. This de-risking has been driven by a reassessment of risk appetite by global banks in a context of increased regulatory compliance costs and the threat of heavy fines by U.S. and E.U. regulators. The decision to cut these relationships was also due to the limited economic benefits they offered to the global banks, as many local financial institutions that rely on these relationships are small. Given the currently unfavorable balance of risk and reward, correspondent banking can be made more attractive to global lenders by strengthening and enforcing local anti-money laundering legal frameworks, as has happened in Panama for example. CBRs are critical for processing international transfers, including workers' remittances,

Continued on page 3

TOP NEWS

BANKING

López Obrador Relents on Limits to Bank Fees

News of legislation that limits bank fees proposed by congressional allies of the Mexican president-elect spooked investors, fueling new concerns that the left-leaning politician would implement anti-business policies.

Page 2

COMPLIANCE

Brazil Sets New Rules on Crypto-Currencies

Brazil's federal tax agency has proposed new rules requiring cryptocurrency exchanges to provide monthly reports revealing who has made large transactions.

Page 3

BANKING

Global Banks Prep for More Brazil Business

London-based HSBC, led by new chief executive John Flint, is preparing to re-establish its presence in Brazil, three years after selling most of its operations in the country. Other global banks are also ramping up operations there.

Page 2

Flint // File Photo: HSBC.

BANKING NEWS

López Obrador Rejects Limiting Bank Fees, For Now

Mexican President-elect Andrés Manuel López Obrador said on Nov. 9 he would not support a bill proposed by his party in Congress to limit commissions and fees banks can charge customers, Reuters reported. News of the legislation spooked investors, fueling new concerns that the left-leaning politician would implement anti-business policies. Stocks trading in Mexico City fell to their lowest level in over two years on news of the measure before clawing their way back to modest gains after López Obrador said in a news conference he had no plans to change banking laws in the first half of his administration. "We won't make any modification to the legal framework relating to economic, financial and fiscal matters in the first phase of this government," López Obrador said, according to Reuters. "To be more precise, in the first three years, no modification." Senator Bertha Alicia Caraveo, with López Obrador's National Regeneration Movement party, or Morena, unexpectedly introduced the bill last week. The coordinator for the Morena party with the senate, Ricardo Monreal, has defended the legislation, saying the goal is to bring the fees and commissions charged by banks in line with those charged in other countries, El Universal reported. In related news, thousands of people on Nov. 11 marched in Mexico City in opposition to López Obrador's plans to cancel a $13 billion airport for the capital, the Associated Press reported. Critics of the decision to cancel say the project is nearly a third complete and the one million people who voted against it did not understand the economic benefits the project would have brought to the city. López Obrador takes office Dec. 1.

López Obrador // File Photo: Mexican Government.

Global Banks Prep for More Brazil Business

London-based HSBC is preparing to re-establish its presence in Brazil, three years after selling most of its operations in the country, the Financial Times reported Nov. 11 citing unnamed sources. Under chief executive John Flint, who took over the position in February, the bank is seeking to increase its São Paulo-based investment banking business, which lost domestic corporate clients after HSBC sold its assets to local private bank Bradesco for more than $5 billion in 2015, agreeing to a three-year non-compete clause. HSBC could have a staff presence in São Paulo of 200 or more investment bankers, according to the report. However, the FT's sources said the bank has no plans to re-enter the consumer banking sector in Brazil. The election last month of conservative candidate Jair Bolsonaro as Brazil's president has given a boost to local financial markets. Citigroup is prepared to step up hiring for work on the $176 billion of infrastructure investments it expects over the next five years, Bloomberg News reported, and Itáu Unibanco has said it may loosen credit standards given the improving economic outlook. [Editor's note: See related **Q&A** in the Oct. 4-17 issue of the biweekly Financial Services Advisor.]

Ex Julius Baer Banker Sentenced in PDVSA Laundering Case

A former Swiss banker was sentenced to 10 years in prison on Oct. 29 for his role in a plot to launder $1.2 billion stolen from Venezuelan state-owned oil company PDVSA, but the judge said she may reduce his term if prosecutors are satisfied with his cooperation, Bloomberg

NEWS BRIEFS

Citibank Finances $20 Mn in Ecuador Microloans

Citibank said on Nov. 13 that its unit in Ecuador has reached a three-year, $20 million financing agreement with Banco Guayaquil to expand financial inclusion in the Andean country. The financing supports Guayaquil's ability to provide microloans through its "Banco del Barrio" program. The deal is part of a $250 million project between Citi and the U.S. Overseas Private Investment Corporation to fund inclusive finance programs in emerging markets. Nearly half of Ecuador's population is unbanked.

Singapore, IDB Team Up on Financial Innovation

The Washington-based Inter-American Development Bank, or IDB, said Nov. 13 it has signed a collaboration agreement with Singapore to accelerate innovations in financial services in Latin America and the Caribbean. The Monetary Authority of Singapore, which serves as the central bank and financial regulator of the Asian country, will help the IDB create a platform that will allow financial institutions in the region to exchange knowledge on governmental approaches to innovation and digitalization.

Standard Bank Urges Brazilian Companies to Consider Africa

South Africa's Standard Bank Group is encouraging Brazilian companies to explore opportunities in Africa, Reuters reported Nov. 6. The bank, which counts miner Vale and state oil company Petrobras as clients, sees opportunities for other Brazilian firms in the continent, particularly in two natural gas projects in Mozambique. The pitch follows news last week that a consortium led by United Kingdom-based Vitol had agreed to spend $1.4 billion to buy Petrobras' assets in Nigeria. Petrobras has been trying to divest assets abroad to instead focus on domestic production.

News reported. Matthias Krull, 45, formerly of private bank Julius Baer, admitted that he joined a network of money launderers that used real estate and false-investment schemes to hide funds taken from PDVSA. Quinn Emanuel Urquhart & Sullivan is serving as outside counsel to investigate Krull's accounts and conduct. The Swiss private bank recently announced it is shutting down its Panama and Peru operations. Some of its bankers and support staff are relocating to the Bahamas, Chile or Switzerland, a bank spokeswoman said.

COMPLIANCE NEWS

Brazil's Tax Agency Proposes New Rules for Cryptocurrencies

Brazil's federal tax agency has proposed new rules requiring cryptocurrency exchanges to provide monthly reports revealing who has made large transactions, CNN reported Nov. 2. The Department of Federal Revenue, or RFB, recently announced plans to clamp down on tax evasion and money laundering in the digital currency industry. According to local news outlet G1, the RFB's new rules would require both businesses and individuals to report crypto-related transactions that exceed

Rañña // File Photo via Facebook.

10,000 reais ($2,706) through the agency's virtual service center, known as e-CAC. Until now, anybody buying and selling bitcoin and other digital currencies has been able to do so anonymously, according to Bitcoin News. Those who fail to report transactions will face fines. The tax agency is accepting public input to the draft guidelines between now and Nov. 19. Regulators have been scrambling to articulate guidelines for the fast-expanding digital currency sector. In the absence of clear rules, banks have closed accounts of some cryptocurrency exchanges out of compliance concerns. Last December, Brazil saw more than four billion reais used to buy and sell cryptocurrencies such as bitcoin, according to Brazil's government, and the total trading volume this year could reach 45 billion reais. In related news, Banco do Brasil and Santander Brasil have reopened the accounts of local cryptocurrency exchange Bitcoin Max in order to avoid a fine, local news outlet Portal do Bitcoin reported Oct. 31. The Federal District and Territorial Court issued the order to reopen the accounts, with Judge Ana Catarino ruling that the banks violated the law by closing the accounts without issuing proper notifications, Coin Geek reported. The judge described the action as abusive and in violation of a central bank resolution. If the banks failed to reopen the accounts, Santander Brasil would have been fined approximately $1,350 and Banco do Brasil would have been fined about $5,400, according to Portal do Bitcoin. Leonardo Rañña, an attorney for Bitcoin Max, said the exchange's accounts had been reopened. The judge's ruling overturned a lower court's order, which had originally rejected the cryptocurrency exchange's request for the accounts to be reopened. Brazil's antitrust regulator, known as CADE, in September began inspections at six major banks, including Santander Brasil and Banco do Brasil, on accusations that they improperly closed cryptocurrency exchanges' accounts, Cointelegraph reported. Banks note that government regulations currently do not address cryptocurrencies clearly. [Editor's note: See related Q&A in the April 19-May 2 edition of the Financial Services Advisor.]

FEATURED Q&A / Continued from page 1

which are a key source of support for many Caribbean economies. Remittances also help underpin local banks' asset quality as they provide resources to low- and middle-income borrowers to pay off debt. Some local banks may also rely on CBRs to repay certain international financial obligations, such as coupons on global bonds. Consequently, a loss of its CBRs could push an issuer to default simply because of an inability to wire funds out of the country, even if its financial condition otherwise remains sound, though we have not observed any such defaults thus far. Banks that lose all their CBRs from larger global counterparties would be forced to seek replacements from smaller international banks or local financial institutions, which can be more costly and less stable."

> **"Instead of complaining, a more appropriate response would be for regional politicians to accept the new realities..."**
> — Anthony Wilson

A **Anthony Wilson, head of the multimedia business unit at One Caribbean Media:** "For small, open Caribbean economies, the threat of the loss of correspondent banking relationships is an ineluctable aspect of their development trajectories, similar to the impact of oil price volatility or the influence of climate change policies. Some Caribbean politicians believe that they gain domestic traction by complaining about bank de-risking in international forums. That is a pointless exercise, especially as many politicians in the region derive indirect and, more troublingly, direct benefits from the loose regulation of onshore and offshore banks. Given the very serious consequences of the loss of correspondent banking relationships for the region—including trade flows, payments,

Continued on page 6

ECONOMIC NEWS

Argentina Recession to End Next Year: IMF

The International Monetary Fund said Nov. 10 it expects Argentina's recession to end in the first quarter of next year, Reuters reported. "The bottom of the recession, the floor, will be hit the first quarter of 2019, and in the second quarter we are going to see a recuperation," IMF mission chief for Argentina, Roberto Cardarelli, told reporters at a press briefing in Buenos Aires. But for now, average growth for this year will be negative. Analysts have forecast 2018 inflation at more than 40 percent this year, among the highest in the world, and the local peso currency has lost about half its value this year. In response to market pressure, last month the IMF increased the size of its standby financing deal with Argentina to $56.3 billion. Since then, Argentine bonds have outperformed other comparable emerging market credit thanks to the IMF's package, which is seen as an inflationary anchor, Forbes reported last week. Still, President Mauricio Macri and his conservative government have lost popularity ahead of his 2019 re-election bid, due to IMF stipulations for spending cuts and tax increases to bring the primary fiscal deficit, projected at 2.7 percent of gross domestic product in 2018, to zero next year. On Nov. 12, New York-based Standard & Poor's lowered Argentina's long-term foreign and local currency ratings by one notch, from B+ to B, citing an "erosion" in the South American country's debt, economic growth and inflation profiles.

López Obrador Puts Massive Train Project Up for Referendum

Mexican President-elect Andrés Manuel López Obrador said Nov. 12 he will hold a public referendum later this month on his proposal for an extensive passenger railway network to connect the main tourist attractions spanning five states across the Yucatán peninsula, the

ADVISOR Q&A

Will Piñera's Plan Strengthen Chile's Pension System?

Q President Sebastián Piñera on Oct. 28 unveiled his plan for pension reform in Chile, where many citizens have been dissatisfied with insufficient payments from the system. Piñera said employers would be asked to contribute an extra 4 percent to workers' plans, while the government would also increase its contribution to a pooled fund from 0.8 percent of gross domestic product to 1.12 percent. Additionally, the government would contribute extra money to women, the middle class and workers who delay retirement. To what extent would Piñera's plan strengthen the country's pension system and meet the expectations of participants? What are the drawbacks to the reform? Will it win approval in Chile's Congress?

A Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile: "President Piñera announced new legislation to enhance Chile's pension system in response to popular pressures experienced over the past several years that were not resolved under the previous government. The key elements of the reform involve increasing the obligatory contribution rate from 10 percent to 14.2 percent with the additional 4.2 percent being financed by employers—4 percent going to each employee's individual account and the remaining 0.2 percent to finance insurance against the possible cost of care in old age; an increase in government funding from 0.8 percent to 1.12 percent of GDP to strengthen the solidarity pillar (minimum pensions for vulnerable populations) of the pension system; pension gap insurance for periods of unemployment; and incentives for individuals to work longer and for women. Increased competition would be allowed in the management of the additional 4 percent individual savings. The plan will be phased in over nine years and has an estimated cost of $3.5 billion once in full operation, which should be achieved while maintaining fiscal discipline—something to be monitored over time. The plan appears to be a good one and builds upon the success of Chile's internationally respected private system that has put it on a stronger footing to better face the challenge of ensuring adequate pension levels for Chileans. It is clearly a step in the right direction but should not be considered a final solution to the country's long-term pension challenges. This is the beginning of what is expected to be a long and vigorous conversation in the legislature where consensus building will be key to the initiative's success. Discussion is likely to center on the issues of enhancing competition in the market, as well as the need to provide for intergenerational wealth transfers, the extension of the retirement age and higher obligatory levels of savings beyond the proposed 14 percent."

"It is clearly a step in the right direction but should not be considered a final solution."
— Kathleen C. Barclay

EDITOR'S NOTE: More commentary on this topic appears in the Nov. 9 issue of the daily Latin America Advisor.

NEWS BRIEFS

Former Chilean Army Chief Sentenced for Pinochet-Era Crimes

A Chilean court on Nov. 9 sentenced former army chief Juan Emilio Cheyre to three years under house arrest for his involvement in the so-called Caravan of Death, a military unit sent by Gen. Augusto Pinochet to kill left-wing opponents in the month after he ousted President Salvador Allende in a coup in 1973, Deutsche Welle reported. With the ruling, Cheyre, 71, has become the most senior figure to be convicted of crimes committed during the Pinochet regime, which ended in 1990.

Nicaragua Protests Caused $1 Billion in Economic Harm: Gov't Estimates

Nicaragua's government said on Nov. 12 that the economic damages resulting from deadly protests against President Daniel Ortega's administration between April and July amounted to almost $1 billion and that 120,000 jobs were lost during the period, Reuters reported. The unexpectedly violent clashes over several months between government forces and protesters left more than 300 people dead.

Lawyer Denies Ecuador's Correa Has Requested Asylum in Belgium

An attorney for former Ecuadorean President Rafael Correa denied that his client has requested asylum in Belgium, where he has lived since leaving office last year, Reuters reported Nov. 8. A report by Belgian news agency Belga said Correa had requested asylum as he faces prosecution in Ecuador in connection with the brief kidnapping of an Ecuadorean opposition lawmaker in 2012. However, the attorney, Caupolican Ochoa, said the report was untrue. "There is nothing about asylum. A moment ago President Correa told me there was not a request," Ochoa told the wire service.

Associated Press reported. López Obrador previously said it would cost between $6 billion and $8 billion. During a trip to Mérida, the Yucatán state capital, López Obrador said the public will be able to vote on the train and nine other proposed projects and programs within weeks, before he takes office on Dec. 1, as with a referendum he pushed for last month that ended up canceling a $13 billion airport project in Mexico City that was already one-third completed. Another project on the ballot will be the construction of an oil refinery in his home state of Tabasco, as well as social programs such as scholarships to students and pensions for seniors. "I'm very confident that the people are going to vote to build the Mayan train, because it won't hurt anyone. On the contrary, it will benefit a lot of people," López Obrador said. Major developers such as Grupo Vidanta have backed the ambitious plan, saying it could double the amount of foreign currency brought into the country, El Financiero reported last month.

POLITICAL NEWS

Three Million Have Fled Venezuela Since 2015: United Nations

Three million Venezuelans have fled since 2015 amid their country's economic collapse and political crises since 2015, according to a United Nations estimate released Nov. 8, The Washington Post reported. The figure makes the exodus comparable in size to the ones that have hit war-ravaged countries, the newspaper reported. The total was arrived at through the use of data from national migration authorities, said the U.N. High Commissioner for Refugees and the International Organization for Migration. By comparison, as of the end of last year, there were 6.3 million refugees from Syria, the world's worst refugee crisis. There were also 2.4 refugees from Afghanistan and 2.4 million from South Sudan. Most Venezuelans have not fled their country because of the same type of armed conflict that has occurred in Syria or Afghanistan, but they could be considered refugees under the 1984 Cartagena Declaration on Refugees, which was signed by 14 countries in Latin America, said William Spindler, a spokesman for UNHCR. Approximately one million of the Venezuelans who have left went to Colombia, while more than 500,000 went to Peru, more than 220,000 went to Ecuador, 130,000 to Argentina, more than 100,000 to Chile and 85,000 to Brazil, according to the report.

U.S. Court Rules Against Trump's Effort to End DACA

A three-judge panel of the U.S. Court of Appeals on Nov. 8 agreed with a federal district judge's decision in January that President Donald Trump lacked the authority to end an Obama administration program that protects undocumented immigrants brought into the country as children, the Associated Press reported. The decision leaves in place for now the Deferred Action for Childhood Arrivals program, known as DACA. More than 700,000 undocumented immigrants have avoided deportation and can access work permits under the program. The panel found that Trump's rescission of DACA was "arbitrary, capricious or otherwise not in accordance with law." The Justice Department is likely to appeal the ruling to the Supreme Court, according to the report. Last January, Trump called on Congress to pass his immigration reform plan, which includes the creation of a path to citizenship for 1.8 million immigrants who were brought illegally to the United States as children. [Editor's Note: See related **Q&A** in the Feb. 12 issue of the Advisor.] In related news, thousands of Central American migrants decided to depart Mexico City Nov. 9 and head toward Tijuana, the Associated Press reported. The group of some 5,000 migrants is opting for the longer but likely safer California route to the United States, as opposed to the shorter but more dangerous Texas route. The White House is soon expected to limit processing of asylum requests to those made at official ports of entry, The Guardian reported.

FEATURED Q&A / Continued from page 3

remittances and the raising of capital—it is necessary for Caribbean countries to comply with the requirements of these 21st century financial regulations. And that is despite the fact that these requirements are onerous and costly. Instead of complaining, a more appropriate response would be for regional politicians to accept the new realities and seek to maximize available opportunities. There may be revenue opportunities if countries improve the regulation and taxation of gambling and gaming activities. The introduction of domestic legislation aimed at requiring people to explain their wealth and allowing for unexplained wealth to be frozen or seized may also provide revenue benefits. Most importantly, Caribbean countries need to ensure that they continue to keep these new challenges on their political front burners, that the issues are accorded time and space at regional meetings and that the global community is addressed with a clear, unambiguous and unified voice."

A **Richard N. Wiedis, a partner, and Javier Coronado, an associate, at Diaz Reus & Targ:** "Global financial institutions (GFIs) are increasingly terminating or restricting correspondent relationships with Caribbean banks based on their concerns about the costs of complying with AML/CFT regulations, including customer due diligence and know-your-customer requirements. Notably, governments from this region and international organizations such as the U.N.'s ECLAC have stressed that this trend, which is referred to as 'de-risking,' has negatively impacted Caribbean economies because of their reliance upon activities involving international financial transactions, including external trade, tourism, remittances and offshore banking. To counteract de-risking, the stakeholders from the Caribbean, including regulators, supervisors and local banks, should address the concerns that GFIs often have about securing compliance with regulations in their relationships with correspondent banking. Where necessary, the stakeholders should work in harmonizing the local AML/CFT framework with the standards set forth by international bodies such as the Financial Action Task Force. They should also work in clarifying any misconceptions about the rule of law and tax transparency of their countries. Further, the stakeholders should foster technologies that could reduce the costs of securing compliance with regulations by enhancing the exchange of information between financial institutions for conducting customer due diligence and know-your- customer processes. Critically, they should encourage Caribbean banks to join the SWIFT-KYC portal and develop databases with information of banking customers. Finally, hiring experienced compliance officers and giving them the authority to report suspicious transactions will help assure GFIs and their regulators that the local banks can handle the risks posed by correspondent banking relationships."

> **"Stakeholders should foster technologies that could reduce the costs of securing compliance..."**
> **— Richard Wiedis and Javier Coronado**

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

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