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FEATURED Q&A

How Competitive Is the Banking System in Brazil?

Brazil's banking regulator is investigating banks that have allegedly engaged in anticompetitive practices against digital banking provider Nubank. // File Photo: Nubank.

Q Brazilian antitrust watchdog agency Cade said April 22 that it is investigating four banks that are alleged to have engaged in anticompetitive practices to hinder digital banking provider Nubank. How robust is the level of competition among Brazilian banks? Do regulators or other government agencies need to do more to protect newcomers? What changes in policy would give entrants in Brazil's financial services sector fairer access to the market?

A Murilo Portugal, president of the Brazilian Federation of Banks (Febraban): "Competition in Brazil's banking sector is quite robust. Nevertheless, Febraban and its associated banks favor even more intense competition, which drives progress for countries and enterprises. Banking is a capital-intensive industry, as central banks' prudential regulations require banks to hold large capital levels in order to protect savings. As a consequence of being capital-intensive, banking tends to be a concentrated industry almost everywhere. The market structure of the Brazilian banking sector is moderately concentrated, with a Herfindahl-Hirschman index of 1.413. Compared with other sectors of the Brazilian economy, the credit market is the ninth most concentrated. Part of the concentration of the Brazilian credit market is due to the high market share of state-owned banks, which account for 50 percent of the market. While less concentrated markets tend to be more competitive, there can be competition even in concentrated industries. Academic studies about banking competition in Brazil reject the hypothesis of cartelization and price collusion, even though the credit market may

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Bancorp, which has ties to Nicaraguan President Daniel Ortega's government, shut down after the United States imposed sanctions against it.

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Itaú Expecting Continued Competition Among Processors

Itaú Unibanco's CEO said there is no sign that competition among card processors will slow down.

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BANKING

Bradesco Buying BAC Florida for $500 Million

Brazil's Banco Bradesco is buying BAC Florida Bank as part of its first-ever international acquisition. Bradesco CEO Octavio de Lazari said the deal will help Bradesco expand not only in the United States but also in Latin America as BAC has clients throughout the region.

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Lazari // File Photo: Banco Bradesco.

BANKING NEWS

Nicaraguan Bank Sanctioned by U.S. Shuts Down

A Nicaraguan bank with ties to President Daniel Ortega's government has shut down as a result of sanctions imposed by the administration of U.S. President Donald Trump for alleged financial misdeeds on behalf of Venezuelan state

Ortega // File Photo: Nicaraguan Government.

oil company PDVSA, the Associated Press reported April 25. Bancorp had requested permission from Nicaragua's banking regulator for "early voluntary dissolution," saying that the "bank is unable to continue doing business due to the sanction," according to a letter dated April 22 and signed by Luis Bárcenas, Bancorp's legal representative, Reuters reported. Eduardo Holmann Chamorro, one of the bank's three directors, told the AP on April 24 that the regulator had accepted the request. "Unfortunately, Bancorp disappears, and 106 employees are out in the street," Holmann said, adding that the bank is solvent and deposits would be returned to its clients. U.S. National Security Advisor John Bolton had previously announced new sanctions against Bancorp, calling it a "slush fund" for Ortega, as well as sanctions on the president's son, Laureano Ortega, for "vast corruption," Reuters reported. The U.S. administration had already sanctioned the bank for its links to Venezuela. Bancorp was founded in 2014 as a subsidiary of Alba de Nicaragua, or Albanisa, a consortium managed by Ortega loyalists created through an oil agreement between Venezuela and Nicaragua seven years earlier, the AP reported. PDVSA holds a 51 percent stake in Albanisa, while Nicaragua's state oil company Petronic owns the remaining 49 percent. [Editor's note: See related Q&A in the May 3 issue of the daily Latin America Advisor.]

Brazil's Bradesco Buying BAC Florida Bank for $500 Million

Banco Bradesco is paying approximately $500 million to buy BAC Florida Bank as part of the Brazilian bank's first-ever international acquisition, it said in a statement May 6. Headquartered in Coral Gables, BAC Florida is controlled by Grupo Pellas, a Nicaraguan conglomerate with operations in 10 countries. As of last December, the bank posted total assets of $2.2 billion and a net income of $29 million, according to the statement. The acquisition will allow Bradesco to expand its offering of investments in the United States, as well as other banking services, including checking account, credit card and real estate financing. "Expanding our product and service offerings through BAC Florida is a way of being the preferred wealth management bank for our clients, who have increasingly demanded more diversification and greater access to global solutions," Octavio de Lazari, Bradesco's chief executive officer, said in the statement. With the acquisition, Bradesco will expand not only in the United States, but also in Latin America, "as BAC has clients all over the region," he added. Roughly 20 percent of BAC Florida's clients are Brazilian, and 9 percent are American, Reuters reported. BAC will add 10,000 customers to Bradesco's 13,000 private banking clients in Brazil. "This

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> **— Octavio de Lazari**

NEWS BRIEFS

HSBC Reports Higher Revenues From Latin America, Beats Estimates

Global banking giant HSBC reported first-quarter earnings May 3 that beat market expectations, in part due to increased revenues from Latin America, CNBC reported. The bank said its profit before tax in the first quarter was $6.21 billion overall, a 30.7 percent jump from last year's $4.75 billion. Adjusted profit from Latin America rose to $387 million in the quarter ending March 31, up from $148 million the quarter before, which was helped by a disposal gain of $24 million in the region.

Banco Santander Chile Posts $184.5 Mn in Profit, Misses Analysts' Estimates

Banco Santander Chile posted a profit of $184.5 million in the first quarter of this year, the bank said, the Associated Press reported May 1. With earnings of 39 cents per share, the results did not meet the expectations of Wall Street analysts, whose average estimate was 49 cents per share, according to a survey by Zacks Investment Research. Its revenue net of interest expense, at $643.3 million, also missed forecasts. The bank's shares have fallen 7 percent since the beginning of the year.

Latin America Contributes Bigger Share of Profits for Spain's Santander

Spain-based Banco Santander said April 29 that its operations in the Americas, including the United States, contributed 52 percent of underlying profit in the first quarter of the year, the most since 2013, Bloomberg News reported. Despite higher expenses in Argentina, the bank saw stronger growth elsewhere in Latin America, especially Mexico. Santander said it will increase investment in its Latin America business to 30 percent of risk-weighted assets.

acquisition is small for Bradesco … and tends to help the bank to reduce the gap of its private banking business," Itaú BBA said in a note to clients, the wire service reported.

CREDIT CARD NEWS

Itaú Sees Continued Competition Among Card Processors

The chief executive of Brazil's Itaú Unibanco said on May 3 that there is no sign that competition among card processors in the country will cool down, Reuters reported. Candido Bracher, who has led Brazil's largest private lender since 2017, said Itaú reduced this year's targets for fee income and financial margins with clients following a decision by its card processor, Rede, to stop charging interest rates to advance payments for merchants who use its machines and to pay them in two days instead of the usual 30-day period, the wire service reported. Other Brazilian card processors have pushed back against Rede's move, announcing new offers for small and mid-sized merchants. "We maintain our call that the aggressive pricing strategy adopted by Rede will have a negative effect on banking fees in the short term, while in the medium-to-long term, it should increase the banking franchise's cross-sell opportunities," analysts at Banco Santander said in a note to clients, Reuters reported. Bracher said the revised targets are unlikely to change Itaú's profit this year, as the bank also reduced estimates for operating expenses growth to between 3 percent and 6 percent, down from between 5 percent and 8 percent. The downcast follows slower-than-expected economic recovery in Brazil.

Other Brazilian card processors have pushed back against Rede's move.

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not conform to a model of perfect competition. The Brazilian monetary council and central bank have already established differentiated and lighter regulatory requirements for smaller banks, credit cooperatives and fintechs, as compared with large banks. For instance, the number of fintechs operating in Brazil has been growing 103 percent per year on average since August 2015. It is quite important for financial stability that companies' competitive advantages derive from their intrinsic qualities and innovation, and not simply from policies to protect newcomers. Competition based on regulatory arbitrage may bring short-term gains but can become a source of problems in the medium and long terms. Market access for new entrants is already fair and has been growing fast. However, measures such as reductions in the cost of financial intermediation and in the cost of doing business—which are very high in Brazil—would be important drivers to benefit new entrants, incumbents and their customers through lower prices."

A **Marcello Vieira de Mello, Brazil-based partner of Diaz, Reus & Targ:** "Eighty percent of loans to individuals and companies in Brazil are made by five banks, two of which are government-controlled, Caixa and Banco do Brasil. Three are private conglomerates, Itaú, Bradesco and Santander. Of every 100 bank local branches in the country, 75 belong to one of those banks. Because of this, even though the Brazilian central bank has been systematically lowering interest rates, the taxes for those who seek financing are still very high. In the 1990s, President Fernando Henrique Cardoso's economic team set strong banking regulation, with close central bank supervision, as one of its priorities. This prevented the need for a government bailout during the worldwide crisis in 2008. However, it also prevented smaller players from entering the market. And with a wave of mergers and acquisitions during the last decade, competition deteriorated. The worst aspect is that the five big players control not only the banks themselves, but also the whole financial sector, including credit cards, insurance and private pensions. Brazil must either rethink its regulations, knowing that such a move might destabilize the market, or keep the market highly concentrated as it is now. The emergence of the so-called fintechs gave hope that this landscape could change, but the big banks are already doing what is necessary to keep their dominant position, either buying these smaller companies or adopting anticompetitive practices against the newcomers. For the fintechs to survive, the Brazilian government needs to review federal regulations, creating a less-hostile environment in favor of companies that offer financial services based on technology, and Cade, the Brazilian antitrust agency, must be vigilant so that they don't become easy targets for the 'big five.' "

A **Claudio Gallina, senior director and head for South America and the Caribbean in the financial institutions group at Fitch Ratings:** "The Brazilian financial system is concentrated, with the five largest banks representing around 68 percent of the system's total assets. Such concentration, however, is not exclusive to the Brazilian financial sector. Banking sectors are also concentrated in Mexico, Colombia and Chile. In general, we consider the entry of new agents to the Brazilian financial system as positive, as it keeps the system dynamic (allowing new ideas, products and experiences) and can reduce transaction and credit costs for customers. The Brazilian government has already adopted important measures to encourage competition in Brazil. For example, it segmented financial institutions into five groups, allowing the regulatory costs of each agent to be compatible with its activity, size and relevance within the financial system, which, in turn, benefits new entrants. In addition, the regulator already

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ECONOMIC NEWS

Mexican Government Eyes Tax Deal With Technology Platforms

The Mexican government is planning to announce the rollout of a landmark tax deal with technology platforms in the coming weeks, a top official said May 6, Bloomberg News reported. Deputy Finance Minister Arturo Herrera confirmed the news but declined to provide any details on the plan. Mexico has been looking for ways to strengthen its tax collection, which fares the worst among members of the Organization for Economic Cooperation and Development, or OECD, according to the report. The previous administration of Enrique Peña Nieto had reportedly struck a deal with Uber in which the platform would withhold taxes from partners who gain income from both its ride-hailing and food delivery services, as well as with Netflix to impose a sales tax on users. Airbnb reportedly left talks on an agreement that would have required the home-sharing website to collect income tax from its hosts, Bloomberg News reported. Although global consensus remains elusive on whether and how to tax businesses with a digital footprint but no physical presence in a jurisdiction, several Latin American countries have implemented or are discussing digital tax proposals. [Editor's note: See related **Q&A** in the March 27 issue of the daily Latin America Advisor.]

First Lawsuits Filed Over Expropriated Property in Cuba

The first of an expected avalanche of lawsuits from U.S. citizens against companies doing business in Cuba was filed May 2, as a new U.S. policy took effect allowing claims on property confiscated by the Castro regime, The Wall Street Journal reported. The filings in the U.S. District Court in Miami targeted cruise ship operator Carnival Corp. Javier

IN FOCUS

Ecuador Needs Stronger State Institutions, Better Technology Use to Create Jobs: Lasso

By Gene Kuleta

WASHINGTON—Businessman Guillermo Lasso, who for the third time is seeking Ecuador's presidency, said May 2 during a visit to the United States that his main goals if elected in 2021 would include strengthening government institutions, boosting confidence in the economy and using new technologies in order to attract investment and create jobs.

"The best social policy is one that creates jobs," Lasso told the Latin America Advisor in an interview. "This is only possible if you create an ecosystem that allows for local investment, international investment and that generates jobs."


Lasso // Photo: Anastasia Chacón González, Latin America Advisor.

But Lasso said bringing more investment into the country requires stronger state institutions. "It requires an independent justice system, it requires regulatory bodies that work well," he said. "And it also requires an understanding that in a global world, international businesses require mechanisms and arbitration outside Ecuador." Lasso, who unsuccessfully ran twice before for president—against then-President Rafael Correa in 2013 and against current President Lenín Moreno in 2017—blasted Correa for pulling Ecuador out of international investment treaties and withdrawing from investor dispute-resolution mechanisms.

Lasso added that if elected, he would also focus on digitizing many government services, allowing citizens to perform more tasks online, such as acquiring national identity cards, registering vehicles, obtaining birth certificates and applying for passports. In addition, Lasso said he wants to focus on modernizing the economy through the use of advancing technologies in order to create jobs. "Employment today is in a process of change with new technologies, with artificial intelligence, with robotics," he said. "We have to understand how to customize all of this in Ecuador in order to achieve prosperity for all Ecuadoreans."

In addition to visiting Washington, where he met with Inter-American Development Bank President Luis Alberto Moreno and officials on Capitol Hill to discuss topics including economic and trade relations between the two countries, Lasso also visited Miami, where he met with officials of a technology incubator.

During a week when Venezuelan opposition leader Juan Guaidó called for a military uprising against President Nicolás Maduro's government, Lasso lauded Guaidó, saying he has "great courage, great patriotism, great decisions" and is working to bring about change in Venezuela. Ecuador, the United States and dozens of other countries have recognized Guaidó as Venezuela's acting president. Lasso said he wants to see Ecuador join the Lima Group, the body of 14 Western Hemisphere nations that is calling for a peaceful exit to Venezuela's crisis.

NEWS BRIEFS

Argentina's Industrial Output Falls 13.4% in March: Statistics Agency

Argentina's industrial production declined 13.4 percent in March as compared to the same month last year, the government's statistics agency, Indec, said May 6, Reuters reported. Output fell more than expected, and the decline was the 11th consecutive month of falling production since a debt crisis, a falling peso and steep inflation hit the country's economy last year. [Editor's note: See **Q&A** on Argentina's economy in the April 15 issue of the daily Latin America Advisor.]

Chile's Piñera Cancels Europe Trip Following Nepotism Accusations

Chilean President Sebastián Piñera has canceled a trip to Germany and the Netherlands that was scheduled to start May 12, government sources said May 6, saying he had chosen to prioritize his local agenda, EFE reported. Piñera was recently accused of nepotism after two of his children traveled with him during a state visit to China and South Korea last month. The president has said the family paid for the expenses.

Ninety Cuban Migrants Escape Mexico Detention Facility

Ninety Cubans escaped the Siglo XXI migrant detention center in Tapachula, a town in Mexico's southern Chiapas State, in the early hours of May 5, the National Migration Institute said, the Associated Press reported. It was the second such incident at the overcrowded center in recent weeks as migrants on their way to the United States grow frustrated with the slow processing of arrivals at Mexico's southern border. More than 600 Cubans broke out of the facility in late April, and Mexico in recent days sent 170 Cubans home.

Garcia-Bengochea, of Jacksonville, Fla., is seeking redress for his family's 82.5 percent stake in commercial waterfront property in the port of Santiago de Cuba, which the Cuban government confiscated in 1960, and Mickael Behn, based in Lexington, Ky., filed his suit over property he said Castro expropriated and Carnival used for embarking and disembarking its passengers in Havana, according to the report. In April, U.S. President Donald Trump followed through on pledges to end a two-decade-old waiver on provisions of the 1996 Helms-Burton Act, in a bid to add more economic pressure on the struggling Communist island nation, which has been seeking billions of dollars in foreign investment. The Justice Department has certified nearly 6,000 claims for property confiscated in Cuba holding a value, with interest, of roughly $8 billion. Officials in the European Union and Canada vowed to oppose the change in U.S. policy, potentially through the World Trade Organization. George Fowler, one of Carnival's attorneys and vice chairman of the Cuban-American National Foundation, told the Miami Herald that the lawsuits would go nowhere because the Helms-Burton law excludes liabilities for commercial activities related to authorized travel to Cuba. [Editor's note: See related **Q&A** in the March 18 issue of the daily Latin America Advisor.]

POLITICAL NEWS

Opposition Expected More Support From Military: Guaidó

Venezuela's opposition overestimated the military support it could gather for an uprising against the government of President Nicolás Maduro, opposition leader and National Assembly head Juan Guaidó told The Washington Post in an interview published May 4. Guaidó had expected his call for rank and file and senior members to abandon Maduro on April 30 to produce mass defections within the military. Instead, pro- and anti-government protesters clashed on the streets, leaving more than 100 people injured, without any major military defections, CNN reported, citing the independent Venezuelan Observatory of Social Conflict. "Maybe because we still need more soldiers, and maybe we need more officials of the regime to be willing to support it, to back the Constitution," Guaidó said, The Washington Post reported. Adding, "I think the variables are obvious at this point." Guaidó, whom the United States and dozens of other countries recognize as Venezuela's interim president, did not rule out allowing U.S. military involvement in Venezuela. However, he also said he would not support unilateral U.S. military action, saying any involvement by U.S. troops would have to be alongside Venezuelan forces who have turned against Maduro. He added that if the U.S. government offered its help in an intervention, Guaidó would bring the matter to the country's National Assembly for a vote. The opposition leader said he welcomed the United States' recent deliberations on military options, saying it was "great news" for Venezuela. "It's good to know that important allies like the U.S. are also evaluating the option," he said. "That gives us the possibility that if we need cooperation, we know we can get it."

Cortizo Declared Winner of Panama's Presidential Election

In a tight race, businessman Laurentino Cortizo of the center-left Democratic Revolutionary Party was declared the winner of Panama's May 5 election, defeating Rómulo Roux of the conservative Democratic Change party of former President Ricardo Martinelli, the Associated Press reported. Both candidates have been seen as business-friendly, and neither has been expected to make major changes to the country's current economic policy. Cortizo had 33 percent of the vote, while Roux garnered 31 percent. Electoral court magistrate Heriberto Araúz telephoned Cortizo to tell him he was the "virtual winner." Cortizo told the magistrate, "With humility I receive the announcement, which is important for the country," the AP reported.

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allows some fintechs to lend in Brazil under specific conditions. We also understand that a rapid, large and unregulated opening could lead to highly leveraged growth, in addition to other risks such as shadow banking and cyber risks, which would have wider consequences. Extreme and radical changes could undermine both local and foreign investors' confidence about the Brazilian legal framework, not only with respect to the financial sector, but also in detriment to future investments. Fitch's outlook for the Brazilian banking operating environment is stable, and its regulation is one of the most advanced and robust in Latin America. Brazil is member of the Financial Stability Board and has fully implemented Basel III rules."

A Cynthia Cohen Freue, senior director and sector lead for financial institutions ratings at S&P Global: "Fintech companies, with simple products and lower banking service costs, but also a trendy marketing campaign aimed at a younger crowd, have the potential to reshape the banking industry in Brazil. The fintech business is shaking the pillars of traditional banking, but the increasing competition from digital players can also provide advantages to banks through partnerships with fintech start-ups, which could lead to lower costs, low redundancy, solid technical know-how and increased efficiency. This could help reduce the cost of credit. Moreover, the fintech business has the potential to foster financial inclusion. Last year, Brazil's central bank introduced regulations to allow fintech companies to broaden their product offerings by allowing them to extend credit directly to borrowers without the intermediation of banks. Moreover, fintech companies with narrow product offering and low complexity have softer regulatory requirements to reduce barriers to entry and allow further competition. So far, fintechs have mainly focused on products that banks do not concentrate on, or on products where there is perception of poor service quality or excessive fees, such as credit card processing services to small businesses. Fintechs still face significant challenges to compete with larger players, as they don't access the low-cost funding sources that larger banks have. In addition, customers typically build a long-term relationship with their banks. Major concerns among bank clients are over payment transfers, data confidentiality and controls to avoid fraud. Customers have yet to start changing banks frequently, because clients don't view lenders as easily replaceable as digital providers. However, we believe a shift could occur as the new legal framework eases banking mobility while the younger generation is more open to the change. With that in mind, fintechs' strategy is to provide high-quality services at a competitive cost. But given that they don't typically offer the full range of traditional banking products and services, they need to convince clients of the value of their currently narrow range of offerings. This is why the fintech business has not yet expanded as quickly as its potential may suggest."

> **"The fintech business is shaking the pillars of traditional banking..."**
> — Cynthia Cohen Freue

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

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