LATIN AMERICA ADVISOR

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

November 17-30, 2022

FEATURED Q&A

Would Boric's Plan Strengthen Chile's Pension System?

Chilean President Gabriel Boric this month unveiled his proposal to reform Chile's pension system. // Photo: Chilean Government.

Q **Chilean President Gabriel Boric on Nov. 2 unveiled his long-planned proposed reform of the country's pension system. If lawmakers approve it, the reform would do away with the country's existing private pension managers, known as AFPs, and would also require employers to pay an additional 6 percent of their workers' wages to a publicly run social security system. How likely is the reform to win congressional approval, and what changes might lawmakers make to it? What are the most significant problems in Chile's existing pension system, and to what extent would Boric's reforms solve them? What are the biggest changes that current and future retirees would experience if the reforms win approval?**

A **Alejandra Cox, president of AAFP Chile:** "The bill that has just entered Congress would establish a new mandatory contribution to be allocated to a collective solidarity fund. This is a fundamental change to the existing system in which mandatory contributions have gone entirely to individual accounts, and where solidarity has been financed by general taxes. Moreover, if the bill is approved, the collection, account management, members care, and pensioners care would be centralized in a public body. The AFPs, which have been responsible for these functions by legal mandate for more than 40 years, would cease to exist. The centralization of the system contributes to monopolizing the administration of funds and is unlikely to lead to cost savings, as the government has suggested. A new autonomous public fund manager would administer the collective solidarity fund and compete with new private investors for the financial management of indi-

Continued on page 3

TOP NEWS

BANKING

Banca Mifel Leading Investors in Banamex Bid

Mexico's Banca Mifel is leading an investors' group and seeking financing for an effort to make a bid for Banamex, Citigroup's retail unit in Mexico.

Page 2

FINANCIAL TECHNOLOGY

Tigo Money Signs Deal With Visa

Tigo Money, the fintech unit of Luxembourg-based telecommunications service provider Millicom, announced that it will work with payment processor Visa to expand access to digital financial services across Latin America.

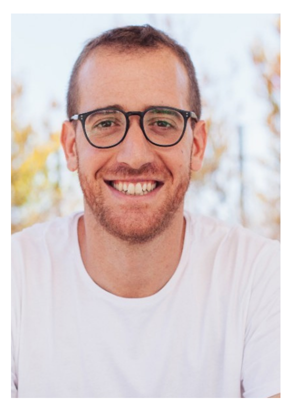
Page 2

FINANCIAL TECHNOLOGY

Uruguay's dLocal Posts Third-Quarter Profit of $32.3 Million

Uruguay-based payments firm dLocal posted net profit of $32.5 million for the third quarter. CEO Sebastián Kanovich said diversification has helped to drive the company's growth.

Page 3



Kanovich // File Photo: LinkedIn Profile of Sebastián Kanovich.

BANKING NEWS

Banca Mifel Leading Investors in Bid for Banamex: Report

Mexico's Banca Mifel is leading an investors' group and seeking $2 billion in financing in an effort to make a bid for Banamex, Citigroup's retail unit in Mexico, Bloomberg News reported Nov. 28. Apollo Global Management and the Abu Dhabi Investment Authority, or ADIA, are among the investors working with Banca Mifel on the bid, Reuters reported, citing

López Obrador // File Photo: Mexican Government.

two sources familiar with the matter. HSBC Holdings, Bank of America, Banco Bilbao Vizcaya Argentaria and Banco Santander are in discussions with the group on financing the planned bid, Bloomberg News reported, citing unnamed sources familiar with the talks. The group already has enough funding in place to support the bid, Reuters reported. Banca Mifel also has backing from Mexican investors including the family trust that controls Fibra Uno, the largest real estate investment trust in Mexico, Bloomberg News reported. Private-equity fund Advent International, which already owns a stake in Banca Mifel, also is reportedly backing the bid. Mifel is a small bank in Mexico that has less than 1 percent of the country's total banking assets. The competition to buy Banamex has only one other potential bidder, billionaire Germán Larrea's Grupo México conglomerate, Reuters reported. Billionaire Carlos Slim's Grupo Inbursa had been a contender for buying Banamex but withdrew last week. The number of potential bidders has dwindled amid conditions that Mexican President Andrés Manuel López Obrador has imposed, including that Banamex's new owners do not carry out mass firings. López Obrador has also insisted that the new buyers be Mexican. Grupo Financiero In addition, Banorte unexpectedly withdrew last month.

FINANCIAL TECHNOLOGY NEWS

Tigo Money Signs Deal With Visa

Tigo Money, the fintech unit of Luxembourg-based telecommunications service provider Millicom, on Nov. 22 announced that it has agreed to work with payments provider Visa to expand access to digital financial services across Latin America. Under the agreement, consumers will have access to a Tigo Money Visa card free of charge via a mobile app. Millicom says there are five million Tigo Money users across the region, and the Visa service does not require a physical card. "While most countries in our region continue to operate in a cash-based economy, with accessible digital solutions such as the Tigo

Millicom says there are five million Tigo Money users across the region.

Money Visa card, we are bridging the gap and responding to the needs of the financially and digitally excluded sectors," Visa's regional president, Eduardo Coello, said in a statement. The service will also feature a contactless payment option, allowing users to "tap" to pay for day-to-day activities, such as taking public transportation or shopping where Visa cards are accepted. Visa's partnership with Tigo Money is part of the company's broader strategy of collaborating with technology companies to provide digital solutions in the pursuit of digital inclusion and to promote cashless economies, said Coello.

NEWS BRIEFS

Brazil's Banco Safra Wins Control of Grupo Alfa

Banco Safra, one of Brazil's top private banks, has prevailed in a dispute with a number of medium-sized banks for control of the Grupo Alfa financial conglomerate, EFE reported Nov. 25. Safra agreed to pay more than one billion reais ($192 million) for the group, which includes Banco Alfa, a bank with $4.6 billion in assets and a large consumer lending portfolio, according to the report. Headquartered in São Paulo, Grupo Alfa also has assets outside the banking industry, including in insurance, private pension plans, hotels, construction, agriculture, food, communications and the entertainment sectors.

Boric Sees Approval Ratings Rise Following Proposed Pension Reform

Chilean President Gabriel Boric's approval rating rose for the first time in two months, after his proposed pension reforms were sent to Congress, according to a poll released by Cadem on Nov. 13, Reuters reported. The president's approval ratings increased by 8 percentage points to 33 percent, and his disapproval rate fell by 11 percentage points to 58 percent. Boric is seeking to replace Chile's controversial Pension Fund Administrators (AFP) with a new private-public social security system.

MFS Investment Opening New Office in Montevideo

Boston-based financial firm MFS Investment Management on Nov. 21 said it is opening a new office in Montevideo, Uruguay. The office will be home to the company's sales and support staff serving the Southern Cone region. Founded in 1924, MFS has been operating in Latin America for more than 35 years. It has offices in Miami and Santiago as well as a focus on Argentina, said José Corena, the firm's managing director for the Americas.

Uruguay's DLocal Posts Third-Quarter Profit of $32.3 Million

Uruguay-based payments firm DLocal on Nov. 14 posted net profit of $32.5 million for the third quarter, a 64 percent increase as compared to the same quarter last year, the company said in a statement. DLocal said its revenue in the quarter rose 63 percent year-on-year to $111.9 million. Revenue beat an estimate of $110.1 million from Refinitiv, Reuters reported. The company reported net income of 10 cents per share, which missed the average estimate of 11 cents per share of three analysts surveyed by Zacks Investment research, the Associated Press reported. DLocal said it had solid revenue growth from both existing and new customers in the third quarter, Reuters reported. The company's adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA, rose 58 percent year-on-year to $41.62 million, beating an estimate from Refinitiv of $37.41 million, the wire service reported. "Growth has been supported by ... our business strength of continuous diversification across verticals, regions, and products," DLocal's chief executive officer, Sebastián Kanovich, said in a statement. DLocal, which was founded in 2016, is listed on the Nasdaq stock exchange and in 2020 became Uruguay's first "unicorn," a startup valued at more than $1 billion.

CONSUMER CREDIT NEWS

Brazil Credit Default Ratio Hits Highest Level Since 2018

A measure of consumer and business credit default ratios in Brazil hit its highest level last month in four years, Reuters reported Nov. 28, citing data from the country's central bank. The default ratio in non-earmarked loans rose to 4.2 percent in October from 4.1 percent in

FEATURED Q&A / Continued from page 1

vidual accounts, which would go by default to the public manager. The new contribution would be credited to notional accounts where 30 percent of each period's collection would be distributed equally across contributors. There will be additional credits to the notional accounts based on time spent on maternity and other dependents' care. The notional account would earn notional interest and be converted into an annuity, which will be added to the annuity generated by savings in the individual accounts. The proposed reform can increase pensions immediately in two ways. First, the solidarity pension, which was substantially improved in early 2022, would be further augmented. Second, the solidarity fund would finance immediate improvements to contributory pensions. Discussions on the reform proposal are starting. Immediate benefits are noted, but concerns are being raised on issues that include its effect on formal employment, the key to strengthen contributory pensions, implementation costs and risks, and the conditions under which the solidarity fund can combine sustainability and pension improvements for the young."

A **Kathleen C. Barclay, director of AmCham Chile:** "President Boric's proposal will not be approved as currently drafted given the governing coalition's minority in Congress. The first step will be to review the assumptions behind the government's proposal to confirm its positive forecasts regarding employment, pension size and coverage. Additionally, analysis will be required on how the recently approved minimum guaranteed universal pension will work in the context of the government's proposal. Issues for discussion include the advisability of turning over management of the administration of the pension system to the government, what percentage of the additional 6 percent will be used for redistributive purposes, the timeframe and mechanisms for transition to the new system, as well as proposals on by whom and how the funds will be invested. The changes need careful evaluation and have implications for workers, capital markets and foreign investment. Challenges facing the current system including the need to raise the retirement age, a larger increase in individual contributions and increasing the number of participants in the system. Today, there are high levels of informality in the work force and a lack of individual contributions by many self-employed workers, and those aspects are not addressed in the government's proposal. Without addressing these points, it is unlikely that there will be a general increase in pensions. Overall, the main outcome of the government's proposal is redistribution with a central role for the state in pension administration and management, as well as more active government involvement in the investment of pension fund monies."

> **"President Boric's proposal will not be approved as currently drafted given the governing coalition's minority in Congress."**
> — Kathleen C. Barclay

A **Jennifer Pribble, associate professor of political science and global studies at the University of Richmond:** "Chile's pension system faces multiple challenges, but chief among them is that most workers do not save enough to finance a pension that will sustain them during retirement. While the state supplements private savings with a minimum pension, the value of that benefit is small, and many find it insufficient to cover even the most basic costs of living. Chile's private system also replicates labor market inequalities, allowing high-income earners with a steady employment record to secure

Continued on page 6

September, the highest level since the 4.22 percent that was recorded in August 2018. The rise in the default rate as the central bank has aggressively increased interest rates in an effort to curb high inflation. The benchmark Selic interest rate currently stands at 13.75 percent following a series of rate hikes. It was at a record low of 2 percent in March 2021. Also in October, Brazil's bank lending spreads rose to 30.3 percent as compared to 28.6 percent in September. The central bank recently said it is increasingly concerned that lower levels of economic activity could have adverse effects on credit risk in Latin America's largest economy. Consumers' ability to repay loans has worsened even as the economy and the labor market have shown signs of improvement, the central bank said, Reuters reported. Outstanding loans in Brazil grew 1 percent in October as compared to the previous month to 5.215 trillion reais ($964.1 billion). The central bank is forecasting credit growth of 14.2 percent this year. Brazilian President-elect Luiz Inácio Lula da Silva, who takes office Jan. 1, will likely push the country's government-run banks to increase lending, Alexandre Albuquerque, vice president and senior analyst at Moody's América Latina in São Paulo, told the Financial Services Advisor in a **Q&A** published Nov. 16. "Despite that, government banks have more solid financial fundamentals than in 2014-2016, easing any short-term solvency risks," he said.

ADVISOR Q&A

What Would AMLO's Electoral Reforms Mean for Mexico?

Q Tens of thousands of protesters gathered in cities across Mexico on Nov. 13 to protest President Andrés Manuel López Obrador's proposed reform of the country's election system. Two weeks later, tens of thousands of López Obrador's backers marched with him in Mexico City on Nov. 27 in support of the president. The electoral reforms seek to replace the National Electoral Institute (INE) with a new agency whose members would be voted in by the public, from a pre-selected list by Congress, the president and the Supreme Court. How likely is the legislation to pass? What are the most significant changes of the proposed reform, and why has it become so controversial?

A Lorena Becerra Mizuno, political analyst at Grupo Reforma: "President López Obrador's proposed electoral reform signifies a radical change to the country's modern electoral system. It represents an alarming attempt to undermine the strength and independence of the electoral referee, which has maintained exemplary autonomy from political influence and has conducted elections in a transparent, independent and homogeneous manner countrywide since 1997. The National Electoral Institute currently has an approval rating of 76 percent nationwide. Eighty-four percent do not wish to see the agency replaced by a new one, 71 percent say its disappearance would pose a threat to democracy, and 77 percent anticipate increased uncertainty in upcoming elections under this scenario. With such an important endorsement from public opinion, it is no surprise to see massive protests across the country that have pressured parties that have seemed to be wavering, such as the Institutional Revolutionary Party (PRI), to reject it. The president has recently acknowledged that the reform is unlikely to pass in Congress because his party and its allies do not hold the constitutional majority for it to advance. However, he is now trying to push forward secondary laws that may be in violation of the Constitution but that only require a simple majority to be approved, seeking to weaken the electoral institute in any possible way. Under the banner of austerity and anticorruption, López Obrador seems to be determined to move against the majority sentiment in order to ensure that his party can control future electoral processes."

EDITOR'S NOTE: More commentary on this topic appears in the Nov. 29 issue of the Latin America Advisor.

POLITICAL NEWS

Colombia to Launch Offensive Against Armed Groups

Colombia's government will launch a new military operation against illegal armed groups that are active in the country's border areas, Interior Minister Alfonso Prada said Nov. 28, Reuters reported. At the same time, the government will be seeking more help from neighboring countries as it cracks down on the criminal activity, Prada added. "We have established contact with the countries on the border, because we noticed activity on the border that we are going to combat with our forces, but also with the international collaboration of Ecuador, Brazil, Peru, Venezuela and Panama," Prada told reporters in Bogotá, the wire service reported. Colombia is seeking to confront armed groups that have international operations and focus on various illegal activities, the interior minister added. Six platoons, each comprised of 400 members, will be deployed to southern Colombia, said Prada. Fighting in that part of Colombia between dissident factions of the former Revolutionary Armed Forces of Colombia, or FARC, recently left 18 people dead, Reuters reported. Large-scale crops of coca, which is used to produce cocaine, in addition to laboratories for producing the drug, have recently been found along Colombia's borders, according to security sources, Reuters reported. Illegal armed groups that are connected to Mexican drug cartels are also reportedly active in the area. Colombian

NEWS BRIEFS

Honduras Finalizing Talks With U.N. on Anti-Graft Mission: President

Honduras will soon conclude negotiations with the United Nations over the creation of an international mission to fight corruption in the country, President Xiomara Castro said Nov. 28, Reuters reported. The ongoing negotiations began in May, and experts say graft in the country has aggravated poverty and violence, while bolstering emigration.

Ecuador Nearly Doubles Number of Prison Guards in Effort to Quell Violence

Ecuador's government on Nov. 28 nearly doubled the number of prison guards in the country in an effort to quell violence that has left some 400 people dead since last year in a series of prison riots, Agence France-Presse reported. Authorities are adding 1,461 more guards, who will join the current contingent of approximately 1,500. "We are almost doubling the human resources needed for the professional, serious, and technical management of all of Ecuador's detention centers," said President Guillermo Lasso. [Editor's note: See related **Q&A** in the Oct. 18 issue of the Advisor.]

Business Confidence in Brazil Falls to Lowest Level Since 2020

A measure of business confidence in Brazil fell in November to its lowest point since July 2020, according to data released Nov. 28 by the Fundação Getulio Vargas. The Industry Confidence Index fell 3.6 points in November to 92.1 points. "There is a worsening of expectations for the coming months, possibly related to a predicted global slowdown and an uncertain Brazilian economic scenario for the beginning of next year," said Stéfano Pacini, an economist at the foundation.

President Gustavo Petro, who took office in August, recently relaunched peace talks with the National Liberation Army, or ELN, rebels. "Negotiations with the ELN will be an early test for the government," Douglas M. Fraser, a former commander of the U.S. Southern Command, told the daily Latin America Advisor in a **Q&A** published Aug. 31. "Previous talks were difficult and were ultimately suspended. Future talks will also be difficult, largely due to the loose organization of the ELN. In addition, even if an agreement can be reached, as happened during implementation of the peace accord with the FARC, many ELN members may decide not to follow the guidelines of a future accord," Fraser added.

Mexican President Draws Large Crowd of Supporters in Rally

Hundreds of thousands of citizens marched in Mexico City on Nov. 27 in a show of support for President Andrés Manuel López Obrador, the Associated Press reported. Dubbed the "people's march," the rally was intended as a response to a large opposition march two weeks ago to protest López Obrador's proposal to reform the country's election authority, INE. Many participants traveled from rural states in trips organized by the ruling Morena party, unions and social groups that support the leftist López Obrador. Critics accused the government of using public money for the rally, although the president said that no federal funds went into the march. Meanwhile, a poll released Nov. 28 by Buendía & Márquez for newspaper El Universal found that 64 percent of Mexicans approve of the job that López Obrador is doing, now four years into his six-year term. The survey also showed that three out of four people have a good or very good opinion of the country's electoral institute, while only 18 percent evaluate it negatively. When respondents were asked what the best thing the president has done is, a majority, 56 percent, answered something related to his social policy. In related news, López Obrador on Nov. 25 indicated that U.S. President Joe Biden will visit the country in early January for the North American Leaders' Summit in Mexico City. The meeting, which had been slated for December, could take place Jan. 9 or 10, according to The Hill.

López Obrádor // Photo: Mexican Government.

ECONOMIC NEWS

U.S. Eyes Action Over Mexico's Planned Corn Export Ban

The U.S. government on Nov. 28 threatened legal action over Mexican President Andrés Manuel López Obrador's plan to prohibit exports of genetically modified corn beginning in 2024, Reuters reported. "I emphasized in no uncertain terms that—absent acceptable resolution of the issue—the U.S. government would be forced to consider all options, including taking formal steps to enforce our legal rights under the USMCA," U.S. Agriculture Secretary Tom Vilsack said in a statement after meeting with López Obrador in Mexico City. The proposed ban would reportedly cut Mexico's imports of U.S. yellow corn in half. Such a move "would cause both massive economic losses for Mexico's agricultural industries and citizens, as well as place an unjustified burden on U.S. farmers," Vilsack added. Supporters of the ban argue that it is needed in order to protect Mexico's native varieties of corn from contamination. Devry Boughner Vorwerk, a former global head of corporate affairs at U.S.-based global food corporation Cargill, told the daily Latin America Advisor in a **Q&A** published Nov. 21 that such a ban would violate Mexico's trade commitments.

FEATURED Q&A / Continued from page 3

sizable and livable pensions, while lower-income workers, women and those employed in the informal sector are left with meager benefits. This aggravates inequality and more recently has contributed to social and political upheaval. Chile's current pension system also leaves private fund administrators, AFPs, relatively unregulated, allowing for high administrative costs that eat away at workers' savings. Boric's proposed reform would address some of these problems by increasing contributions to workers' accounts and by building a slightly more robust and redistributive public system. Moreover, the elimination of AFPs, and their replacement with new private investment managers, opens the way for a stronger regulatory framework and the introduction of competition from a public provider. Though the reform enjoys public support, Boric faces an uphill battle to pass the initiative. The president has low approval ratings. Moreover, the country's political parties have grown increasingly weak and undisciplined in the wake of the 2019 social explosion. This, alongside a fragmented Congress, makes negotiation—a crucial element of a successful reform—very difficult."

A **Jorge Heine, research professor at the Frederick S. Pardee School of Global Studies at Boston University and a former cabinet minister in the Chilean government:** "On the face of it, approval of the government's pension reform bill should be a no-brainer. The Chilean pension system, 72 percent of whose pensions are below the minimum wage, has long been a contentious issue. Its reform was one of the key demands of the Oct. 18, 2019 social uprising. Today, 56 percent of Chileans are in favor of abolishing the private pension administrators (AFPs), which is exactly what the government's bill proposes to do. It also proposes an eminently sensible 6 percent contribution by the employers (who today contribute nothing). Another measure, like splitting the administration of retirement accounts from the financial management of the pension funds, is the prudent thing to do. Far from moving to an all-out pay-as-you-go system, the bill keeps the current individual retirement accounts. Over time, pensions would increase by 46 percent for men and 52 per cent for women if the bill was approved. Yet, the government does not have a majority in Congress. Also, the defeat of the new constitution on Sept. 4 left the president weakened, and prospects for the bill are uncertain. Emboldened by its victory last September, the right is unlikely to compromise on what it considers to be a signal achievement of military rule: the dismantling of the Chilean welfare state. Much as abolishing the AFPs is emblematic for the ruling coalition, defending their existence and the profit motive in the pension system is red meat for the right. Boric is in for a tough fight."

> **"Boric is in for a tough fight."**
> **— Jorge Heine**

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

FINANCIAL SERVICES ADVISOR
is published biweekly by the
Inter-American Dialogue ISSN 2163-7962

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Financial Services Advisor is published biweekly, with the exception of major holidays, by the Inter-American Dialogue at
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