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FEATURED Q&A

Does Mexico Need Changes to its Card Processing Market?



Mexico's Federal Economic Competition Commission last month recommended changes that would affect the country's card payment processing market. // File Photo: Unsplash.com.

Q Mexico's Federal Economic Competition Commission, or Cofece, announced last month that it had identified barriers to competition and free-market access in the card payment processing services market. The conditions contribute to the exclusion of vulnerable groups and that of small and medium-sized companies from the formal financial system because they are unable to pay high fees, the agency said. In response, Cofece recommended that Mexico's central bank take actions that include establishing new rules to mitigate the risks of collusion among banks and also modifying the formula for determining interchange fees. How high are the barriers to competition in card payment processing in Mexico? How are financially vulnerable groups and small businesses affected by the current situation? What would result from the implementation of Cofece's recommendations?

A Arturo Luna, vice president and head of government engagement for Mexico at Visa: "In general, as we have seen in our global experience, any effort or public policy that aims to promote competition through the entrance of new players and that encourages innovation, security and convenience in the digital payments system, will be beneficial for all participants in the ecosystem. By benefiting financial institutions and their users, including merchants, small and medium-sized businesses, these efforts generate a positive impact in the economy. At Visa, we continue collaborating with all authorities and the different participants of the digital payments industry in Mexico to accelerate digitalization, promote acceptance, expand access

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TOP NEWS

FINANCIAL SERVICES

Mirabaud Seeking to Triple Brazil Money Under Management

Switzerland-based Mirabaud is expecting to triple the amount of money it has under management in Brazil over the next two years, said a top executive.

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FINANCIAL TECHNOLOGY

Chile's Galgo Raises \$40 Mn in Investment Round

Chilean financial technology company Galgo has raised \$40 million in an investment round led by Mexican fund Nazca.

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FINANCIAL SERVICES

Brazil's Congress Approves New Rules for Loan Guarantees

Brazil's Congress on Oct. 3 approved new rules for loan guarantees in order to lower credit costs and nonpayment risks, priorities of President Luiz Inácio Lula da Silva's administration.

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Lula // File Photo: Brazilian Government.

FINANCIAL SERVICES NEWS

Brazil's Congress Approves New Rules for Loan Guarantees

Brazil's Congress on Oct. 3 approved new rules for loan guarantees in order to help reduce the risks of nonpayment and lower the cost of credit, which have been priorities for the administration of President Luiz Inácio Lula da Silva, Bloomberg News reported. The Chamber of Deputies on Oct. 3 passed the measure, which previously won approval in the Senate, and Lula is now expected to sign it into law. Lula's administration has sought to improve access to credit in order to spur economic growth amid high interest rates, Bloomberg News reported. Finance Minister Fernando Haddad has pushed for congressional approval of loan rules, which change rules for how assets can be used as collateral. The measures also have the support of Brazil's banking sector, the news service reported. The changes allow borrowers to use the same asset as collateral for more than one loan until the total value of the loan is reached. It also streamlines the process of recovering assets in cases of default. An earlier version of the measure won approval last year during the government of then-President Jair Bolsonaro. A growing problem for banks in Brazil has been rising delinquency rates, Mario Mesquita, chief economist at Itaú Unibanco, told the Financial Services Advisor in a [Q&A](#) published Aug. 9. Nonperforming loan levels reached 3.6 percent in this year's second quarter as compared to 2.7 percent in the same quarter last year, said Mesquita, who called the rising delinquency rates "the main headwind for bank earnings."

Mirabaud Seeking to Triple Brazil Money Under Management

Switzerland-based Mirabaud is expecting to triple the amount of money that it has under management in Brazil over the next two years,

Bloomberg News reported Oct. 16, citing a company executive. The wealth manager currently oversees one billion reais (\$197 million) in the South American country, Brazil country chief Urbano de Moraes told the news service. It also manages an additional \$3.8 billion for clients in Latin America, including in Brazil, through its offshore operation, Bloomberg news reported. "We have a lot of room to grow organically," Moraes told the news service in an interview in São Paulo. Earlier this year, Nicolas Mirabaud, the Swiss firm's current managing partner and a seventh-generation member of the Mirabaud family, traveled to Brazil to meet with prospective clients, said



We have a lot of room to grow organically."

— Urbano de Moraes

Moraes. Mirabaud was founded in 1819 and manages approximately \$35 million globally. It opened its Brazil office in 2019. In January of that year, Mirabaud acquired Brazil-based money manager Galloway Gestora De Recursos, incorporating it into Mirabaud Asset Management, Pensions & Investments reported at the time. The acquisition created "Mirabaud's first physical presence in South America, in line with the group's wider strategy," Lionel Aeschli-mann, CEO of Mirabaud Asset Management and managing partner of Mirabaud Group, said at that time in a statement. "Latin America is a strategic region for Mirabaud, with our client numbers there growing steadily every year," he added. Mirabaud acquired a local license in Brazil last year and hired Moraes to lead the operation, Bloomberg News reported. Brazil's wealth management industry is growing in terms of amount of assets and number of players, the news service reported. In the first half of this year, the amount of money managed by independent wealth firms in the South American country grew 8.3 percent to 460.4 billion reais, Bloomberg News reported, citing financial and capital markets association. Earlier this year, Mirabaud raised 100 million reais

NEWS BRIEFS

IFC Providing Bradesco \$250 Million Loan for Small Businesses

The World Bank's International Finance Corporation announced Oct. 10 that it is providing Brazilian bank Bradesco with a \$250 million loan in order to increase access to financing for small businesses. The financing will focus on companies that work in creative industries in northern and northeastern Brazil, the IFC said in a statement. "The project will boost market competitiveness, help to narrow the finance gap for micro, small and medium enterprises and support Brazil's efforts towards a productivity-led economic growth," the IFC said.

Chilean Fintech Galgo Raises \$40 Million in Investment Round

Chile-based financial technology company Galgo has raised \$40 million in an investment round, Contxto reported Oct. 12. Mexican fund Nazca led the round, which also had participation by Grupo Auteco, WIND Ventures, Güil Mobility Ventures, Dalus Capital, Kayyak Ventures, Fynsa, Buena Vista Capital and Amarena VC, the website reported. With the investment, Galgo is planning to expand its operations to Chile, Peru, Colombia and Mexico. Galgo provides financing for vehicles, including cars and motorcycles.

TerraPay, Bancolombia Sign Deal on Remittances

Global payments network TerraPay and Colombian bank Bancolombia have signed a contract in order to enhance remittances services, TerraPay said in a statement Oct. 8. The companies "will enable seamless cross-border transfers, connecting Colombians living away from home with secure, innovative, real-time solutions to send funds to their loved ones in Colombia," the payments network said.

for a fixed-income fund and will start collecting money for another fund that is focused on private credit, Bloomberg News reported, citing Eric Hatusuka, Mirabaud's chief investment officer for Brazil.

FINANCIAL TECHNOLOGY NEWS

Brazil's Ebanx Able to Fund Expansion With Cash Flow: Executive

Brazilian payment firm Ebanx is able to fund its global expansion with its "positive cash generation history" and has not needed to rely on investor financing or raising money through an initial public offering, Bloomberg Línea reported Oct. 11, citing a company executive. Paula Bellizia, the president of global payments for Ebanx, told the news service that the company examines market potential and specific demands of clients in determining its



Bellizia // File Photo: LinkedIn Profile of Paula Bellizia.

expansion plans. The payment firm recently announced its plans to expand to Jamaica and the Bahamas, as well as to Ivory Coast, Egypt, Ghana, Morocco, Senegal, Tanzania, Uganda and Zambia. Ebanx is "very meticulous about each percentage point and productivity," Bellizia told Bloomberg Línea. "The payment battle is won in the day-to-day operation. That's where we aim to be competitive, to be the best payment system." Ebanx filed for an initial public offering in 2021, but the company postponed the offering amid worsening market conditions and looming higher interest rates. In June 2021, U.S. private equity firm Advent International invested \$430 million to acquire a

FEATURED Q&A / Continued from page 1

to digital payments for consumers and develop new payment technologies, promoting increased competition and the entry of new players into the market."

A **Alvaro Vertiz and Antonio Ortiz-Mena, partners at Dentons Global Advisors:** "Cofece highlighted that in Mexico, the fees paid between banks for credit card payment system operations average 1.36 percent, whereas in European nations they are only 0.2 percent, making them more than six times higher in Mexico. It concluded that, given these fees and the dominance of only two large payment system providers that benefit from the regulatory status quo, there

“**Current regulations hinder innovation and financial penetration and are particularly deleterious to small and medium-sized enterprises.**”

— Alvaro Vertiz & Antonio Ortiz-Mena

is no effective competition in card payment processing services. Current regulations hinder innovation and financial penetration and are particularly deleterious to small and medium-sized enterprises (SMEs). Cofece recommended to the central bank (Banxico) and Mexico's financial system regulator (CNBV) that they modify regulations to ensure the interoperability of card payment networks and discontinue the consensus-based setting of interchange fees to encourage competition among participants, among other actions. The implementation of Cofece's recommendations by Banxico and the CNBV has the potential to create a more competitive, inclusive and efficient card payment processing market in Mexico. This, in turn, can benefit financially vulnerable groups and SMEs by reducing costs, expanding access to finan-

cial services, stimulating economic activity and improving overall financial well-being. In the coming days, Banxico and the CNBV will need to state their position on the Cofece recommendations. U.S. authorities are also looking closely into this matter, with the U.S. trade representative raising concerns about regulatory uncertainty facing U.S. electronic payment services providers. The next steps by Banxico and CNBV will determine whether the regulatory adjustments effectively foster greater competition and are sufficient to avoid an escalation of this bilateral issue."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:**

"The card payment processing service allows customers to pay for goods or services to a merchant. These transactions begin when a consumer pays with a card through a point-of-sale (POS) terminal, through which authorization is requested from the bank that issued the card used. If the issuing bank guarantees the purchase, the business receives the corresponding amount. For this to happen, there is an electronic service that allows communication between the banks involved and payment in favor of the business (a commission is charged in each transaction). This service is offered by the so-called clearing houses. In Mexico, the market for clearing houses is a duopoly: E-Global and Prosa. The average commission paid between banks for the operation of the card payment system is 1.36 percent. This is six times higher than in Europe. But perhaps Europe should not be used as a benchmark, and we might want to look at an example in a country that is less developed. Let us consider India. The charges in India vary between 0.11 percent and 0.15 percent with an average of 0.13 percent. Thus, the charge in Mexico is 10 times as high. We might think that in India, with a population 10 times that of Mexico, the cost is low

Continued on page 6

minority stake in Ebanx. [Editor's note: See related [Q&A](#) in the May 31 issue of the Financial Services Advisor.]

ECONOMIC NEWS

U.S., Venezuela Agree on Sanctions Relief, Elections: Report

The U.S. and Venezuelan governments have reached a deal in which Washington would ease sanctions on the South American country's oil industry and Venezuelan President Nicolás Maduro would allow a competitive presidential election that is internationally monitored next year, The Washington Post reported Oct. 16, citing two unnamed people with knowledge of the talks. The sanctions relief is to be announced after Maduro's government and the country's opposition sign an agreement Oct. 17 in Barbados to allow a freer vote next year. U.S. officials are expected to be in attendance for that signing ceremony, The Washington Post reported. Maduro claimed victory in Venezuela's 2018 presidential election, which was viewed internationally as fraudulent. Under the new agreement, he would agree to a process for allowing candidates who had been banned to run, one source told the newspaper. It is unclear, however, how quickly that process would happen. If Maduro does not follow through with his commitments under the agreement, sanctions would be reimposed, the Associated Press reported, citing an unnamed source.

Mexico to Revive Railway in Effort to Attract Commerce

Mexico's government is planning to revive a railway linking the country's Pacific coastline with the Gulf of Mexico in an effort to attract container traffic away from the Panama Canal, the Financial Times reported Oct. 16. The

ADVISOR Q&A

What Will Daniel Noboa's Presidency Mean for Ecuador?

Q Daniel Noboa, a 35-year-old heir to a banana fortune, was elected Ecuador's president on Sunday, defeating Luisa González, a leftist protégé of former President Rafael Correa. With 97 percent of the ballots counted, Noboa won 52 percent of the vote, as compared to 48 percent for González, who conceded. What are the main reasons behind Noboa's victory, and which issues resonated most with voters? What can Ecuadorians expect of his presidency? How well will Noboa be able to work with the country's newly elected National Assembly?

A Julio Carrión, professor in the Department of Political Science and International Relations at the University of Delaware:

"Daniel Noboa's victory represents the half of the country that is not thrilled by the prospect of a return of correístas to power. At a time where citizen insecurity and economic issues are major concerns, this election was about change. Luisa González faced the major obstacle that many populist parties confront after ruling. The platform of returning to a (supposedly better) past does not appeal to voters who want change. Noboa is an outsider with no political experience beyond his short stint as member of the National Assembly, but he is not an

unknown figure. He is the son of a rich and prominent father who unsuccessfully ran for president five times. Daniel Noboa's youth, mild-mannered demeanor and lack of strong ideological definition offered voters a respite from the highly polarized Ecuador during and after the Correa years. Noboa, however, faces enormous challenges. His term is only 18 months, and very soon he will have to decide whether to run for re-election. He needs quick policy successes, but it is hard to see where he can achieve them. Fighting organized crime and improving citizen security with a weak state is a tall order. Delivering on his promises of more jobs seems out of reach with a sluggish economy that is expected to grow by only 1.4 percent in 2023, according to the IMF. Finally, there is the hard political reality of power distribution in the National Assembly where correístas hold almost 40 percent of the seats, and the rest are highly fragmented. Knitting together a workable congressional majority without giving the impression of resorting to traditional horse trading will be his most immediate challenge."

EDITOR'S NOTE: More commentary on this topic appears in the Oct. 17 issue of the Latin America Advisor.

railway has been in decline for more than 100 years, and the project to revive it aims to take advantage of the nearshoring trend, in which multinational companies are seeking to locate operations closer to the United States. At the same time, traffic through the Panama Canal has been stymied by a drought and low water levels. Last month, canal authorities reduced

the number of ships allowed through the waterway to 31 from 32 amid the drought, Reuters reported. The number of allowed transits is typically 36 per day. The project to revive the Mexican railway would offer transit times of six and a half hours between the Gulf of Mexico and the Pacific Ocean, the Financial Times reported.

NEWS BRIEFS

Guatemalan Interior Minister Resigns After Death of Protester

Guatemalan Interior Minister David Barrientos resigned Oct. 16 following the death of a protester during demonstrations demanding an orderly transition to President-elect Bernardo Arévalo, who is to take office in January, Reuters reported. The protester was killed in the western town of Malacatán. Protests erupted in Guatemala on Oct. 2 as Attorney General Consuelo Porras has intensified an investigation targeting Arévalo's Semilla party and is accused of seeking to undermine him from taking office.

Chile's Boric Meets With Chinese President Xi Jinping in Beijing

Chilean President Gabriel Boric met Oct. 17 with his Chinese counterpart, Xi Jinping, on the sidelines of the third Belt and Road forum Beijing, EFE reported. Boric is only the third leader from his country to attend the forum after Michelle Bachelet and Sebastián Piñera, said Xi. Boric started his visit to China on Friday in Sichuan province and arrived Sunday night in Beijing. He said that he intends to "strengthen the relations of both countries" during the trip.

Peru's Copper Production Increases 7.5 Percent in August

Peru's copper production increased by 7.5 percent year-on-year in August, the country's ministry of energy and mines said on Oct. 13, Reuters reported. The August data indicated that total output, which reached 223,178 metric tons, was below the previous month's total. Production of copper spiked 17.7 percent in July, when output reached 229,728 tons. The ministry said that production of gold, zinc, lead, iron and tin also rose that month. Peru is the world's second-largest copper producer.

Mexico Announces Tax Breaks for Firms That Relocate

Mexico's deputy finance minister Gabriel Yorico on Oct. 11 announced a new policy of tax breaks available to companies that relocate operations to Mexico, targeting major export industries such as vehicle manufacturing and semiconductors, Reuters reported. The incentives are designed to attract companies that are engaging in nearshoring, or shifting operations closer to their customers, in the wake of supply chain disruptions in Asia after the Covid-19 pandemic. Published in the government's official gazette, the outlined incentives would apply to 10 "key" sectors across the economy, such as battery, engine, fertilizer, pharmaceutical, medical instruments and agribusiness manufacturing. The tax relief on fixed investments are set to last through the end of 2024, Bloomberg News reported. The move has received cautious praise from economists, who fear the government is not providing essential infrastructure for these companies. "To be more attractive for nearshoring opportunities and reap more economic benefits in the medium term, Mexico needs a strong rule of law along with industrial, energy and fiscal policies that promote a new wave of investments associated with electric vehicles, renewable energy and IT equipment," Arnulfo Rodríguez, a principal economist at BBVA research, told the daily Latin America Advisor in a [Q&A](#) published Sept. 12.

POLITICAL NEWS

Israel Halts Security Exports to Colombia Amid Diplomatic Feud

Israel's government has suspended security exports to Colombia after Colombian President Gustavo Petro likened Israel's attacks in Gaza to the actions of Nazi Germany, the Associated

Press reported Oct. 16. "Democratic peoples cannot allow Nazism to re-establish itself in international politics," Petro said in a posting on social media site X, formerly known as Twitter. "No democrat in the world can accept Gaza being turned into a concentration camp," Petro added. Israel launched retaliatory air strikes in Gaza after Palestinian militant group Hamas attacked Israel on Oct. 7, killing more than 1,400 people, BBC News reported. Since Israel launched the air strikes, nearly 2,700 people have been killed. Petro has suggested that his country may need to suspend diplomatic relations with Israel, and his foreign minister has said Israel's ambassador to Bogotá should leave, the AP reported. Colombia currently has formal relations with both Israel and the Palestinian Authority. Colombia uses Israeli-built planes and weapons to fight drug cartels and rebels. Colombia and Israel also signed a free trade agreement in 2020. Amid the diplomatic feud, Israeli foreign ministry spokesman Lior Haiat summoned Colombia's ambassador to Israel, Margarita Manjarrez, over what he called Petro's "hostile and anti-Semitic statements," Agence France-Presse reported.

Ex-Haitian Senator Pleads Guilty in Moïse Assassination

A former Haitian senator pleaded guilty Tuesday in U.S. federal court in Miami to charges connected to the 2021 assassination of Haitian President Jovenel Moïse, the Associated Press reported. John Joel Joseph changed his plea to guilty after reaching a plea agreement with prosecutors, the wire service reported. Joseph was extradited to the United States from Jamaica in June to face charges including conspiracy to commit murder or kidnapping outside the United States and also providing material support resulting in death, the AP reported. Joseph said in a statement that he was present at meetings where plans to kill Moïse were discussed, Reuters reported. Moïse was killed early on the morning of July 7, 2021 when an armed group of mercenaries burst into his home and fatally shot him in his bedroom.

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because of the scale. That is not the case. The total number of POS terminals in India is 4.6 million, as compared to 4.3 million in Mexico. These clearing houses are owned by the banks themselves, which in turn issue cards or provide POS terminals. There is a clear role for the Banco de México (Banxico) and the CNBV to modify the regulations so that such a duopoly can be broken.”

A **Myriam Cosio, chief external affairs officer of Clip:** “The challenges in financial inclusion largely stem from the vertical integration within the financial services industry. This structure favors card issuers’ profitability while burdening acquiring businesses. Payment aggregators like Clip

“**The challenges in financial inclusion largely stem from the vertical integration within the financial services industry.**”

— Myriam Cosio

face formidable barriers to competition that limit their ability to scale, including high interchange fees and poor access to leading payments technology and more cost-efficient merchant acquiring schemes already available in other Latin American markets. Small and medium-sized enterprises (SMEs), which are integral to Mexico’s economy, encounter difficulties accessing digital tools and training. However, those connected to digital payments demonstrated resilience during the pandemic, with sales increasing by 20-30 percent. Digitalization can empower SMEs to reach new customers, enhance efficiency, and reduce costs which

is especially vital in Mexico’s informal economy. Despite government initiatives, only 17 percent of micro-businesses currently accept digital payments. Addressing these barriers is essential to unlock Mexico’s economic potential and enable SMEs to thrive in the digital era.”

A **José Carlos Rodríguez Pueblita, professor of business economics at the IPADE Business School in Mexico City:** “In terms of competition, the Mexican economy has very high concentration rates in many sectors. One of them is the financial sector, and this concentration is a main reason behind the low financial penetration in Mexico as compared to peer countries. According to the World Bank, 65 percent of Mexican adults do not have any type of bank account, and only 10 percent save through a financial institution. Regarding the means of payment, in Mexico more than 90 percent of daily purchases under 500 pesos are made in cash. The move of the Mexican antitrust authorities on credit card payments systems goes in the right direction. It is well known that banks control the main payment systems and have incentives to keep high fees and increase barriers of entry for competitors, reducing access to SMEs and the underserved population. Mexico has successful stories of diluting concentration, reducing market power of dominant incumbents, and increasing markets size. Facilitating electronic transactions would reduce Mexican’s addiction to cash and address the need of safer and easier operations, with positive spillovers on other financial services through innovation and market expansion.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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