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FEATURED Q&A

Will Peer-to-Peer Lenders Shake Up Banking in Mexico?



Kubo Financiero is planning to provide loans to microbusinesses in Mexico. // File Photo: Adriana Hidalgo Zamora.

Q Mexico's National Banking and Securities Commission on June 19 awarded the country's first peer-to-peer (P2P) license to Kubo Financiero. The lender plans to provide loans funded by any individual to microbusinesses such as small grocery stores. What is the future of P2P lending in Mexico? Will such efforts bring more Mexicans into the regulated financial system? Is P2P lending a threat to traditional lenders, or does it present an opportunity?

A Jan Smith, member of the Financial Services Advisor board and partner at KoreFusion in Mexico City: "The licensing of Kubo Financiero is no game changer, but it is a very welcome indicator of a financial ecosystem that is fostering diversity and growth. Kubo Financiero's platform offers investors a portfolio option with immediate liquidity, and it stays clear of start-up ideas centered on social media networking. It benefits from the aura of being a catalyst for social development and micro-entrepreneurialism, but under the hood it is a conservative model focused on profit. More than 65 percent of loans disbursed are destined for business growth; 20 percent of loans are balance transfers to lower rates. If a business is profitable but slightly cash-constrained, it is likely healthy, and if a debtor is paying high interest rates, then she (55 percent of the loans are to women) will likely succeed paying at a lower rate. Home improvement and education loans constitute the remainder and are usually safe bets. The current default rate of 7.5 percent is a tad high but entirely manageable. Kubo Financiero will not transform the habits of millions of Mexicans who favor keeping their savings in the form of physical goods or cash. As evidenced with the low

Continued on page 3

TODAY'S NEWS

BANKING

Brazil Probing Activities of 15 Global Banks

The country's anti-trust agency, CADE, has launched an investigation into possible anticompetitive practices. Thirty individuals have also been named in the investigation, which spans activities between 2007 and 2013.

Page 2

INSURANCE

Liberty Mutual Buying Chile's Penta Security

A unit of the insurer plans to buy Compañía de Seguros Generales Penta Security for \$163 million.

Page 2

ANTI-MONEY LAUNDERING

Costa Rican President Signs Measure to Fight Money Laundering

President Luis Guillermo Solís signed a decree that establishes a new committee to coordinate actions between the public and private sectors and also expands anti-money laundering controls to some non-financial sectors.

Page 3



Solís // File Photo: Costa Rican Government.

BANKING NEWS

Brazil Probes Activity of 15 Global Banks

Brazilian anti-trust agency CADE is investigating possible anticompetitive practices carried out by a number of foreign banking giants in the foreign-exchange market, The Wall Street Journal reported July 2. CADE said it is looking into allegations that Citigroup, HSBC Holdings, Deutsche Bank and 12 other overseas lenders formed a cartel to manipulate the exchange

Banks found guilty could face fines up to 20 percent of their gross revenue in the previous year.

rate of the Brazilian real. Thirty individuals were also named in the investigation. There is evidence that between 2007 and 2013 the banks and individuals collaborated to fix the exchange rate, coordinate the buying and selling of currencies, manipulate the central bank's PTAX reference exchange rate and impede the operations of other banks working in the nation's foreign-exchange market in an effort to boost profits, the regulatory body said. Other banks named in the investigation include J.P. Morgan Chase & Co., Credit Suisse Group, Barclays, UBS, Morgan Stanley and Royal Bank of Scotland Group, which declined to comment on the allegations. At least one company under investigation is cooperating with authorities, CADE said. On July 10, CADE named the 30 individuals it is investigating, which includes ex-RBS and JP Morgan trader Richard Usher, Barclays and ex-UBS trader Chris Ashton and Citi's former European head of spot trading Rohan Ramchandani, The Telegraph reported. The investigation comes a few weeks after six of the world's largest financial institutions paid \$5.8 billion to the U.S. government to settle charges of currency rigging, Reuters reporter. Five of the banks pleaded guilty and are among those being investigated by CADE. "The probe will probably follow similar patterns to those that took place in larger financial hubs, with

banks seeking a settlement with CADE instead of fighting the accusations in courts," Luís André de Moura Azevedo, a capital markets law professor at the Fundação Getúlio Vargas in São Paulo, told the news service. Banks found guilty of the charges could face fines of between 0.1 percent and 20 percent of gross revenue in the previous year, while individuals could be fined between 50,000 reais (\$15,981) and 2 billion reais, according to The Telegraph.

S&P Cuts BicBanco to Junk Status

Standard & Poor's on July 6 lowered the credit rating of Brazil's Banco do Comercio e Industria, known as BicBanco, to junk status, Bloomberg News reported. The move came amid struggles by borrowers to repay the bank. S&P lowered BicBanco's rating to BB, two notches below investment grade and placed the bank on a negative credit watch. S&P also expressed concerns about the lender's capitalization over the next three months as it delists from Brazil's stock exchange.

INSURANCE NEWS

Liberty Mutual Agrees to Purchase Chile's Penta Security

A unit of Boston-based insurer Liberty Mutual has agreed to purchase Chile's Compañía de Seguros Generales Penta Security, the fourth largest non-life insurer in Chile, for 105 billion pesos (\$163 million), the Boston Business Journal reported July 13. Liberty International Holdings will purchase 10.9 billion shares in Penta Security, which offers personal and commercial insurance, at a price of around \$14.80 per share, according to Reuters. The deal is subject to approval from Chilean insurance regulator Superintendencia de Valores y Seguros (SVS) and to stock market procedures, but should be completed by Dec. 30, Penta Security said in a statement. Liberty first en-

NEWS BRIEFS

PayPal Buying Money-Transfer Service Xoom

PayPal Holdings has agreed to buy money transfer service Xoom Corp. for \$890 million in an all-cash deal, The Wall Street Journal reported July 1. Xoom, which is based in San Francisco, allows customers to send money to several international locations, including a number of countries in the Western Hemisphere. Xoom had \$159 million in sales last year, a 30 percent increase from 2013.

Rincón Named Head of Berkley International Seguros Colombia

Insurance company W. R. Berkley Corporation on July 6 announced the formation of Berkley International Seguros Colombia, which will provide a full range of commercial insurance products, "including construction all risk, surety, general liability, directors and officers liability, select classes of professional liability and cargo." Sylvia Luz Rincón, who has more than 20 years of experience in property and casualty insurance in Colombia, has been named the president and CEO of the newly-formed subsidiary. In 2014, Berkley Insurance Company established a representative office to enter Colombia's reinsurance market.

Gaut Departs as Citi Executive for Latin America Capital Markets

Mariano Gaut, who spent 20 years at Citigroup, has departed the New York-based bank where he had served as co-head of Latin America capital markets origination, Reuters reported July 10. Gaut had assumed the role at Citi in 2013 alongside Chris Gilford after the bank combined its units for Latin America debt and equity capital markets. Citigroup spokesman Rob Julavits declined to comment to the wire service about Gaut's departure.

tered Chile's insurance market in 2004 with the purchase of an Allianz unit, and the following year it purchased ING's Chilean unit. Chile's property and casualty market has a compound annual growth rate of nearly 10 percent, the company said. "The strength of the Chilean market provides an environment for growth, and Penta delivered the right opportunity," said Pablo Barahona, Liberty International's chief operating officer for Latin America and a member of the Financial Services Advisor board. The Penta financial group has been shedding assets recently as its owners Carlos Delano and Carlos Lavin have come under investigation for their alleged roles in an illegal campaign financing scandal, Reuters reported. Last week, it sold its credit portfolio to Banco de Chile and its brokerage and funds manager to Grupo Security.

PENSIONS NEWS

Argentina, Brazil Launch Pension Payment System

The Argentine and Brazilian governments have launched a system that will allow Argentine retirees in Brazil to receive their pensions and social security payments in reais and Brazilian



Vanoli // File Photo: Argentine Government.

retirees in Argentina to receive their pension payments in pesos, EFE reported June 30. The countries previously used the Local Currency System to carry out foreign trade transactions, the wire service reported. Using the system to pay retirees' pensions has the "benefit of eliminating the cost of bank commissions on transfers and foreign currency transactions,"

said Argentina's central bank, which is headed by Alejandro Vanoli. Retirees' use of the system will be voluntary. It has been used since 2008 and since then has allowed exporters and importers to execute transactions.

ANTI-MONEY LAUNDERING NEWS

Costa Rica Approves New Anti-Money Laundering Measure

Costa Rican President Luis Guillermo Solís on July 10 signed a presidential decree authorizing a new strategy to fight money laundering and terrorism financing in the Central American nation, The Tico Times reported. "The National Strategy to Fight against Money Laundering and Terrorist Financing" was presented a day earlier at the opening of the Financial Action Task Force of Latin America (GAFILAT) plenary meeting being held in San José. The decree includes setting up an Inter-institutional Technical Committee to coordinate and plan

actions between the public and private sectors. The decree also expands some anti-money laundering controls to non-financial sectors including some private property transactions by establishing "know your client" protocols. The measure further seeks to tighten controls on the remittances sector and increase regulations and control over the transport of money across borders. "I want to once more

“Those ills—organized crime, terrorism—must be fought off in all ways possible by the international community.”

— Luis Guillermo Solís

ratify Costa Rica's opinion in the sense that those ills—organized crime, terrorism—must be fought off in all ways possible by the international community," Solís at the signing. The plan has been under development since September of last year, when the government undertook a "national risk assessment" and

FEATURED Q&A / Continued from page 1

use of retirement accounts for investment, banks and governments still wrestle with Mexicans' apathy toward financial products and low financial education. In all these regards, Kubo Financiero faces the same lending challenges and shares similar optics with its traditional peers. If it finds ways to monetize the payment data its algorithms gather and share them with other players, a key milestone will be reached. That remains to be seen, but what is indisputably special about Kubo Financiero is that it offers a dynamic platform to investors who are already active and yearn for less onerous options that are simultaneously more dynamic. This is particularly true of Mexican millennials who are socially and technologically savvy but unimpressed by traditional investment tools. Its incubator and seed capital origins are in itself symptomatic of how Mexican

venture capital is opening up. Kubo Financiero is not a revolutionary disruptor, but it is an evolutionary achievement and a sign of new things to come."

A Kai Schmitz, senior investment officer of the FinTech Investment Group at the International Finance Corporation: "Peer-to-peer lending, lending marketplaces and other tech-lenders have been established in most countries in Latin America and around the world. The sector is growing very fast and globally is forecasted to reach \$286 billion by 2020, according to Morgan Stanley. The use of big data, automation and self-service is reducing the cost and time it takes to process a loan to levels where banks are uncompetitive. It also allows tech-lend-

Continued on page 6

sought input from 40 different institutions, including the International Monetary Fund and the Inter-American Development Bank, Vice Minister of the Presidency Ana Gabriel Zúñiga said. The Financial Action Task Force of Latin America includes 16 member countries and is part of the global Financial Action Task Force (FATF) umbrella.

POLITICAL NEWS

Mexico Offers \$3.8 Million Reward for Guzmán

Mexico's government on July 13 offered a reward of 60 million pesos (\$3.8 million) for the capture of drug lord Joaquín "El Chapo" Guzmán, who escaped Saturday night from the country's maximum-security Altiplano



There will be no rest for this criminal."

— Miguel Ángel Osorio Chong

prison, BBC News reported. Guzmán, the leader of Mexico's notorious Sinaloa drug cartel, escaped from the prison west of Mexico City through a sophisticated nearly mile-long tunnel that led away from the prison. Guzmán, who is believed to have a personal fortune of about \$1 billion, escaped despite wearing a monitoring bracelet. He also was subject to 24-hour surveillance, according to officials. "There will be no rest for this criminal," said Mexican Interior Minister Miguel Ángel Osorio Chong, who visited the prison on Monday. Mexico's government also fired three prison officials including the facility's director, Valentín Cárdenas, CBS News reported. "They had something or a lot to do with what happened, and that's why we made that decision," said Osorio Chong. Saturday's prison break was Guzmán's second. He

escaped from Mexico's Puente Grande prison in 2001, fleeing in a laundry cart after bribing prison officials. He was recaptured in February 2014 at an oceanside condominium in Mazatlán. Almost immediately after Guzmán's recapture last year, U.S. officials were aware of plots that were being orchestrated to aid his escape, CBS News reported. Agents of the U.S. Drug Enforcement Administration had developed intelligence that was passed along to Mexican authorities, the network reported. Mexican officials had rejected extradition requests from the United States, where Guzmán is also wanted, and insisted he would not escape. Mexico's then-ambassador to the United States, Eduardo Medina Mora, told CBS that Guzmán was "locked up in the most reliable prison we have in Mexico and certainly once bitten, twice shy. We will take our precautions in this case."

Pope Offers Help to Colombia Peace Talks

Pope Francis said July 13 that he is willing to help the more than two-year-old peace talks between Colombia's government and the FARC rebels, the Associated Press reported. "We are always disposed to help, we have so many ways to help," the pontiff told reporters aboard his plane as he returned to Rome following a three-nation tour of South America. The government and the rebels announced the previous



Santos // File Photo: Colombian Government.

day that they had agreed to accelerate the pace of the talks. Colombia's government agreed to de-escalate military action against the FARC if the group's unilateral cease-fire stays in place, Reuters reported. Earlier this month, the FARC announced the cease-fire, its sixth since talks began. President Juan Manuel Santos said

he will analyze the situation in four months to determine if peace talks, which have been occurring in Havana for two and a half years, will continue. The government and the FARC issued a joint statement saying the government will begin a "de-escalation of military actions" on July 21 if the FARC stands by its cease-fire. Santos said the announcement is "an important step to advancing toward agreement" at the peace talks, which had seemed in jeopardy in recent weeks due to an escalation of violence on the battlefield.

Police Arrest Former Aide to Guatemalan President

Police in Guatemala have arrested a former close aide to President Otto Pérez Molina on accusations of corruption, Reuters reported July 9. Gustavo Martínez, a former secretary general of the presidency and fiancé of Pérez Molina's daughter, was arrested and is suspected of illegal influence trafficking. A former minister of energy and mines also was arrested on similar accusations. Martínez stepped down from his government position in June following local media reports accusing him of illegal enrichment, Reuters reported. The wire service was unable to reach his attorneys for comment. The United Nations-backed International Commission Against Impunity in Guatemala (CICIG) alleged that Martínez had helped to set up meetings for local company Jaguar Energy in exchange for at least \$120,000, the wire service reported, adding that it was unable to reach the company for comment. The developments are the latest blow to Pérez Molina's administration, which has faced several other corruption allegations and protests calling for the president's resignation. In May, Vice President Roxana Baldetti stepped down after media reports linked her to corruption allegations connected to the country's customs agency. Later that month, the central bank governor and a former personal secretary to Pérez Molina were arrested as part of a separate graft probe. Pérez Molina has not been personally accused of wrongdoing and has resisted calls for his

NEWS BRIEFS

Uber Would Need to Have Permits, Pay Fees to Operate in Mexico City

Uber drivers in Mexico City will need permits to operate there, and the company will have to pay into a transportation fund, Reuters reported July 8, citing a draft government plan. The proposal, which would be the first such regulation for a ride-sharing app in Latin America, also stipulates that Uber and similar companies cannot accept cash, offer prepaid plans or use taxi stands and would have to pay the government an annual fee to license each vehicle, an official told the news service, adding that the plan is still under negotiation.

Venezuela to Stop Buying Rice From Guyana Amid Border Dispute

Guyanese officials said July 9 that Venezuela will stop buying much of its rice crop as a border dispute between the neighboring countries intensifies, the Associated Press reported.

Guyanese Finance Minister Winston Jordan said Venezuelan officials told him they will get rice from other suppliers, including Suriname, by the end of the year. The head of the nation's Rice Millers Association called the move a "significant blow." Venezuela has purchased about 40 percent of Guyana's rice production over the last four years in exchange for oil.

Honduran Opposition Seeking International Help to Fight Graft

Leaders of the four main opposition parties in Honduras on July 9 backed the creation of an international commission to fight corruption in the Central American country, the Associated Press reported. The country's justice system needs the assistance to fight graft, said former President Manuel Zelaya. A corruption scandal involving the public health system has led to huge anti-government protests.

resignation. "I have nothing to hide," Pérez Molina said July 9 after a meeting with U.S. officials.

ECONOMIC NEWS

Soft Economy Leads Bachelet to Lower Reform Expectations

Chilean President Michelle Bachelet said July 10 that the country's economic slowdown means that the government will have to prioritize its ambitious reform package, Reuters reported. "We know that we're not going to



Bachelet // Photo: Chilean Government.

have all the resources initially forecast to move forward with our program and to process new social demands," she said. Bachelet has won tax adjustments that are needed for education reforms as well as election law changes, but changes such as labor reforms could be more difficult, the wire service reported.

Venezuela Allows Uruguay to Pay Oil Debt at Discount

Uruguayan President Tabaré Vázquez announced July 6 that Venezuela will allow the smaller South American nation to pay off a \$400 million energy debt at a 35 percent discount, Reuters reported. After meeting with Venezuelan officials in Montevideo, Vázquez said Uruguay will pay \$262 million to settle the debt. During the decade-long oil boom, Venezu-

ela provided oil to other countries in the region on generous financing terms, but last year's sharp drop in oil prices has left Caracas short of cash and eager to make deals to write-down the debt in exchange for cash. In January, the Dominican Republic paid Venezuela \$1.93 billion to settle a \$4 billion debt it accrued under Venezuela's Petrocaribe oil alliance. Vázquez also said that Uruguay has \$300 million deal with Venezuela to send agricultural products including rice, soy and chicken through the end of the year, and in return, Venezuela will immediately settle its outstanding debt to some Uruguayan agricultural companies, El Universal reported. The deals will be signed on July 17 in Brasília.

El Salvador Assembly Approves \$25 Mn Tourism Plan

El Salvador's legislature on July 12 gave the go-ahead to a \$25-million, five-year plan to develop the country's marine coastal area for tourism, Travel Pulse reported. The Legislative Assembly approved the plan with 56 votes in favor. The funds, which come from an Inter-American Development Bank loan, will be invested by the Ministry of Tourism. Tourism Minister José Napoleón Duarte Durán said the marine coastal strip program seeks to increase awareness of the Central American nation's tourist destinations, such as El Puerto de La Libertad and Jiquilisco Bay in Usulután, and that the government will now begin to sign agreements with the 11 involved municipalities, which will take about six months. The next step will be a bidding process for large projects, which the minister estimated would take three months. "Last year, we updated two projects: The construction of the marine plaza in La Libertad, and the transformation of spaces to ease tourist access to Jiquilisco Bay, these are already advanced projects and would be among the first to be executed," Duarte said. This is the first time El Salvador's legislature has approved a multimillion-dollar loan for the tourism industry, which has grown steadily since 2009.

FEATURED Q&A / Continued from page 3

ers to serve consumer segments that are unattractive for conventional lenders, in particular low income and mostly 'unbanked' consumers. The high convenience and speed, however, also makes the service attractive for consumers who would have otherwise used banks and hence introduces competition in banks' core markets. But the new lenders also introduce opportunities for banks: approximately 60 percent of funding

“The new lenders also introduce opportunities for banks.”

— Kai Schmitz

for the leading P2P lenders in the United States, Lending Club and Prosper, actually comes from banks, hedge funds and other wholesale lenders rather than individuals. These financial institutions either agree to underwrite specific types of loans, for example high quality loans for banks, buy loan portfolios or provide debt funding to tech-lenders that lend themselves. Hedge funds have successfully securitized portfolios of tech-loans and sold them to real money investors. Interest spreads are high, and the ability to originate at low costs through tech-lenders makes this attractive. The major risk, of course, is that many of the tech-lenders are not well regulated or supervised, have not proven their ability to manage large loan portfolios, especially during a crisis, and that there is little history so far to assess the quality of their loan approval algorithms. It may therefore be too early to tell whether the tech-lenders have cracked the financial inclusion riddle or are creating a new 'subprime collateralized debt obligation crisis.' However, marketplaces for financial services in general are proving to be a very effective distribution mechanism across the whole consumer spectrum.”

A **Jackie Hyland, senior investment analyst at Accion Venture Lab:** “Mexico’s decision to grant the first peer-to-peer license is an exciting response to new lending players in the financial technology space and also to the growing need and demand for alternative financial services in the country. Mexico continues to have one of the largest under-banked populations in the region and high growth rates of informal lending. Mexicans have been informally doing ‘peer to peer’ for many years, through ‘tandas’ and other informal savings and credit circles. Because the need to expand financial services in Mexico is so great, P2P is filling a large unmet need in the market and is not necessarily a threat to traditional lenders, but will spark further competition, lower pricing and better quality services. Today, spreads between savings and credit rates in Mexico are increasingly large, and this is a great opportunity to let retail investors and borrowers capture

“Mexicans have been informally doing ‘peer to peer’ for many years.”

— Jackie Hyland

this value. Also, P2P lending is built on a community of interpersonal trust, which is often stronger than trust in formal financial institutions. Now with companies like Kubo Financiero, which leverage technology to bring this interpersonal trust online, these individuals can be part of the formal financial system, create credit history and have increased opportunity to receive access to financial services previously unattainable. Hopefully this new regulation will be a catalyst to inspire more innovation in financial services, especially for those who need it most.”

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