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FEATURED Q&A

Would Dodd-Frank Changes Affect the Region's Banks?

U.S. Treasury Secretary Steven Mnuchin last month proposed major changes to the Dodd-Frank regulations that were implemented after the 2008 financial crisis. // File Photo: White House.

Q **In a 149-page report released in June, U.S. Treasury Secretary Steven Mnuchin proposed sweeping changes to the Dodd-Frank regulations, which were implemented after the 2008 financial crisis. The report is part of the Trump administration's push to reduce and eliminate regulations in the country's financial services industry. What are the biggest implications for banks and other financial services providers in Latin America and the Caribbean of changes to Dodd-Frank? Will such changes present new opportunities for financial services companies in the region? Would changes to or elimination of Dodd-Frank mean any drawbacks for Latin American and Caribbean banks?**

A **Jan Smith, partner at KoreFusion in Mexico City:** "There is perhaps misguided optimism about a repeal of Dodd-Frank creating a reverse of de-risking among U.S. banks dealing with Latin America, and Latin American banks being able to reduce the cost of compliance. First, the U.S. Senate must approve any changes, and the current political quagmire in Washington endangers the likelihood of this occurring. In the eyes of Latin American financial institutions, political instability in Washington implies that any changes to Dodd-Frank may only be temporary, and therefore there is little appetite to change the status quo. Indeed, the trend in Latin American is to increase the robustness of financial oversight laws within the context of money laundering and political transparency. A possible exception pertains to Chapter 14 of NAFTA relating to financial services, but if this actually occurs, it will be as a subordinate set of discussions. Our feedback from

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Citigroup said its revenues in Latin America grew 8 percent, to $1.29 billion, in the first half of the year.

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Italy's Generali Group is selling its Colombian insurance business to Germany-based Talanx Group for approximately $35 million.

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BANKING

Argentine Mortgage Loans Grow Amid Gov't Subsidies

Argentines took out 3.7 billion pesos ($219.32 million) in mortgage loans in June, as compared to 558 million pesos in the same month last year. The rise followed a new program by President Mauricio Macri's government to provide subsidized mortgages.

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Macri // File Photo: Argentine Government.

BANKING NEWS

Mexico's Grupo Elektra Posts 17% Rise in Revenue for Q2

Mexico-based Grupo Elektra, the retailing and financial services arm of billionaire Ricardo Salinas' business empire, on July 20 said its second-quarter revenue grew 17 percent as compared to the same period last year. The company reported net income of 7.1 billion pesos ($404 million), as compared to net loss of 79 million pesos a year ago. Operating profit grew 32 percent. An increase of 17 percent in financial services revenue, to 14 billion pesos from 12 billion pesos in the previous year, was driven by a 21 percent growth in revenue of Banco Azteca Mexico, the company said. Elektra noted that a 9 percent increase in financial costs remained lower than revenues and reflected "a moderate growth in loan-loss provisions, in line with greater strength in asset quality." Banco Azteca's delinquency rate at the end of the quarter was 2.5 percent, down from 2.9 percent of the previous year. Earlier this year, members of Mexico's association of brokerages asked the stock exchange to look into Elektra's unusual share price gains, Reuters reported. At the time, the company said it was not aware of what was driving them. Elektra operates in Mexico, the United States, Guatemala, Honduras, Peru, Panama and El Salvador.

Argentine Mortgage Loans Grow Amid Gov't Subsidies

Argentina's new subsidized mortgage program is leading to a jump in mortgage loans in the South American country, as well as a boost in construction activity, Reuters reported Monday. Argentines took out mortgage loans totaling 3.7 billion pesos ($219.32 million) in June, up from 558 million pesos in the same month last year, according to central bank data. While the overall amount is still low, it is seen as a significant increase in Argentina, where a high rate of inflation discourages would-be borrowers from seeking credit. In March, President Mauricio Macri's government launched a plan to provide 90,000 Argentines subsidized mortgages. Participants must have monthly incomes of between 16,000 and 32,000 pesos ($948-$1,897).

Kerr // File Photo: Argentine Government.

About half of the country's economically active population earns less than 10,000 pesos ($593) monthly, according to government data. "For the middle class, which is large, all this spurs the economy and generates activity," Iván Kerr, the country's national subsecretary of urban development and housing, told Reuters in an interview. Another plan that the government recently launched provides borrowers low-interest mortgage loans that are adjusted for inflation. The programs, put in place ahead of the October legislative elections, primarily benefit the country's urban middle class.

Antitrust Watchdog Backs Itaú's Purchase of Citi's Brazil Unit

A unit of Cade, Brazil's antitrust watchdog, has approved the planned purchase by Itaú Unibanco Holding of Citigroup's retail banking assets in the South American country, Reuters reported July 12. Cade's general superintendency recommended that the purchase be approved on the condition that Itaú and Banco Citibank Brasil implement a so-called "concentration act." The full details of the act were not released. Last October, Itaú, Latin America's largest bank by market value, agreed to pay $220 million for the retail banking and insurance assets of Banco Citibank Brasil. The deal

NEWS BRIEFS

Citi Sees Stronger Latin America Banking Results

Citigroup said its revenue grew 3 percent in the first half of 2017, topping Wall Street's expectations as its trading desk saw a smaller-than-anticipated drop-off in activity, MarketWatch reported July 14. In Citi's international consumer banking segment, Latin America revenues of $1.29 billion were up 8 percent, year-over-year, driven by 12 percent growth in retail banking, reflecting continued growth in average loans and deposits, as well as improved deposit spreads, which were partially offset by lower cards revenues, the company said. Expenses in Latin America grew more slowly in the second quarter, at 4 percent, rising to $735 million.

Bank De-Risking Trend Pushing Up Remittances Costs

The trend of bank de-risking is pushing up the costs to send remittances, a draft International Monetary Fund study has found, the Jamaica Gleaner reported July 20. While remittance costs for sending to Latin America and the Caribbean have declined over the last decade, the report suggests that costs are climbing again because of correspondent banking challenges. Global banks' withdrawal from correspondent banking relationships out of compliance concerns has "disproportionately" affected money-transfer operations, the authors said.

Brazil's Lower House Aims to Vote on Pension Reform by Late August

The lower house of Brazil's Congress is aiming to vote on a controversial pension reform plan by the end of August, Chamber of Deputies Speaker Rodrigo Maia told O. Estado de S. Paulo in an interview published July 20. The reform would set a minimum age for retirement and would cut social security benefits.

also included Citigroup's stakes in automated teller machine operator TecBan Tecnologia Bancária as well as consumer structured finance firm Cia. Brasileira de Securitização, the wire service reported.

INSURANCE NEWS

Generali Selling Colombian Insurance Unit to Talanx

Italy's Generali Group is selling its Colombian insurance business to Talanx Group for approximately $35 million, Finance Colombia reported July 21. Generali will be shedding its stake in Generali Colombia Seguros Generales and its subsidiary, Generali Colombia Vida Compañia de Seguros, the news site reported. Talanx, which is headquartered in Hanover, Germany, said it expects the transaction to close before the end of the year. The deal is pending regulatory approval. In the transaction, Generali Group will be transferring its 91.3 percent holding in Generali Colombia Seguros, which is focused on property insurance, and its 93.3 percent stake in Generali Colombia Vida to Talanx. Generali's Colombian business last year had a total premium income of approximately 59 million euros, or less than 1 percent of the South American country's insurance market. The company, based in Trieste, Italy, is no longer viewing Latin America as core to its business. Talanx, however, is looking to expand in Latin America and currently operates in six countries in the region through its HDI unit. "For Talanx, the acquisition of Generali Colombia is a strategic step to open up the fifth largest Latin American market," said Torsten Leue, the chairman of Talanx's International's management board. "For us, this means further strengthening our position in the target region. The companies are well positioned and have strong management." Generali Colombia has been in business since 1952 and has eight branches in Colombia. Approximately 70 percent of the portfolio that Talanx is acquiring in the deal is in the property insurance

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American financial institutions is that there was originally hope that a repeal would lighten the cost of compliance, but that has now evaporated and overshadowed by the fines brought against Citibank/Banamex for engaging in criminal activities and failing to investigate suspicious transactions."

A **Gene M. Smith, president and CEO of Smith Brandon International:** "The Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in 2010 to address issues related to the financial crisis of 2007-2008, including the accepted premise that many U.S. banks and financial institutions were too big to fail. The Dodd-Frank Act is a complex piece of legislation that amended and extended many earlier financial protections and regulations. Efforts have been underway under the Trump administration to replace this legislation with the equally complex Financial CHOICE (Creating Hope and Opportunity for Investors, Consumers and Entrepreneurs) Act. The House version of the bill passed in June 2017 on a party line vote. Under the leadership of Sen. Mike Crapo (R-Idaho), the Senate version is expected to contain substantial revision of the House bill. Political gridlock is widely anticipated. James Gorman, the CEO of Morgan Stanley, has said repeatedly that he thinks banks would be served well with some tweaks to Dodd-Frank, as opposed to its repeal. Other Wall Street professionals concur. Most of the Financial CHOICE Act's changes are domestic in focus (for example, reducing leverage requirements, addressing too-big-to-fail and cutting the Consumer Financial Protection Bureau) and may not specifically affect foreign banks. But a principle incorporated in the proposed act is a greater acceptance of both risk and failure, which could re-expose foreign banks to old financial risks, should U.S. banks fail. From our perspective, each financial institution needs to understand its own strengths and vulnerabilities. In Latin America, Brazil and the Caribbean, these entities need to ensure proper enforcement of know-your-customer, anti-money laundering and anti-fraud programs, and work to mitigate their individual risks. Dodd-Frank and the Financial CHOICE Act are at play in a dynamic, difficult environment where learning from the past does not seem to be the priority."

> **"Political gridlock is widely anticipated."**
> **— Gene M. Smith**

A **Beatrice Rangel, director of AMLA Consulting in Miami Beach:** "The deregulatory proposal presented by Secretary Mnuchin is focused on the U.S. domestic market, but given the degree of integration of the world financial system and the weight the United States carries in that system, any change in U.S. regulatory policy is bound to affect banks worldwide, including Latin American banks. On the plus side, the proposed reform is a breath of fresh air for small and community banks that are the sources of credit for small- and medium-sized enterprises. To be sure, excessive regulatory burdens were drying this spring. SMEs are the vectors through which innovation runs into the economic nervous system, and choking them out of credit inflicts a severe blow to productivity increases over the medium and long run. Other aspects of Dodd-Frank include limits to shadow banking practices, protecting retirement savers from abuse; and disclosure requirements on derivatives and on payments to foreign governments, which is important for oil companies. Repealing Dodd-Frank could make bribery and other corrupt practices easier, as oil

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business, while the remaining 30 percent is in life insurance. Generali said its business will be better served by focusing on markets other than Colombia. "These transactions are another step forward in the rebalancing of Generali Group geographical presence across the world," said Frédéric de Courtois, the chief executive officer of Generali's global business lines and international group.

POLITICAL NEWS

Two-Day Strike Begins in Venezuela

A nationwide strike, called by the opposition, began July 26 in Venezuela in protest of the upcoming vote on July 30 to elect members of a "constituent assembly" to rewrite the country's Constitution, CNN reported. Opponents of President Nicolás Maduro are calling on Venezuelans to remain at home in protest of the planned vote, which Maduro has pushed. The president has said the country needs a new Constitution in order to end its political and economic crises, while his opponents see his move as an effort to increase his power. "The call we've made for the coming days will require each of you to ask yourselves what role you have to play in Venezuela's rescue," said opposition leader Freddy Guevara, the vice president of the National Assembly. In a news conference, opposition leaders said the two-day strike is an effort to force Maduro to abandon his plan to rewrite the Constitution, which was put in place in 1999 early during the government of Maduro's late predecessor and mentor, Hugo Chávez. Venezuela has been beset by numerous economic problems, including shortages of food, medicine and medical supplies. Deadly protests have raged since early April, just after the country's Supreme Court dissolved the opposition-controlled legislature in late March. The court reversed its decision three days later, but the protests have continued amid claims from the opposition that the country was becoming a dictatorship. If established, in addition to having the power to change the Constitution, the constituent

ADVISOR Q&A

Will Brazil's Labor Reforms Bring the Promised Results?

Q Brazil's Senate on July 11 approved labor reform legislation, sending the measure to President Michel Temer, who pushed the reform. Supporters of the reform have argued that it is necessary in order to boost economic growth, but opponents, including labor unions, have said that the changes will trample workers' rights. How will the labor reform affect Brazil's economy and workers, and which sectors will be most affected? Will the changes encourage more businesses to invest in Brazil? How will implementation of the labor reform likely play out, and will any upcoming political shifts in power lead to a repeal of the legislation?

A Renato Canizares and Cassia Pizzotti, partners at Demarest Advogados: "The labor reform has been discussed for a long time in Brazil, and despite the talk from government opponents that it will trample workers' rights, it is clear to legal practitioners that it grants more legal safety and flexibility for entrepreneurs and companies that want to do business in Brazil. The main impact of the reform is from the articles that set out that Collective Bargaining Agreements (negotiated between company's association and workers' union) and Collective Agreements (negotiated by the company directly with the workers' union) will prevail over the law, except for specific matters provided by the reform, such as minimum wage, weekly paid rest, overtime compensation and health and safety, among others. In fact, the effectiveness of collective agreements was already recognized by the Brazilian Federal Constitution of 1988, but until now, Brazilian courts only recognized the effectiveness of provisions that are better than those provided by law or that grant any benefit to offset possible losses for the employees. Now, the expectation is to have more flexibility for companies to negotiate work conditions that reflect their reality and meet company and employee needs, without the risk of having them considered null in court. Another relevant subject comprises outsourcing. Until 2017, there was no specific law ruling on outsourcing in Brazil, and the subject was ruled by courts' decisions, which forbid the outsourcing of a company's core business. Now, outsourcing will become fully possible in any activity of the company, provided that these workers are not treated as employees. As the labor reform has federal scope, all sectors will be affected by the changes, but the service and construction sectors will tend to feel the impact more than others, due to the provisions that allow outsourcing, hiring employees by the hour and working schedule flexibility. The Labor Law Review text will only come into force on Nov. 11, and there are already discussions in the Congress about possible amendments to specific points of the reform, so the recommendation for companies now is to be cautious, and wait for the possible political movements until November."

> **"The service and construction sectors will tend to feel the impact more than others..."**
> — Renato Canizares & Cassia Pizzotti

EDITOR'S NOTE: More commentary on this topic appears in the July 25 issue of the Latin America Advisor.

NEWS BRIEFS

Bomb Damages Door at Roman Catholic Bishops' Office in Mexico City

A bomb exploded at the headquarters of Mexico's Roman Catholic Council of Bishops on July 25, damaging a door but causing no injuries, church officials said, the Associated Press reported. The homemade device was left outside the building at around 2 a.m., and video footage shows the explosion blowing the door open. There was no immediate information on possible suspects or motive in the incident.

Thirteen Inmates Escape From Guyanese Prison

Authorities in Guyana are on the hunt for 13 inmates who escaped prison by digging a tunnel disguised as a latrine under a high wall at a minimum-security prison on the east coast of the country, the Voice of America reported July 24. The manhunt comes just weeks after another jailbreak in Guyana. A senior police official said the 13 men who escaped the Lusignan Prison on Monday were "real bad ones" who had been transferred to the facility from a maximum-security prison that had burned down after inmates set fire to the prison in protest of the conditions at the facility.

Pirates in Amazon Loot $32 Million in Goods Shipped on Rivers in '16

Thefts of cargo transported on the rivers of Brazil's Amazon region quadrupled between 2015 and 2016, costing approximately 100 million reais ($32 million) in lost merchandise, O Estado de S.Paulo reported July 23. As the region's population surged 22 percent from 2000 to 2010, so have organized crime networks, according to the report. Most thieves have been targeting fuel, which is easily sold on the black market.

assembly will be able to bypass the National Assembly, BBC News reported. Ahead of the July 30 vote, Venezuelans have been crossing the border into Colombia by the thousands, some to seek refuge and others to stock up on supplies before returning to Venezuela, where goods are in short supply, Agence-France Presse reported. The are also concerns that the United States could follow through with President Donald Trump's threat to impose sanctions on Venezuela if the government proceeds with the vote, which could worsen the South American country's economic problems.

Colombia's FARC to Launch Political Party on Sept. 1

The Revolutionary Armed Forces of Colombia, or FARC, rebel group announced July 24 that it will form its new political party on Sept. 1, Reuters reported. The new political party is part of the peace deal that the FARC signed with Colombia's government last November and will include former guerrilla fighters serving in Colombia's Congress. "From Sept. 1 we will be publicly launching our new political movement," said Carlos Antonio Lozada, a member of the FARC secretariat, the wire service reported. The new party's launch will be marked by an event in Bogotá's Bolívar Plaza, outside Congress. The FARC's peace agreement with Colombia's government, reached after more than four years of talks in Cuba, allows the FARC 10 unelected seats in Congress through 2026 and also provides amnesty to most of the former guerrillas. Some rebels will be tried in special courts, and rebels convicted of human rights violations will be able to perform reparations, such as removing land mines, instead of being sent to prison. Lozada said the new political party, whose name was not announced, will meet to solidify its policy proposals before the Sept. 1 launch. The FARC has not yet announced which of its members will occupy the 10 congressional seats. Last month, the FARC concluded their disarmament, handing over to the United Nations all but a few of their weapons. [Editor's note: See Q&A on Colombia's progress in implementing the peace accord in the May 18 issue of the daily Latin America Advisor.].

ECONOMIC NEWS

Unemployment Rate in Mexico Falls to Ten-Year Low

Mexico's unemployment rate fell to 3.3 percent in June, the lowest level since May 2006, state statistics agency INEGI said on July 21. The percentage of unemployed Mexicans fell to 3.3 percent in June from 4 percent the same month last year, on a seasonally adjusted basis. The "underemployment rate," or the percentage of the working population with the need and availability of working more, also fell in June, dropping to 7.2 percent from 7.8 percent last year. The rate of informality in the labor market remains stubbornly high, however, at 56.6 percent in June, essentially the same as in 2016. On July 18, S&P Global improved its outlook on Mexico's sovereign ratings, raising the outlook from negative to stable, citing a better debt scenario and the likelihood for negotiating reasonable terms for Mexico in the upcoming talks over the North American Free Trade Agreement.

Brazil to Boost Mining Royalties

Brazil's government plans to boost mining royalties and also establish a new regulator for the industry in an effort to revitalize the sector, Reuters reported July 24, citing three sources familiar with the matter. The changes will increase the stake that foreign companies can have in mining projects in Brazil, according to one of the sources. That limit is currently 40 percent. The royalty increases would go into effect through a temporary decree that would later need lawmakers' approval, the wire service reported.

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companies, which together with mining and infrastructure building companies are favorite targets for corrupt practices, will cease to have to report payments to foreign governments. Imagine what operation Lava Jato in Brazil would have been without the support of the U.S. Treasury in sharing information about Petrobras' financial transactions in the United States."

A **Kai Schmitz, leader of FinTech Investment for Latin America at the IFC Global FinTech Investment Group:** "The Dodd-Frank regulation was an emergency response to the financial crisis and was created before the cause of the crisis was fully understood. The regulation contains many regulatory requirements that are unrelated to the crisis and arguably have proven to be ineffective and costly for banks. It makes sense to review the regulation and see what has not worked (or is no longer politically desired). Dodd-Frank extends to foreign banks through enhanced prudential requirements for systemically important foreign banks. The asset threshold set is the same as for U.S. banks, $50 billion, and is applicable on global assets if the foreign bank maintains an agency or branch in the United States, irrespective of the size of risk exposure to the United States. The proposals in the June report by the Treasury to the president address this issue by proposing that the 'application of enhanced prudential standards for [foreign banks] ... should be based on their U.S. risk profile ... and should not be based on global consolidated assets.' The report also specifically lists as one of the objectives to encourage 'foreign investment in the U.S. Banking System.' It also reinforces that domestic regulatory requirements of foreign banking organizations should be taken into consideration when assessing compliance in the United States. This sounds like good news for larger banks in the region that wish to participate more directly in the United States or re-engage. The larger question is whether it will get done, given the current structural problems in Washington."

> **"The Dodd-Frank regulation was an emergency response to the financial crisis and was created before the cause of the crisis was fully understood."**
>
> **— Kai Schmitz**

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

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Washington, DC 20005

www.thedialogue.org

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Subscription inquiries are welcomed at
freetrial@thedialogue.org