LATIN AMERICA ADVISOR

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

January 17-30, 2019

FEATURED Q&A

Will North American Insurance Thrive Under the USMCA?

The United States-Mexico-Canada Agreement aims to allow the introduction of new insurance products. Then-Mexican President Enrique Peña Nieto, U.S. President Donald Trump and Canadian Prime Minister Justin Trudeau signed the accord Nov. 30. // Photo: U.S. State Dept.

Q The new United States-Mexico-Canada Agreement, or USMCA, seeks to broaden the types of insurance products offered in the three countries by allowing the introduction of such products as long as they have not been disapproved, among other provisions. How significant are the insurance-industry clauses for the insurance sectors of the three signatories? If the successor to NAFTA wins legislative approval in the United States, Mexico and Canada, how will the provisions on insurance affect consumers? How well did the financial-sector provisions function in NAFTA, and to what extent is the USMCA an improvement?

A Michelle DiGruttolo, senior managing director at Ankura: "In truth, the USMCA provisions for insurance do not diverge much from those outlined in NAFTA, except for the creation of a tripartite committee to ensure the agreement functions as envisioned, and the loosening of some anticompetitive regulatory requirements. If implemented as written, it will potentially place U.S. insurers and reinsurers in a more competitive position as the relaxed regulatory environment will reduce barriers to entry and will allow providers to craft and deliver a broader array of insurance products at a wider range of price points. The new clauses substantially open the Mexican market. Host to nearly 130 million people, Mexico's insurance penetration rate is the lowest of the developed Latin American economies at only 2.3 percent. As the AMLO administration seeks to deliver better social services and greater access to health care, we expect to see an uptick in the sales and purchase of health, disability and other types of insurance. Moreover,

Continued on page 3

TOP NEWS

BANKING

Mexican Senate Plans to Consider Banking Fee Bill

Ricardo Montreal, the leader of the Mexican Senate, said he will push for a vote on his legislation to cut fees in lawmakers' spring session, which begins next month.

Page 2

CREDIT CARDS

Advent Investing $725 Million in Prisma

Advent International announced that it bought a 51 percent stake in the Argentine operator of Visa cards for $725 million. The private equity firm acquired the stake from a group of local banks and Visa International.

Page 3

BANKING

Banco do Brasil to Shed Units, Close Branches

Brazilian state-owned lender Banco do Brasil will seek to sell its asset management, investment banking and debt collection units, said Carlos Hamilton Vasconcelos Araújo, the bank's chief financial officer.

Page 2

Araújo // File Photo: Agência Brasil.

BANKING NEWS

Banco do Brasil to Sell Units, Seek Branch Closures

Brazilian state-owned lender Banco do Brasil will seek to sell its asset management, investment banking and debt collector units, the bank's chief financial officer, Carlos Hamilton Vasconcelos Araújo, told investors Jan. 29 during a conference, Reuters reported. Banco do Brasil also may seek to close some branches in coming years as part of its efforts to boost profitability. On the same day, Brazilian

> **"Why does the Brazilian state have to sell insurance products? It makes no sense."**
> **— Salim Mattar**

President Jair Bolsonaro's secretary of privatization said Banco do Brasil and another state-owned lender, Caixa Econômica Federal, are among the state entities whose subsidiaries are targeted for privatization, the wire service reported. The minister, Salim Mattar, said the government wants the banks, along with state oil company Petrobras, to sell most of their subsidiaries within the next four years. Banco do Brasil's asset management arm, BB DTVM, as well as all of Caixa's insurance subsidiaries are possible targets for privatization, said Mattar. "Why does the Brazilian state have to sell insurance products? It makes no sense," Mattar told investors during an investment conference that Credit Suisse Group hosted in São Paulo. Banco do Brasil should sell as many as 16 of its subsidiaries, said Mattar. Mattar, who founded car rental company Localiza, said the divestitures of the Banco do Brasil and Caixa units, as well as of Petrobras units, should be easier than the privatizations of state-owned companies that government ministries control. Among those entities are Brazil's post office and Infraero, which owns stakes in the operators of airports. Brazil could raise as much as 800 billion reais ($214 billion) by privatizing state-owned companies, Mattar said. Privatizations, cuts in pensions and on social security spending are among the key parts of Economy Minister Paulo Guedes' plan to reduce the country's public debt, which amounts to about 77 percent of Brazil's gross domestic product, Reuters reported. "If we reduce the debt, the amount of interest we save annually would allow us to increase expenditures in education and health," said Mattar. [Editor's note: See related Q&A in the Jan. 10 issue of the daily Latin America Advisor.]

Brazil's Bradesco Focusing on Artificial Intelligence: Report

Brazilian bank Bradesco is betting on artificial intelligence to boost sales, improve customer experience and cut operating costs this year, Forbes reported Jan. 16. Brazil's second-largest private lender with a portfolio of more than 71 million customers, Bradesco has been developing an artificial intelligence platform dubbed Bradesco Artificial Intelligence, or BIA, over the last four years as it digitized its operations, particularly with its mobile app. "A few years ago, we invested in the idea that BIA would be the engine of a substantial increase in Bradesco's customer value perception," said Mauricio Minas, the bank's executive vice president, Forbes reported. "Today, it is an integral part of any customer interaction, and in 2019 we will see more complex operations being carried out on this platform." Currently, 60 percent of the bank's customer interactions are made through its app, which offers as much as 90 percent of Bradesco's services online. Artificial intelligence development will focus on voice assistance and speech recognition technology, as well as automating sophisticated functions such as consulting, Minas added. "Artificial intelligence and voice will make the app easier to use," he said. Bradesco reported a 13.7 percent increase in profit in the third quarter of 2018, compared to the same period the previous

NEWS BRIEFS

Mexican Senate Plans to Take Up Bank Fee Bill Sooner Than Expected

Mexican Senate leader Ricardo Monreal told Bloomberg News Jan. 23 that he will push a vote on his bill compelling banks to cut fees in the spring session starting next month. "The bill will advance," Monreal said in an interview with the news service. "This is a social demand, a social necessity," he said. Last November, market reaction to Monreal's bill sent Mexico's benchmark stock index to its lowest level in more than two years, leading President-elect Andrés Manuel López Obrador to promise to delay the bill. The measure eliminates as many as 15 separate fees.

Chubb Ties Up With Banco de Chile for Expansion

Zurich-based insurer Chubb Limited announced Jan. 28 that it has entered into a 15-year distribution agreement with Banco de Chile, the largest bank based in Chile. Chubb will distribute its life and general insurance products on an exclusive basis in Chile through Banco de Chile's channels, including branches, automated teller machines, direct marketing and digital tools. Based in Santiago, Banco de Chile has nearly 400 branches and serves more than two million customers across the country. Chubb did not disclose financial details.

JP Morgan Expands Private Banking Business in Mexico

JPMorgan Chase's private bank is expanding in Mexico and elsewhere in Latin America, the unit's regional chief executive told Reuters on Jan. 23. The bank plans to increase the number of its frontline private bankers in Latin America by 15 percent from its current 450 personnel. In addition to Mexico, Argentina and Colombia will also be focus areas for the expansion, the executive, Adam Tejpaul, said in the interview.

year, registering a recurring net income of 5.47 billion reais, or $1.47 billion, Reuters reported.

Costa Rican Banks Implement Protocol to Aid Consumers

Public and private banks that are members of the Costa Rican Banking Association, or ABC, on Jan. 17 put into force a new protocol aimed at protecting consumers, La Nación reported. The new measures aim to prevent bank customers from being harassed, the newspaper reported. The procedures were prepared by the country's Financial Consumers' Office, or OCF, and came in response to a growing number of complaints from consumers about situations including harassment by debt collectors and

Cortés // File Photo: Costa Rican Banking Association.

confusion about contracts consumers must sign. The new protocol includes 19 measures, which banks hope will improve customer service. Among the measures are procedures for financial service providers to deliver mortgage documents to borrowers three days in advance so that they can have time to review the loan conditions. Also, the new measures call for providing consumers with information that clearly explains the functioning of credit cards, including details about situations that could lead to increases in monthly minimum payments. Additionally, consumers would be notified and asked for their prior consent in order to make changes in contracts. Banks are putting the protocol in force on a voluntary basis, said María Isabel Cortés, the executive director of the ABC. The OCF's director, Danilo Montero, said that an evaluation system will be put in place next year.

CREDIT CARD NEWS

Advent International Invests $725 Million in Argentina's Prisma

Boston-based private equity firm Advent International Capital said Jan. 23 it has bought a 51 percent stake in the Argentine operator of Visa cards for about $725 million from a group of 14 local banks and Visa International, Bloomberg News reported. Prisma Medios de Pago's existing shareholders will retain a 49 percent stake in the company. In 2017, Argentina's consumer watchdog accepted a divestment plan, proposed by Prisma, after the company was investigated for monopolizing the market for credit cards and electronic payments, according to the report. The transaction values the company at $1.42 billion, which makes it one of the largest private equity transactions in Argentina over the last 30 years, executives said. Within Argentina, Prisma is the market leader in merchant acquiring, as well as processing services and electronic bill payments. The company is also the second-largest

FEATURED Q&A / Continued from page 1

if the government successfully provides better financial education in schools, we could see a societal transformation from a middle class that focuses on end-of-life elder care, to one that includes preventative health care, making health insurance a significant growth industry. Although most insurers characterize the potential market increase positively, many have voiced concerns about the potential to abuse the 'prudential clause' for economic nationalism. To that end, USMCA is not much of an improvement over NAFTA. That said, the tripartite committee is designed to address such abuses, and we anticipate it will be an improvement over NAFTA."

A Thomas Morante, member of the Financial Services Advisor board and chair of the Insurance Regulatory and Transactional Practice Group at Kaufman, Dolowich & Voluck, and Yani Contreras, a consultant at the firm: "The USMCA, designed as NAFTA's replacement, essentially preserves most of NAFTA's provisions on insurance and seeks to accommodate the modern economy by facilitating market access for new financial services without imposing limits on the number of financial institutions, cross-border financial service suppliers or the total value of financial services transactions. The USMCA encourages—but does not obligate—the parties to expedite the offering of new insurance by licensed suppliers by either not requiring approval or through simplified authorization procedures. Insurance businesses will continue to be subject to NAFTA's basic principles of national

> **"The new clauses substantially open the Mexican market."**
> — Michelle DiGruttolo

treatment, most-favored nation, market access and senior management/board of directors' requirements. As with NAFTA, the application of these principles is subject to the nonconforming measures maintained by each party. A primary difference between NAFTA and the USMCA is that NAFTA's U.S. Annex on non-conforming measures did not incorporate restrictions imposed by U.S. state insurance laws. By contrast, the USMCA adopts U.S. state insurance law restrictions, which may inhibit the ability of Canadian or Mexican companies to engage in insurance business in the United States. The use of illustrative nonbinding examples

Continued on page 6

ATM operator nationally. Outside Argentina, Prisma offers issuer and merchant acquiring processing services to clients in 14 countries across Latin America. The deal marks Advent International's sixth investment in Argentina and eighth investment in the payments sector globally since 2008.

POLITICAL NEWS

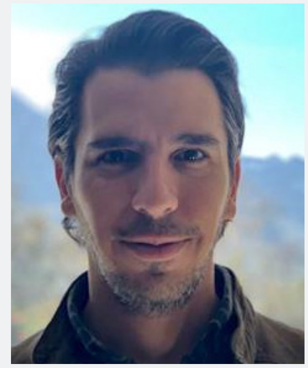
Mexico Won't Accept Minors Awaiting U.S. Asylum Claims

Mexico will not accept returning migrants younger than 18 as they await the resolution of their U.S. asylum claims, the head of Mexico's migration agency said Jan. 28, Telemundo reported. The agency's commissioner, Tonatiuh Guillén, added that Mexico's policy for returning migrants will be applied to only one border crossing, the El Chaparral crossing in Tijuana. The United States had wanted to expand the "remain in Mexico" policy to other crossings, but Mexico will only allow asylum seekers between ages 18 and 60 at El Chaparral, the Associated Press reported. Additionally, Mexico will only allow migrants from Guatemala, Honduras and El Salvador to remain in the country, said Guillén, who added that the Central American migrants will be given four-month visas. Since Dec. 1, Mexico has issued 3,983 transit visas to Central American migrants, the majority of whom have been seeking to enter the United States. Mexico will be extending programs that allow Central American migrants to have work visas in more Mexican states than are currently allowed, the AP reported, adding that migrants from other Central American countries will also be eligible for the work visas. In the "remain in Mexico" program, U.S. authorities plan to bus migrants seeking asylum back and forth across the border to court hearings in downtown San Diego. Under the U.S. policy, officials purportedly seek to discourage immigrants from making asylum claims in the hopes of being allowed to remain in the United States while their claims are being decided, a process that can take years, the wire service reported.

SUBSCRIBER NOTICE

Fabian Saide Joins the Board of Advisors

We are delighted to announce that Fabian Saide has joined the biweekly Financial Services Advisor publication's board of advisors.



Fabian Saide

Fabian is the founder, CEO and president of Paykii, a global cross-border payment platform that empowers individuals living abroad to pay bills and help support family back home.

A native of Mexico, Fabian has more than a decade of entrepreneurial experience building and scaling successful payment technology and transaction processing businesses in the United States, Mexico and other Latin American countries. He has also worked with several government organizations around the world to modernize and automate complicated payment systems that promote financial health and energize economic growth, primarily with immigrants in underserved markets.

Before starting Paykii, Fabian founded Gross Logic, a privately held payment processing company based in Houston, among other startups in the industry. Earlier in his career, he worked as a legal consultant at Deloitte Mexico.

He earned his law degree from the Universidad Autónoma de Nuevo León and currently serves as a board member for the IOS offices, Logrand Group and SIMPPLO. Fabian is also active in developing a welcome center in his hometown of Monterey, Mexico, to help promote inclusive economic growth through a holistic process of immigrant integration.

Facing Pressure, Venezuela's Maduro Courts Military

President Nicolás Maduro on Jan. 27 demanded loyalty from Venezuela's troops in response to a top military attaché in the United States publicly breaking ranks and backing opposition leader Juan Guaidó as the legitimate head of state, The Wall Street Journal reported. Col. José Luis Silva became the first high-ranking officer to officially abandon the government since Guaidó, 35, the newly named head of the National Assembly, declared himself acting president at a massive street protest against Maduro this month. "The armed forces today have a fundamental role in the re-establishment of democracy in the country," said Silva in a video posted on social media. Maduro has called for "grand military drills" next month and visited several bases over the weekend to demonstrate that his legitimacy is backed by the army, Russia-based media outlet RT reported. "We are preparing for the most important military exercises in our history," Maduro told troops. At an emergency session of the U.N. Security Council on Jan. 26, U.S. officials traded rhetorical jabs with Venezuela's top diplomat and Russia's U.N. envoy, The Washington Post reported. Moscow's ambassador to the United Nations, Vasily Nebenzya, accused the United States of trying to "engineer a coup." Guaidó has promised amnesty for soldiers who support him. Silva's defection came as Venezuelan diplomats and consular employees in

NEWS BRIEFS

At Least Three Killed as Rare Tornado Hits Havana

At least three people were killed and 172 injured, 12 critically, as the strongest tornado in 80 years hit Cuba on Jan. 28, the Associated Press reported, citing officials. The tornado touched down in eastern Havana with estimated winds of 200 miles per hour, leaving 90 homes crumbled and one-fourth of Havana's two million people without power, the wire service reported. More than 200,000 people also lost water service.

Ecuador's Gov't Issues $1 Billion in 10-Year Bonds

Ecuador's government on Jan. 28 issued $1 billion of 10-year bonds with an interest rate of 10.75 percent, the Financial Times reported. The placement was well received, but the government is still considering "other potential sources of financing such as international institutions and China," the finance ministry said. President Lenín Moreno's government aims to raise a total of $8 billion this year. [Editor's note: See related **Q&A** in the Jan. 28 issue of the daily Latin America Advisor.]

Latin America, Caribbean No Longer the Top Source for Migration: Report

Latin America and the Caribbean is no longer the fastest-growing source of international migrants, according to a new Pew Research Center study. Most global migrants came from the region between 1990 through 2010, but that number has plummeted in recent years mainly because a slowdown of people leaving Mexico, the study said. The global population of Latin American and Caribbean emigrants grew by 7 percent between 2010-17, far below the Middle East and North Africa, which increased 38 percent. [Editor's note: See related **Q&A** in the Jan. 3-16 issue of the Financial Services Advisor.]

the United States prepared to head home after Maduro broke off relations between the two countries following President Donald Trump's recognition of Guaidó's legitimacy. Meanwhile, Maduro's government on Jan. 27 backed down from demands that U.S. diplomats leave the country almost immediately and instead provided a 30-day window for talks, Reuters reported. The Trump administration warned of a "significant response" if American personnel were threatened or intimidated. "Any violence and intimidation against U.S. diplomatic personnel, Venezuela's democratic leader, Juan Guaidó, or the National Assembly itself would represent a grave assault on the rule of law and will be met with a significant response," U.S. national security advisor John Bolton tweeted Jan 27. European countries have called on Maduro to hold early elections, with France, Germany and Spain threatening to follow the United States and nearly every major country of the Western Hemisphere in recognizing Guaidó. Maduro has received backing from China, Russia, Syria and Turkey, as well as socialist allies Cuba and Bolivia. The White House has appointed neoconservative Elliott Abrams as special envoy to Venezuela, The Washington Post reported. Abrams promoted the 2003 invasion of Iraq and, in the administration of Ronald Reagan, backed U.S. involvement in Central American civil wars.

ECONOMIC NEWS

Mexico Registers Highest Trade Surplus on Record

Mexico registered its highest trade surplus on record in December despite efforts by U.S. President Donald Trump to curb Mexican exports to the United States by redrafting the North American Free Trade Agreement, or NAFTA, Bloomberg News reported Jan. 28. Total exports amounted to $37.5 billion in the last month of 2018, while imports totaled $35.7 billion, resulting in a trade surplus of $1.8 billion, according to Mexican statistics agency INEGI, El Economista reported. The figure is the highest trade surplus for any month since data collection started in 1999. Automotive exports grew by 7.4 percent as compared to the same month a year ago, reaching $11.5 billion, while oil-product imports fell 15.5 percent to $1.38 billion. "Car production and demand have recovered amid less uncertainty over NAFTA," Marco Oviedo, chief Mexico economist at Barclays, told Bloomberg News. "It seems that the new deal implies business as usual and that car exports should continue to be an important component of trade between the U.S. and Mexico." After more than year of talks, Mexico, the United States and Canada signed their new deal, USMCA, in November. The agreement is still up for ratification in all three countries. [Editor's note: See related **Q&A** in the Oct. 11 issue of the Dialogue's daily Latin America Advisor.]

Argentine Economic Activity Falls Sharply in November: INDEC

Economic activity in Argentina slumped 7.5 percent in November as compared to the same month last year, state statistics agency INDEC said Jan. 24. The figure, which was 2.3 percent lower than in October 2018, marks the biggest decline in INDEC's Monthly Economic Activity Estimator (EMAE) in nearly a decade. Agence France-Presse described the economic contraction as "the worst shrinkage during the tenure of President Mauricio Macri." Market economists say the repercussions could drag on for months. "The statistical carry-over from 2018 into 2019 will be very negative, and we expect final domestic demand to remain weak for a while," Goldman Sachs analyst Alberto Ramos told clients in a research note. The South American country suffered from unexpectedly difficult headwinds last year. In the second quarter of the year, a "very large real GDP contraction" was driven chiefly by the negative weather shock over agricultural production, Ramos noted, while the contraction of activity during the second half of last year was driven by a tightening of domestic financial conditions.

FEATURED Q&A / Continued from page 3

as set forth in Appendix III-A of the USMCA explains what would not be permitted in the United States. For example, the appendix reflects that several U.S. states require members of boards to be U.S. citizens, and that some states don't allow non-U.S. residents to become licensed insurance intermediaries unless licensed in another U.S. state. These U.S. state restrictions suggest that Mexican and Canadian companies may need to enter the U.S. insurance market through a state whose law allows establishing an insurance business and then obtaining additional licenses in other states. By contrast, because insurance is regulated at the federal level and there are no current restrictions on incorporation and licensing of subsidiaries of foreign insurance companies, Mexico's more flexible legal environment might prove to be advantageous."

A **Greg Ahlgren, partner at Diaz, Reus & Targ:** "The USMCA, as an aspirational framework, holds the potential to energize the market for insurance in Mexico. Of particular interest is the focus on development of cross-border insurance products, subject to domestic legislation that may apply. Over time, the benefits to consumers could be enormous. Under NAFTA, the development of cross-border insurance products has been limited across all types. Under the USMCA, however, the Mexican government´s explicit objective is the incorporation of new technological tools, which could foreseeably lead to a new class of cross-border insurance products in the marketplace. Producers of such cross-border insurance products would find a potential customer pool among the millions of residents of the 'twin cities' of the U.S./Mexico borderlands, and well as individuals and enterprises in the interiors of the respective member countries. Three areas of focus can potentially be addressed in the USMCA insurance marketplace: the general liability insurance needs of residents of the borderlands, from Tijuana to Matamoros; the growing expat communities in the interior; and transport companies operating on both sides of the U.S./Mexico border. By expanding the opportunities for innovation in this sector, Mexico's economy ministry seeks to attract significant foreign investment, which can only result in a net benefit to the USMCA member states. Furthermore, new hybrid insurance may ease the NAFTA-era regulatory burdens of conducting cross-border projects in North America."

> **"The USMCA, as an aspirational framework, holds the potential to energize the market for insurance in Mexico."**
> **— Greg Ahlgren**

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, Copyright © 2019

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org

Financial Services Advisor is published biweekly, with the exception of major holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
freetrial@thedialogue.org