

INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR ► FINANCIAL SERVICES

BOARD OF ADVISORS

- | | |
|---|--|
| Ernesto Armenteros
Vice President,
Banco de Ahorro y
Crédito Unión S.A. | Franco Moccia
Consultant |
| Richard Child
Founder,
Matrix Group | Edward L. Monahan Jr.
Strategy Advisor |
| Jeanne Del Casino
VP & Group Credit
Officer, Latin America,
Moody's Investors
Service | Thomas Morante
Partner,
Holland & Knight, LLP |
| Michael Diaz Jr.
Partner,
Diaz, Reus & Targ, LLP | Manuel Orozco
Director, Remittances
& Development
Program, Inter-
American Dialogue |
| Brian F. Doran
Region Executive &
Director of
Governmental Affairs,
Banco Popular North
America | Adalberto Palma-Gomez
Senior Partner,
APERTURE S.C. |
| Ernesto Fernández Holmann
Chairman of the
Board, Ayucus | Rodolfo Pittaluga
Principal, Deloitte
Financial Advisory
Services LLP |
| Tom Haider
Consultant | Roberto Teixeira da Costa
Board Member,
SulAmérica S/A |
| Earl Jarrett
General Manager,
Jamaica National
Building Society | Mario Trujillo
President, CEO &
Board Member,
DoIEx Dollar Express |
| Thomas J. Mackell Jr.
Chairman,
United Benefits and
Pension Services Inc. | Luis Viada
Chief Operating
Officer,
US-Mexico Foundation |

FEATURED Q&A

Why Are So Many in Latin America and the Caribbean 'Unbanked'?

Q Fewer than two in five residents of Latin America and the Caribbean report having an account at a formal financial institution and only one in 10 report having saved money at a formal institution in the past year, according to a survey released in July by Gallup and the World Bank. In these areas, the region lags both developing economies as well as the global average, the poll found. Why is such a large portion of the region's residents 'unbanked'? What should financial services companies and other actors do to bring more people into the formal financial system? Is a high percentage of unbanked residents holding down development in Latin America and the Caribbean, or are alternatives to traditional banking services the best path ahead?

A Nancy Lee, general manager of the Multilateral Investment Fund (MIF) of the Inter-American Development Bank: "Only a quarter of low-income adults in the region have a formal bank account. Less than 10 percent of the population received credit or saved at a formal financial institution in the past year. Research on the use of informal financial services by the poor demonstrates that the problem is not demand, but supply. A critical need is commercially viable business models to provide small, low-fee accounts to clients located far from bank branches.

The microfinance experience shows that volume and efficient channels are critical when per-transaction profits are very small. Some exciting business models are emerging with huge potential for scale. In Colombia, the MIF is supporting financial institutions that offer simplified low-balance savings accounts that can be accessed and managed through mobile phones. In El Salvador, the MIF is partnering with a major credit union network to provide tailored savings products to recipients of remittances and government

Continued on page 3



Brazilian Finance Minister Tells Banks to Boost Lending

Brazilian Finance Minister Guido Mantega reportedly urged executives of the country's largest banks to increase lending at lower rates. President Dilma Rousseff has directed similar statements at banks. See story on page 2.

File Photo: Brazilian Government.

Inside This Issue

FEATURED Q&A: Why Are So Many in Latin America and the Caribbean 'Unbanked'?1	Argentina's BBVA Banco Francés Reports 68 Percent Rise in Profit.....2	Remittances to Mexico Grow 6.2 Percent in Year's First Half.....3
Brazilian Finance Minister Urges Banks to Boost Lending2	Chilean Authorities Investigate ATM Fraud2	Human Capital: Latin Countries Outpacing Peers in Education Advances4
Peru's Banking Regulator Eyes Higher Loan Provision Requirements2	Brazil's Caixa Planning to Boost Loan Portfolio by 42 Percent.....3	Economic and Political News: Chile, Honduras, Ecuador and More4-5

FINANCIAL SERVICES BRIEFS

Chilean Authorities Investigate ATM Fraud

Authorities in Chile are investigating complaints that the checking accounts of more than 1,500 people in the south-central Araucanía region were compromised, the *Santiago Times* reported Aug. 3. Criminals attached card-reading devices on ATMs to capture information and then used them to create fake bank cards, authorities believe. Police believe the theft amounts to approximately 170 million pesos (\$340,000). The government's National Consumer Service is investigating the matter.

BofA Hires Four Employees Away From Morgan Stanley

Bank of America has hired four employees away from **Morgan Stanley** for its Latin America operations, Reuters reported Wednesday. Among the employees is Pedro Aspino, who will be the new head of Bank of America's equities business in the region. Also hired were Viraj Verma, who will lead the equities trading desk for Latin America; Fabio Schvaitzer, who will be a director on the cash/swap trading desk in Brazil; and Caio Ramos Leite de Barros, who will be a member of the bank's Brazil equities trading team.

Pan-American Acquires Some MetLife Assets in Region

New Orleans-based **Pan-American Life Insurance** on Aug. 1 announced it received regulatory approval and has completed its acquisition of **MetLife** businesses in the Cayman Islands, Costa Rica, Panama, St. Lucia and Trinidad and Tobago. In all, the MetLife deal covers some \$675 million in assets and more than \$170 million in revenues across 15 countries.

Banking News**Brazilian Finance Minister Urges Banks to Boost Lending**

Brazilian Finance Minister Guido Mantega has urged top executives of the country's largest banks to increase lending at lower borrowing costs, Reuters reported Aug. 8, citing two unnamed sources familiar with the matter. Mantega told the executives that they have room to reduce their spreads, or the difference between the amount of interest they pay depositors for savings and the rates at which they lend to borrowers. "It was kind of a demand from him," one of the sources told the wire service. "The government believes there is still room for credit conditions to improve, which is necessary to speed up the economic recovery," added the second source. The country's central bank chief, Alexandre Tombini, also attended the meeting, the sources said. Recent interest rate cuts and reductions in spreads have not boosted credit and revived the economy, Mantega reportedly told the executives. President Dilma Rousseff has also urged banks to reduce the rates at which they lend money, which are among the world's highest. The government has sharply cut the country's benchmark Selic rate over the past several months, but spreads have not fallen as much. Some bank executives have complained that Rousseff is bullying private-sector banks. The pressure from the government has taken a toll on the shares of banks, which have fallen some 16 percent since April.

Peru's Banking Regulator Eyes Higher Loan Provision Requirements

Peru's banking regulator has told the country's lenders that they must shield themselves against higher levels of risk by boosting provisions for bad loans as they increase lending to lower-income borrowers, Reuters reported Aug. 7, citing the regulator's adjunct superintendent. The regulator, known as SBS, under the new draft regulation would tighten requirements for provisions that in some cases are already tighter than similar rules in the United

States and Europe. The regulator has given banks until Oct. 15 to respond to the regulator's statement. They will have to comply by July 2015. The higher requirements for provisions are an effort to proactively prevent risk, the adjunct superintendent told Reuters. Some Peruvian banks have said they are already being more cautious with provisions as they seek to attract borrowers, some of whom have never had access to loans. Peru's poverty rate is approximately 27 percent. On Monday, Peru's **Credicorp** said it boosted loan provisions in the second



Velarde

File Photo: TV Perú.

quarter by 84 percent, to \$110.9 million. The country's largest financial holding company reported a 1.3 percent year-on-year decline in net income, to \$171.9 million in the quarter. Credicorp's decision to boost provisions is part of "our conservative provisioning policy, which accompanies our incursion efforts in lower income segments," said the bank. In the April-through-June period, Credicorp increased its loan portfolio to \$19.2 billion, an 18.7 percent year-on-year increase. In addition, **Intercorp Financial Services**, the owner of Peru's fourth-largest bank, **Interbank**, recently reported that it had increased its provisions for bad loans by 37 percent, to \$94 million. The central bank's president, Julio Velarde, said earlier this year that Peru and neighboring countries been more relatively stringent about protecting the banking system against bad loans. "In general, in Latin America we have already met rules that they are requiring Europe and the United States to meet in 2018—precisely because we have been more prudent," Velarde told Reuters in May.

Argentina's BBVA Banco Francés Reports 68 Percent Rise in Profit

Argentina's **BBVA Banco Francés** on Aug. 10 reported that its profit for the second quarter increased 68 percent year-on-year as a result of large lending revenue

increases, Dow Jones reported. The bank's net profit grew to 330.9 million pesos (\$71.9 million), or 62 centavos per share, as compared to 197 million pesos, or 37 centavos per share, a year earlier, Banco Francés said in a filing with Buenos Aires' stock exchange. The bank announced that its net financial margin increased 75 percent to 916.7 million pesos. The margin represents the difference between the amount the bank pays depositors for savings and the amount it charges borrowers in interest. The bank added that its net fee income increased 28 percent to 438 million pesos and that its deposit base grew 15 percent to 30 billion as of the end of June. The bank's private-sector loans grew 29 percent to 23.7 billion pesos at the end of June and were fueled by commercial, consumer and auto loans. Spain-based **Banco Bilbao Vizcaya Argentaria** controls the Argentine bank, which has 270 branches and 656 ATMs.

Brazil's Caixa Planning to Boost Loan Portfolio by 42 Percent

Brazil's **Caixa Econômica Federal** is planning to increase its loan portfolio by 42 percent this year as it boosts mortgage and consumer lending, the state-run bank's chief executive officer said Aug. 9, Reuters reported. Jorge Hereda made the statement as the bank reported an increase in net income for the second quarter, to 1.682



Hereda

File Photo: Brazilian Government.

billion reais (\$833 million). Profits grew 45 percent in the second quarter as compared to the first. The increase in Caixa's expected loan book was an increase from the 33 percent growth the bank had previously expected. Hereda said that corporate- and consumer-loan demand is expected to drive the bank's loan growth, for which the bank is targeting a 60 percent annual expansion. Mortgage lending is forecast to grow 25 percent this year, he said. The bank's delinquencies declined in the second quarter, even as the bank's loan book grew 46 percent year-on-year.

Featured Q&A

Continued from page 1

transfers. These are examples of using innovative low-cost distribution channels and carefully designed products to bridge the gap between financial product demand and supply. Our job at the MIF is to help pioneering financial institutions test and scale up innovative models. At our annual conference, FOROMIC, in Barbados this October, we will be proud to present an award to the best micro savings institution in the region. Research shows that, given the opportunity, the poor prefer formal products from formal institutions that are both safer and more reliable. The strong institutions that we at the MIF and many others have worked to support can now be platforms for savings, insurance, as well as credit, as we help them find the right business models."

A **Mario Trujillo, member of the Financial Services Advisor board and president and CEO of DolEx Dollar Express, Inc. in Lawrenceville, Ga.:** "Latin America and the Caribbean do experience lower levels of 'formal' banking participation than do other developing economies around the world. There are many reasons for this fact including in some cases lower education and income levels, cultural biases and distrust of banks in general, trust concerns about certain politicians and certain governments, lack of physical access to banks in rural areas, lack of

technology and related education, high costs and inefficiencies, legal limitations and unfriendly service. However, any credible proposed plans to correct this situation must include alternative financial sector (AFS) players in the solution. AFS players—especially those that are well capitalized, reputable and highly regulated—provide a 'farm team' environment with customized products, services, financial education and a friendly environment for customers to conduct their basic financial and communications needs at a fair price. These AFS players often reside near their customers' places of work or housing, deliver services at the appropriate level and nurture these customers in their natural environments. The 'formal' banking system alone is often generally viewed as the only solution to these customers' financial needs and many AFS players are viewed as predatory, incompetent or unsophisticated. This notion disregards that in many situations, bank products and services do not address these consumer needs or price points, therefore not meeting basic requirements efficiently. AFS players can and do fill this void in many cases. AFS players should be provided a fair opportunity to compete for these customers and be viewed as part of the solution to help develop and bring along these consumers who generally are not ready for traditional bank products and services at traditional price points."

Continued on page 6

Remittances News

Remittances to Mexico Grow 6.2 Percent in Year's First Half

Mexicans living abroad sent home \$11.85 billion in the first half of this year, a 6.2-percent increase from the same period last year, the central bank announced Aug. 1, EFE reported. From January through June, there were 36.4 million transactions, an increase of 6.4 percent year-on-year. More than 98 percent of the total remittances were done through wire transfers, the bank said. In the year's first half, the average

amount remitted was \$331, as compared to \$326.51 a year earlier. Most of the money sent to Mexico in remittances, the country's second-largest source of foreign income after oil exports, comes from the United States, where some 12 million Mexicans live. In June, Mexicans sent \$2.09 billion back home, a 3.5 percent increase from the same month last year, the central bank said, Dow Jones reported. Spanish bank **BBVA** said in a recent report that Mexico's remittance growth in 2012 could be the largest the country has seen in five years. Next year, the amount of money sent to Mexico could exceed the record of \$26 billion from 2007. "With the recovery in

the U.S. economy, remittances have started to increase, and migratory flows could also gradually start to do so," said BBVA. "Although migratory flows haven't increased, there hasn't been a massive return of Mexican migrants." Migration growth has stalled since 2008 because of the U.S. economic crisis and crackdowns in several states against illegal immigrants, which BBVA called the "Arizona effect." The bank also noted that Mexico's birth rate has fallen in recent years and that there have been more opportunities for work in Mexico. Seventy percent of immigrants who return to Mexico from the United States find a job within three months, said BBVA, citing National Statistics Institute data.

Economic News

Chile's Government Revises Tax Bill Under Pressure

Chile's government on Aug. 2 announced revisions to a major tax reform bill that would remove some benefits for higher-income people in a move to help secure congressional passage before upcoming local elections, Reuters reported. President Sebastián Piñera said the revamped bill, originally sent to Congress in April, would raise the government's tax income by

The revamped bill would raise the government's tax income by around \$1.2 billion in its first year, said Piñera.

around \$1.2 billion in its first year. It was previously anticipated to raise between \$700 million and \$1 billion in extra revenue annually, according to the report. The government had proposed reducing the top tax rate paid by high earners to 36 percent but has now opted to leave it steady at 40 percent. Piñera originally proposed the tax reform under pressure from student groups to increase spending on education following massive and sometimes violent protests demanding improved education

Human Capital

A Look at Education in Latin America by the Dialogue's Jeffrey Puryear Latin Countries Outpacing Peers in Education Advances



WASHINGTON—A recent Harvard University [study](#) found that Chile and Brazil are among the three countries that have raised student learning at the fastest rate between 1995 and 2011 (Latvia was the third). Each improved three times faster than the average of the 49 countries included in the study. Colombia was also among the top 10, improving at twice the average. This is encouraging news for education reformers, suggesting that sustained efforts to raise student learning are beginning to pay off.

To be sure, results in Chile, Brazil and Colombia are still woefully unacceptable. Each country's students score in the bottom third worldwide on the OECD's PISA exam. However, they appear to be improving faster than most others.

How to explain their progress is less clear. All three countries have worked hard to increase learning, experimenting with many different reform measures. And they started from a very low base, making it easier to get results from relatively simple and inexpensive fixes. Here are some other possible explanations:

All have managed to grow their economies and reduce poverty over the past two decades, making it easier for poor children to concentrate on school. In each, presidents have made education a top priority, appointing and supporting talented ministers. In Brazil and Colombia, first-rate ministers have served for eight years, giving them time to learn the job and consolidate their strategies. All have favored whole-system reform over piecemeal measures and kept changes largely intact from one administration to the next.

The three countries have emphasized measuring results (particularly learning) and sharing that information widely—with parents, politicians and the press. Each administers achievement tests to all students rather than just to a sample, making it easy to compare progress. All participate regularly in global student achievement tests, and they have adopted policies aimed at attracting more talented teachers and rewarding good teaching. Chile has been the leader, significantly raising salaries, assessing teacher performance and experimenting with merit pay. Brazil has instituted bonus pay, raised the education levels of its teachers and improved in-service training.

All have experimented with competition and accountability (although in very different ways). Chile stands out with a robust system of publicly funded, privately managed voucher schools that lets many parents choose the school their children attend. Colombia has established a much smaller system of concessionary schools in which successful private schools contract to manage public schools and meet clear performance standards. Brazil has concentrated on creating a competitive climate by measuring and comparing publicly the results achieved by states, municipalities and individual schools. Each has taken steps to make education funding more equitable. For example, Brazil established a funding floor that reduced differences in funding between poor and rich states. Chile instituted a differentiated voucher system that pays schools up to 50 percent more for each disadvantaged student they teach.

Perhaps most importantly, all three countries have made education a national issue, creating a sense of urgency that has energized public opinion and pressured politicians and schools for results. The big question now is whether each country will figure out how to keep progress going until they reach acceptable levels of learning.

Jeffrey Puryear is vice president for social policy at the Inter-American Dialogue and co-director of the Partnership for Educational Revitalization in the Americas (PREAL).

opportunities and greater equality in Chilean society. The tax reform announced last April would lower interest rates on student loans from 6 percent to 2 percent, the country's education minister, Harald Beyer, told reporters. Students will have to repay the loans after getting a job and would be required to pay no more than 10 percent of their wages. The government also will guarantee that 60 percent of the poorest students receive scholarships, added Beyer. Analysts have suggested that Piñera's government, which has struggled with low approval ratings, hopes that passing the revised tax reform now will help his coalition perform better in the October municipal elections, Reuters reported.

Mexico Sees Better-Than-Expected Rise in Industrial Output

Gains in the manufacturing sector drove Mexico's industrial output in June to its largest increase in nine months, Reuters reported Aug. 13. The country's industrial production increased a seasonally adjusted 1.3 percent in June as compared to May, according to the national statistics agency. The rise was better than the 1 percent increase that analysts surveyed by Reuters had expected. In May, industrial output declined an adjusted 0.65 percent. The increase in June was the quickest since September as export orders helped to fuel the sector. As compared to the same month last year, Mexico's industrial output grew 3.7 percent in June, a larger increase than the expected 3.5 percent. In this year's second quarter, Mexico's gross domestic product growth was likely to have slowed to 0.8 percent, according to a Reuters poll of analysts. In the first quarter, the economy grew 1.3 percent.

Political News

Rio Looks Toward Games With Arrival of Olympic Flag

The mayor of Rio de Janeiro and other officials touched down in the Brazilian city Aug. 13 with the Olympic flag in hand, as the country looks toward the Summer Olympics in 2016, the Associated Press reported. Mayor Eduardo Paes brought the

flag from London, which capped its Olympics with closing ceremonies on Sunday. "I see the arrival of this Olympic flag as not the start, but the consolidation of an important process of transformation for the city of Rio de Janeiro," said Paes, the AP reported. After arriving at Rio's international airport, Paes said the Olympics mark an "important moment" for Brazil and for Rio. "Rio is a city that spent the lion's share of its history, much more time than it should have, looking toward the past. I'm sure that this process of transformation, this turning toward the future, has been consolidated here," he added. Some demonstrators protested outside the airport, voicing objections against the possible expulsion of about 4,000 people living in the Vila Autodromo community, where officials are to build the



Officials brought the Olympic flag to Brazil on Aug. 13.

Photo: Agência Brasil.

Olympic Park. In all, as many as 170,000 people could be removed from their homes due to projects related to not only the Olympics, but also the World Cup, which Brazil is hosting in 2014. When asked about the residents of Vila Autodromo, Paes said officials will not move people from their homes without consultation. "No one is going to throw anyone out of anywhere ... without there being an alternative," said Paes. "The people will only leave there with lots of consultations, with lots of discussion, with lots of respect." The 2016 games will be the first Olympics to be held in South America. Some concerns have been raised that Rio has not yet built the Olympic Park and other necessary infrastructure. In June, International Olympic Committee members visited Brazil and said timelines for preparing for the 2016 games were "already very tight," BBC News reported.

POLITICAL & ECONOMIC BRIEFS

Honduras Cooperating With U.S. Probe of Chief: Foreign Minister

Honduras' foreign minister said Aug. 13 that the government is cooperating with the United States in its probe into allegations of human rights abuses by the country's new police chief, Juan Carlos Bonilla, the Associated Press reported. Foreign Minister Arturo Corrales' statement followed a U.S. State Department report saying Washington will suspend aid to agents working under Bonilla until an investigation is completed. An internal Honduran police report a decade ago alleged Bonilla was involved in at least three killings or forced disappearances from 1998 to 2002. For this year, the United States has pledged to provide the Central American country \$56 million in security and development aid.

Ecuador Posts Surplus of \$390 Mn for First Half of 2012

Ecuador had a trade surplus of nearly \$390 million for the first six months of 2012, the central bank said in a statement on Aug. 13, Reuters reported. Total exports for the period rose 10.1 percent, including a 6.1 percent rise in oil exports, while imports increased by 8.7 percent. It is the highest surplus for the first half of the year that Ecuador has posted in at least four years.

Mexican Mayor-Elect Fatally Shot

The mayor-elect of the city of Matehuala in the state of San Luis Potosí was shot and killed as he and two others drove home following a party, BBC News reported Aug. 12. Edgar Morales Pérez of the Institutional Revolutionary Party, or PRI, was elected on July 1. His campaign manager was also killed in the attack. One other person survived.

Featured Q&A*Continued from page 3***A Manuel Orozco, member of the Financial Services Advisor board and director of the Remittances & Development Program at the Inter-American Dialogue:**

"The large percentage of people without financial access, particularly account ownership, is due to the traditional, colonial and oligarchic banking model adopted in Latin America centuries ago—an approach based on offering financial services to the wealthy, agro exporters and selected small businesses. As modernization of the region ensued, banking services have expanded. However, a number of factors still hinder financial access, namely: prevailing inequality, poor competition, inadequate technologies and a lack of regulatory reform and financial literacy. While one-third of people have a bank account, and one-tenth have a savings account, over half of Latin Americans own liquid and fixed assets, mostly informal. That is, they have asset-building capability. Moreover, over 70 percent of adults are transactional clients, meaning they use transactional banking services regularly, though institutions do not reach out to them to mobilize their savings or obtain credit. Therefore, this population is not holding back development, but rather is precluded from promoting further growth due to their lack of access. Central to a solution to increas-

ing financial access is adoption of a comprehensive strategy that includes regulatory reform on consumer financial protection that requires banks to expand financial services to all sectors of society, introducing financial education methodologies that reach out to existing transactional clients and demonstrating the importance of budgeting and saving at financial entities. Other strategies include introducing new technologies and services that reach transactional people through different means and bankarizing small merchant stores in order for them to reach out to the broader population via electronic payments. Setting standards on financial access and goals to reduce the number of people in the unbanked sector are additional approaches. In addition, financial service modernization as a means to promote access should include more expansion and strengthening of non-banking depository institutions. These strategies are not costly, but require political will and a recognition that financial development is central to economic development."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

Financial Services Advisor

is published biweekly by the Inter-American Dialogue, Copyright © 2012

Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Rachel Sadon

Reporter, Assistant Editor
rsadon@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

Peter Hakim, President Emeritus

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Maria Darie, Director, Finance & Administration

Paul Isbell, Visiting Senior Fellow

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director,
China and Latin America Program

Aurea Molto, Fellow

Manuel Orozco, Director, Remittances
and Development Program

Tamara Ortega Goodspeed, Senior
Associate, Education

Jeffrey Puryear, Vice President, Social Policy

The Inter-American Dialogue's **Financial Services Advisor** is published biweekly, with the exception of major holidays, from 1211 Connecticut Avenue NW, Suite 510 Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at fretrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Q&A EVERY BUSINESS DAY
Latin America Advisor

Subscribers can write editor Gene Kuleta at gkuleta@thedialogue.org to suggest topics for the Advisor's daily Featured Q&A section.