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FEATURED Q&A

How Well Is Mexico Fighting Money Laundering?



A recent report by the Financial Action Task Force said Mexico is not doing enough to fight money laundering. // File Photo: publicdomainpictures.net.

Q Mexican officials are failing to proactively and systematically investigate and prosecute cases of money laundering, the Financial Action Task Force said in a Jan. 3 report, which added that efforts to fight money laundering in Mexico are hindered by corruption within the country's law enforcement agencies. The report led Mexico's acting attorney general to defend the country's efforts, saying prosecutors were already working to improve investigations of the crime. How valid are the FATF's criticisms of Mexico's anti-money laundering efforts? How well are Mexico's banks and other financial services providers guarding against such crimes? What are the main ways that anti-money laundering efforts in Mexico should be improved?

A Adalberto Palma, member of the Financial Services Advisor board and president of the Union of Mexican Financial Institutions (UNIFIMEX): "Another way to look at the recent FATF report on Mexico is to conclude that authorities who work in the prevention of and fight against money laundering are advancing in a heterogeneous way. At the forefront is the financial authorities' First National Risk Survey with information from the authorities and the financial institutions. The progress that has been shown in fighting money laundering has been significant. An improvement in the transparency of trusts, an increasing amount of information exchanged between Mexican financial institutions and their counterparts abroad and supervision based on risks are among the acknowledgements of the report. Among the tasks that are still pending are improving the identification of final beneficiaries from

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TOP NEWS

BANKING

Intermedium Hires Banks for IPO in Q2

Brazilian digital bank Intermedium has reportedly hired advisors for its planned initial public offering. The bank is planning to list its shares in São Paulo.

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BANKING

Caixa OKs New Governance Rules After Replacement of Vice Presidents

Brazil's Caixa Econômica Federal approved new governance rules following the replacement of four vice presidents, who stepped down amid corruption allegations.

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INSURANCE

Natural Disasters in Americas Dent Earnings of QBE

QBE Insurance said it expects to swing to a sharp loss for 2017 as natural disasters took a toll on the company's earnings. Chief Executive Officer Patrick Regan said the cost of the disasters has been "unprecedented."

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Regan // File Photo: QBE Insurance.

BANKING NEWS

Intermedium Hires Banks for IPO Planned for Q2

Intermedium, a Brazilian digital bank, has hired banks to advise it ahead of its planned initial public offering, which is planned for this year's second quarter, Reuters reported Jan. 15, citing a source with knowledge of the matter. The bank, known as Inter, has hired the investment banking units of Banco Bradesco, Morgan Stanley, Citigroup and Banco do Brasil, said the source, who requested anonymity because of the private nature of the negotiations. Banco do Brasil declined to comment to Reuters on the report, while Bradesco, Morgan Stanley and Citi did not immediately comment. Inter, which expects to list its shares in São Paulo, has 400,000 clients and 370 million reais (\$115 million) in total equity, according to financial statements from the middle of last year. The Menin family, which is the main shareholder of the MRV Engenharia e Participações home-builder, controls Inter, according to the Brazil Journal financial blog.

CREDIT CARD NEWS

Brazilian Credit Card Processing Firm Plans IPO

Brazil-based credit card processing firm Stone Pagamentos is planning an initial public offering later this year in New York, Reuters reported Jan. 19, citing three people with knowledge of the matter. The IPO, which is planned for the year's second half, would be part of the company's efforts to compete with larger rivals such as Cielo and Itaú Unibanco Holding's Rede division. For the offering, Stone Pagamentos and investment banks have discussed a transaction in which some of the company's stakeholders would sell part of their holdings,

the sources told Reuters. Stone Pagamentos has reportedly not yet hired advisors for the IPO. The company is controlled by its founders, André Street and Eduardo Pontes. Its minority shareholders include Britain-based buyout firm Actis and Brazil's Gavea Investimentos. Also among Stone Pagamentos' shareholders are U.S.-based investment firm Madrone Capital Partners and three of the founders of 3G Capital. Actis declined to comment to the wire

Stone Pagamentos has 4.5 percent of the payment market in Brazil, which is home to about a dozen card processing firms.

service on the reported plans for the IPO, while Stone Pagamentos, Gavea and Madrone did not immediately comment. If the IPO happens this year, Stone Pagamentos would be Brazil's second card processor to list shares in 2018. PagSeguro Internet, which Brazilian media group Universo Online owns, filed last month for an IPO on the New York Stock Exchange and is expected to raise at least \$1.6 billion when the shares price the week of Jan. 22 and start trading on Jan. 24. Stone Pagamentos currently has 4.5 percent of the payment market in Brazil, which is home to approximately a dozen card processing firms. As of 2015, just 32 percent of Brazilians had a credit card, as compared to about 60 percent in the United States, according to the World Bank.

INSURANCE NEWS

Natural Disasters in Americas Dent Earnings of QBE

Australia-based QBE Insurance said Jan. 22 that it expects to swing to a sharp loss for 2017, in part due to natural disasters that hit

NEWS BRIEFS

Caixa OKs New Governance Rules After Replacement of VPs

Caixa Econômica Federal on Jan. 19 approved new governance rules, the Brazilian state-owned bank said in a statement. The approval came a day after Caixa announced replacements for four of its vice presidents who had stepped down following a graft investigation. Among the governance changes is a requirement that at least 25 percent of the bank's board be comprised of independent members.

U.S. Treasury Warns Against Venezuela's Proposed Cryptocurrency

The U.S. Treasury has warned U.S. investors to approach Venezuela's proposed "petro" cryptocurrency with caution, saying the petro may conflict with the United States' sanctions against the Venezuelan government under President Nicolás Maduro, Reuters reported Jan. 16. A U.S. Treasury spokesperson told Reuters that the currency could "expose U.S. persons to legal risk," given that the digital currency appears to be an extension of credit to the Venezuelan government. U.S. sanctions prohibit dealings in new debt from the Venezuelan government or its state oil firm PDVSA.

Brazil Regulator Bars Funds From Investing in Cryptocurrencies

Brazil's securities regulator on Jan. 12 prohibited local investment funds from buying cryptocurrencies, Reuters reported. The CVM ruled that cryptocurrencies cannot be considered financial assets, which effectively bars funds from investing in bitcoin and other such digital currencies. The ruling added that local funds interested in investing in cryptocurrencies by taking stake in foreign funds should await further clarification from the watchdog.

the Americas last year, Dow Jones reported. The insurer said it is forecasting an after-tax loss of approximately \$1.2 billion for last year. In 2016, QBE had posted a 23 percent increase in profit, to \$844 million, partially due to higher investment income. For the first half of 2017, the insurer had net profit of \$345 million, a 30 percent year-on-year increase. However, powerful and deadly earthquakes in Mexico as well as hurricanes in the Atlantic took a toll on earnings. The company cautioned in October that the natural disasters would crimp profits. At the same time, QBE boosted its annual allowance for individual and disaster claims to \$1.75 billion, an amount that it said would affect pretax earnings by approximately \$600 million. "This has been a challenging year for QBE, reflecting an unprecedented cost of catastrophes as well as the particularly dis-

“This has been a challenging year for QBE...”

— Patrick Regan

pointing deterioration in our emerging markets businesses,” said CEO Patrick Regan. Regan became CEO this month and previously headed the insurance company’s operations in Australia and New Zealand and also served as chief financial officer. Regan said he had spent the last few months reviewing the company’s operations. He said that while some parts of the insurer’s operations are performing well, others are not. Regan added that QBE is currently undergoing a strategic review of its operations in Latin America in an effort to reduce risk and simplify its business. QBE also said that for 2017, it booked a hit of \$230 million to the carrying value of deferred tax assets because of the lowering of the corporate tax rate in the United States as well as an impairment charge of \$700 million on revised assumptions on the value of goodwill in North America. [Editor’s note: See [Q&A](#) on how natural disasters in the Americas are affecting tourism to the region in the Oct. 4 issue of the Dialogue’s daily Latin America Advisor.]

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clients’ declarative processes, overcoming technical deficiencies in the cross-border declaration system and allocating more resources to strengthen financial research and refine the quality of suspicious operations reports. The prevention of asset laundering in the digital financial market is the new goal of institutions associated with UNIFIMEX, over which I preside, and it is the essential theme of its ninth annual seminar on the prevention of money laundering and terrorist financing. At the seminar, international experiences on the subject will be discussed in order to identify best practices and assimilate them into a changing reality.”

A Jan Smith, member of the Financial Services Advisor board and partner at KoreFusion in Mexico City: “The Financial Action Task Force is correct in saying Mexico is reactive in investigating and prosecuting money laundering. It is also right in noting that Mexico’s AML/KYC systems are mature on paper. The issue is not a gating issue, but rather one of verification, enforcement and prosecution, all of which are hindered by political corruption. Mexican banks are generally effective in applying AML/KYC filters, but they are not set-up to investigate sophisticated money laundering schemes. Mexican authorities need to aid the financial system and coordinate more with their U.S. counterparts, but President Trump’s brashness hinders this. Furthermore, Mexico’s legal system is obtusely set-up for the agile confiscation of assets and needs overhauling. Political infighting and corruption hinder the introduction of laws that cast more light on financial transactions and assets, and facilitate prosecution and confiscation. Mexico’s law enforcement agencies are deeply affected by this. Mexicans are also very frustrated with the slow investigations of multiple high-profile political money laundering crimes, and they are exasperated

with the dismal levels of prosecution. Twenty-two sitting and former PRI governors are under investigation or on the lam, accused of laundering, deviating or stealing more

“Political infighting and corruption hinder the introduction of laws that cast more light on financial transactions and assets...”

— Jan Smith

than \$14 billion in the last six years. They represent two-thirds of the states, and the totality of the governors under the PRI. The fight against money laundering requires two things to improve: the first is a transparent and democratic rule of law in Mexico; the second is a gradual decriminalizing of drug use and drug sales in the United States.”

A Marcela C. Blanco and Javier Coronado, associate attorneys at Diaz, Reus & Targ: “The FATF’s evaluation acknowledges that Mexico has a legal framework for combating money laundering that is particularly strong with regard to its criminalization, and that the Mexican financial sector has a good understanding of core risks and obligations regarding money laundering. Notably, it states that Mexican authorities—especially the Procuraduría General de la Nación (‘PGR’) and Servicio de Administración Tributaria (‘SAT’)—have comprehensive access to the Financial Intelligence Unit (‘FIU’), which produces the strategic analyses and financial intelligence information needed to launch money laundering investigations. However, the FATF’s report highlights that Mexico still faces three significant imped-

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POLITICAL NEWS

E.U. Levels Sanctions Against Seven Top Venezuelan Officials

The European Union on Jan. 22 imposed economic and travel sanctions against seven top officials of Venezuela's government, accusing them of human rights abuses or breaching the rule of law in the country, the Associated Press reported. In a statement, the European Union said it was leveling the sanctions "as the political, social and economic situation in Venezuela continues to deteriorate." The sanctions include Diosdado Cabello, who heads Venezuela's ruling socialist party and is seen as the country's second-most powerful leader, after President Nicolás Maduro. The E.U. sanctions list also includes Venezuelan Attorney General Tarek William Saab, Interior Minister Néstor Reverol, Supreme Court President Maikel José Moreno, National Guard Commander Antonio José Benavides, elections commission head Tibusay Lucena and national intelligence agency director Gustavo Enrique González. The sanctioned individuals "are involved in the non-respect of democratic principles or the rule of law as well as in the violation of human rights," the European Union said, adding that they will be banned from traveling in Europe and will have any assets they have in Europe frozen. On Venezuelan state television, the government's communications minister, Jorge Rodríguez, blasted the sanctions as being imposed by the "elite" and said the sanctions target Venezuelan "patriots." He added, "Venezuelan democracy is solid. There's no country that exercises it as fully as Venezuela." Venezuela's government also accused the European Union of imposing the sanctions in subordination to the United States. "Today the European Union has again shown irrefutable evidence of its notable subordination to the racist government of [U.S. President] Donald Trump," Venezuela's Foreign Ministry said in a statement, the Voice of America reported. "These decisions show an interventionist and erroneous policy toward our country and

Subscriber Notice

Remittances to Latin America and the Caribbean in 2017

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Thursday, January 25
9:00-11:00 a.m.

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Washington, D.C.

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are reminiscent of the colonial maneuvers of outdated empires." European foreign ministers approved the sanctions on Jan. 22 during a meeting in Brussels, the Financial Times reported. The European Union also imposed an arms embargo against Venezuela's government in November and also implemented a ban on the sale of equipment that could be used for internal repression. The sanctions follow Venezuelan government crackdowns on its

opponents. Human rights groups have claimed that state security forces have electrocuted, asphyxiated and sexually abused prisoners. Last month, Maduro threatened to ban some opposition parties from fielding candidates in this year's planned presidential election. The U.S. government has also previously sanctioned 51 Venezuelan officials, including four current and former officers of the country's military, the Associated Press reported.

NEWS BRIEFS

Remaining TPP Countries Agree on Deal, Signing Planned for March

Representatives from 11 Pacific Rim nations agreed Jan. 23 on a deal for the Trans-Pacific Partnership and plan to sign the deal in Chile March 8, The Wall Street Journal reported. The agreement by negotiators meeting in Tokyo came exactly a year after President Donald Trump pulled the United States out of the talks. In addition to Chile, the Western Hemisphere countries involved in the deal are Canada, Mexico and Peru.

Number of Yellow Fever Cases in Brazil Has Tripled in Recent Weeks

Brazil has had 35 confirmed human cases of yellow fever from July 1 through Jan. 14, the World Health Organization said Jan. 22. During that time, 20 people have died from the virus, and 145 additional cases are under investigation. The number of cases in Brazil has tripled in recent weeks, with the majority of the cases being found in São Paulo State and Minas Gerais State. On Jan. 11, the Netherlands confirmed a case of yellow fever in a returning traveler who had visited São Paulo State.

Venezuela's Opposition Refuses to Return to Talks With Government

Talks between Venezuela's opposition and the government of President Nicolás Maduro stalled Jan. 18 as the opposition refused to return to the negotiating table, The Washington Post reported. A main reason was what opposition leaders called a "false" claim by a government official that the opposition helped to locate a rogue ex-police officer who was killed earlier this week in a shootout with security forces. The talks, being held in the Dominican Republic, are seen as a last effort to plan for a free and fair presidential election this year.

Mexico's Murder Rate Soars 27%, Highest Level in Decades

Mexico had 29,168 reported homicides last year, a 27 percent increase over 2016 and the highest level in decades, the government announced Jan. 21, the Associated Press reported. The total number of homicides in 2017 was the highest since comparable records started being kept in 1997. Last year's total also was higher than in 2011, the peak year of the country's drug war, when there were 27,213 reported killings. Mexico's homicide rate was 20.5 per 100,000 inhabitants last year, as compared to 19.4 in 2011, the country's Interior Department said. However, the country's homicide rate is likely to be even higher, because the government tallies the per 100,000 count based on the number of homicide investigations, not the number of victims, and an investigation may involve multiple victims, Mexican security analyst Alejandro Hope told the wire service. Mexico's actual homicide rate is likely to be closer to 24 per 100,000, said Hope. In comparison, other countries in Latin America have reported higher homicide rates. Last year, per 100,000 inhabitants, Brazil and Colombia had approximately 27 homicides, Venezuela had about 57 and El Salvador had about 60.8, according to a report by the World Bank. Some Mexican states had particularly high homicide rates last year. Per 100,000 inhabitants, Colima had a homicide rate of 93.6, Baja California Sur recorded 69.1 and Guerrero had 64.2. Mexico's fastest-growing drug gang, the New Generation Jalisco Cartel, is responsible for much of the violence that Mexico has experienced since 2015, The Wall Street Journal reported, citing Mexican security officials. "It is becoming Mexico's most-powerful and united cartel, and in the process, is causing bloodshed across all Mexico," Carlos Flores, a security expert at Mexico's Ciesas research center, told the newspaper. The cartel, known as CJNG, is quickly displacing the Sinaloa cartel from many parts of the country. The Sinaloa cartel has lost influence as its leader, Joaquín "El Chapo" Guzmán was arrested for the third time in 2016.

He is currently jailed in New York where he is awaiting trial on drug trafficking charges.

ECONOMIC NEWS

Brazil Pension Reform Remains on Agenda: Temer

Reforms to Brazil's pension system are still on the government's agenda, President Michel Temer said in an interview published Jan. 20. Winning congressional approval for the controversial reform, which raises the retirement age, is still a priority for his administration, Temer told Folha de S.Paulo. "I want to say that the possibility to approve the reform is very strong," he said, adding that the legislation has gained support. "Several congressmen have changed their views." Some analysts and politicians have said the reform's passage will be all but impossible in this presidential election year, Reuters reported. The pension reform is seen as a critical step toward reducing the government's budget deficit and also guaranteeing payments to beneficiaries in the country, which has an aging population.

China Invests \$20.9 Billion in Brazil in 2017

Chinese investments in Brazil totaled \$20.9 billion last year, their highest level since 2010, the country's Planning Ministry said Jan. 18. Last year, China made new investments in the areas of energy, transportation logistics, agribusiness, financial services, chemicals and electricity transmission and generation. In the last two months of the year, China's investments in Latin America's largest economy amounted to \$6.7 billion, including energy-sector projects. Between 2003 and 2017, China became involved in 250 announced projects in Brazil, with a total value of \$123.9 billion, the Planning Ministry said.

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iments to enforcing anti-money laundering laws. First, the FIU does not have access to accurate information regarding beneficial owners, and basic information regarding business entities in the commercial register is not always up-to-date. Second, if the shared information is obtained from financial institutions, the PGR cannot initiate a prosecution for money laundering unless the FIU files a complaint under the Federal Civil Code. Finally, even though Designated Non-Financial Businesses and Professions, such as public notaries, accountants and lawyers, are subject to AML requirements, they rarely file Suspicious Transactions Reports, or, when they do, they fail to submit them on time. In short, Mexico should do more to improve the effectiveness of its AML regime. Specially, it should provide to the authorities the proper information and tools to effectively investigate and prosecute money laundering offenses."

A **Richard Fogarty, member of the Financial Services Advisor board and managing director at Berkeley Research Group, and Juan David Leal, associate director for Mexico at Berkeley Research Group:** "The FATF's criticisms of Mexico are tough but spot-on. The 2012 HSBC money laundering scandal in Mexico prompted the country's banking industry to renovate its controls, widen the scope of their compliance and anti-money laundering departments, and invest a significant amount of resources in technology and systems. It is a reality that, six years later, banks and the local Financial Unit have stronger monitoring controls. However, when it comes to investigating and prosecuting these crimes, the country certainly lacks expertise and an adequate institutional framework, if not the will from officials. Even

in the face of blatant AML violations, as has been the case with certain former governors who have been detained in the past months, prosecuting agencies struggle to present compelling evidence and carry out solid investigations that can lead to convictions.

“The FATF’s criticisms of Mexico are tough but spot-on.”

— Richard Fogarty & Juan David Leal

One explanation is that the country's authorities are overwhelmed with the highest murder rate in its recorded history and growing crime in landmark tourist destinations in the country. Their focus primarily is on capturing ringleaders and reducing deaths, and less on attacking the financial capabilities of organized crime, or confiscating the proceeds of their illegal business activities. In a country where most housing landlords still require cash payments from tenants, rarely is an individual questioned by tax regulators for receiving unexplained money transfers or cash deposits, and many politicians leave office as millionaires. Anti-money laundering efforts need to be tackled as a real state policy for once and for all. An obvious starting point is to finally set the new National Anti-Corruption System in motion, which has been delayed inexplicably for a year."

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

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