INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ FINANCIAL SERVICES

FEATURED Q&A

Will Mexico's New Banking Sector Rules Have Their Intended Effect?

Q Mexico's central bank (Banxico) on July 26 imposed several new limits on bank fees and commissions. Among the new regulations are prohibitions against banks charging account holders fees on deposits and loan payments. Also, banks will be required to display the total cost of ATM transactions and allow customers to cancel them if they do not want to incur the charges. How will the new regulations affect Mexican banks? Will the new rules be good for customers? Will banks try to recover any lost revenues in other ways?

A Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "At present, Mexican banks charge for every turn. A certified check attracts a stiff fee, as does the replacement of a debit card that you never received. If a person consults his or her bank account too often, that may attract a fee as well. Unlike in the United States, where banks make money by lending, many leading banks in Mexico make money by charging fees. On the average, a third of the profits of the entire banking system come from fees. For some large banks, fees account for more than half of their profits. Banamex, a subsidiary of Citibank, thus held the dubious distinction of being the only profitable subsidiary in 2009. Some of these rules will save some money for some customers. But it is not clear how much they will save. The banks have so far been relatively silent on this issue. This raises the suspicion that they are not expecting a steep decline in profits due to the new rules. Most large banks already display a screen about the charges when customers withdraw money from their accounts. Therefore, this policy will not make much of a difference. The charges have kept many people from holding bank accounts. In Mexico, less than a

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Caribbean Businessman Faces Extradition Over Fraud Charges

Caribbean businessman David Smith, the former head of failed foreign currency trading firm OLINT, was indicted Aug. 19 on 23 charges in the United States that include alleged money laundering and fraud. See story on page 2.

File Photo: Jamaica Gleaner.

Inside This Issue

FINANCIAL SERVICES BRIEFS

Ecuador Pushing Banks to Lower Borrowing Costs

Ecuador's central bank may prompt banks to lower borrowing costs by two percentage points over the next year to boost lending, Bloomberg News reported Aug. 20. Flacso University economist Hugo Jácome said that the central bank, which caps the amount banks can charge to lend, is forcing banks to lower credit costs in an attempt to expand lending and boost industrial activity. "The big banks have enough liquidity to continue lowering rates without affecting their profitability," Jácome said.

CAF Allocates $70 Million to Support Financing SMEs in Peru

The Andean Development Corporation, or CAF, will finance the development of micro-, small- and medium-sized enterprises (MSMEs) in Peru this year with up to $70 million in loans, the state-run Andina news agency reported Aug. 23. CAF aims to support "a large number of financial institutions working in the MSME sector," Michael Penfold, a CAF official, told Andina. "The financing issue is important for this type of enterprise," said Penfold.

Mexico Bank Lending Up 9.4% in July Compared to 2009

Mexico's bank lending picked up in July, led by public sector loans and mortgages, as the supply and demand for credit continues to recover from last year's deep recession, Dow Jones reported. Total loan balances rose to $156.8 billion at the end of last month, a 9.4 percent increase from a year ago and 0.9 percent higher from the end of June, according to preliminary data published Monday by banking and securities regulator, CNBV.

Financial Services News

Brazilian Regulator Formally Approves Itaú-Unibanco Merger

Brazil's antitrust regulator on Aug. 18 formally approved the merger between **Banco Itaú** and competitor **Unibanco**, Bloomberg News reported. CADE, as the agency is known, approved the creation of Brazil's biggest nongovernment bank, **Itaú Unibanco Holding**, without restrictions. The merger of Brazil's second- and third-biggest non-state banks was announced in 2008. Earlier this year, Brazil's key economic supervisory agencies recommended approval for the Itaú Unibanco merger. The Brazilian finance ministry's secretariat of economic supervision and the justice ministry's secretariat of economic rights, in a jointly issued report, concluded in January that the merger of the two banks "would not bring damage to competition" in the country's banking sector, Bloomberg News reported. CADE decided in its own ruling that although the combined bank will control more than 20 percent of some businesses, such as insurance, credit cards, and home and auto financing, Itaú Unibanco is "unlikely" to control the market, the report stated.

The combined bank will have more than 20 percent of some financial services businesses, but is unlikely to control the market, CADE said.

Venezuelan Government Seeking Extradition of Prominent Banker

Venezuela's government will seek the extradition of a financier who has been critical of President Hugo Chávez, Dow Jones reported Aug. 17. Nelson Mezerhane, who ran the **Banco Federal** financial institution, also controlled a 26 percent stake in **Globovisión**, Venezuela's only major media outlet opposed to the government. Currently in the United States, Mezerhane is facing an arrest warrant for alleged liquidity problems at Banco Federal, which the government recently seized. "The Attorney General made the request based on a bilateral treaty that exists between the United States and Venezuela since 1923, in terms of extradition," the government said in a statement. Mezerhane has denied wrongdoing, adding that the bank was financially sound and that the charges against him are politically motivated. Last week, the government said it would liquidate Banco Federal and said it had some $900 million in "net worth losses," the Associated Press reported.

Banorte Sees 'Limited Exposure' in Mexicana Bankruptcy

Mexico's third-largest bank, **Banorte**, said Aug. 5 it has only limited exposure to the financial woes of **Mexicana de Aviacion**, the Mexican airline that filed for credit protection in Mexico and the United States this month, Reuters reported. The bank said in a statement that it was not a direct creditor of the struggling airline but was owed some $125 million by Mexicana's holding company. The airline is controlled by **Grupo Mexicana**, which includes low-cost regional airlines Click and Link, which were not hit by the same financial problems, the report stated. "The aggregate of this exposure represents 0.3 percent of the total assets of Banorte, 0.7 of the total credit portfolio, and 3.4 percent of the reported capital at end-June," the bank said. A group of Mexican investors and an industry union on Aug. 22 announced they had agreed to purchase 95 percent of Mexicana, according to reports.

Anti-Money Laundering News

Caribbean Businessman Charged With Fraud, Faces Extradition

David Smith, the former head of failed foreign currency trading firm **OLINT**, was indicted Aug. 19 on 23 charges in the United States and faces extradition, the *Jamaica Gleaner* reported. A native of Jamaica, Smith is charged with four counts of wire fraud, 18 counts of money laundering to conceal specified unlawful activity and one count of conspiracy to commit money laundering. Authorities are also seeking to seize $128 million which they claim Smith gained through wire fraud. Smith is currently free on bail in the Turks and Caicos Islands, where he is facing 30 charges and is now expected to be the subject of an extradition request from the United States, according to the report. Prosecutors allege Smith did not use investors' money for foreign-exchange trading as promised and sent his clients false statements about their accounts. At the time of its collapse in 2008, OLINT had 6,000 clients with total investments of $220 million, according to media reports.

Cayman Islands Reaches Agreement With U.S. Banking Regulators

The Cayman Islands Monetary Authority (CIMA) on Aug. 20 said it had formalized procedures for exchanging supervisory information on United States and Cayman Islands banking institutions that have operations in each others' jurisdictions, the *Jamaica Observer* reported. CIMA said in a statement that the agreement "should make it easier for both the Cayman and U.S. regulators to access pertinent information and supervisory assistance from each other...and to facilitate ongoing consolidated supervision of these cross-border institutions." The agreement also sets the framework for handling confidential information on both sides. Cindy Scotland, CIMA's managing director, said entering into this agreement with the U.S. banking regulators is also consistent with one of the recommendations of the International Monetary Fund in its 2009 report on the Assessment of the Financial Sector Supervision and Regulation in the Cayman Islands. "For international banks and banking institutions with entities in Cayman, as well as their Cayman service providers, this is a reputational boost that should enable them to attract more business," Cayman Islands Premier and Minister of Finance McKeeva Bush said. [Editor's note: See related Q&A in the April 7 issue of the daily *Advisor*.]

Scotland
File Photo: CIMA.

Remittances News

Remittances to Ecuador Fall 10 Percent in Second Quarter

Remittances sent home by Ecuadoreans living abroad fell to $550 million in the second quarter, Dow Jones reported. Ecuador's central bank said Aug. 19 that the decline is a 10 percent decrease from the $610 million in the same period last year. In the first half of 2010, remittances fell 5 percent to $1.1 billion in the first half of 2010 compared to the same period last year. In the first quarter of 2010, remittances amounted to $557 million. Approximately 95 percent of total remittances, which make up the Andean nation's second-largest source of income, came from the United States, Spain and Italy. On average, remittances fell 10 percent across Latin America and the Caribbean in 2009 in the wake of the global economic slowdown, according to MexiData. Mexico's central bank earlier this month said the amount of money migrant workers sent home in the first half of 2010 fell 4.1 percent compared with the same period last year, Dow Jones reported. Remittances totaled $10.63 billion in the first six months, down from $11.1 billion in the first half of 2009.

Remittances to El Salvador Increase Year-to-Date; Still Down from 2008

The amount of money sent home to families in El Salvador from the United States grew 2.5 percent in the first seven months of 2010 compared to last year, the Associated Press reported Aug. 20. El Salvador's central bank said the monthly average remittances received during the first seven months of 2010 was $296.5 million, $7.1 million more per month than the same period last year. The central bank noted that a full recovery of remittances to 2008 levels has been limited by high rates of unemployment in the United States. In 2009, remittances were down some $322 million dollars compared to 2008. There are approximately 2.8 million Salvadorans living in the United States.

Insurance News

Banco do Brasil Enters New Dental Insurance Venture

State-controlled **Banco do Brasil** on Aug. 19 announced a partnership with local dental insurance company **OdontoPrev** in order to provide dental insurance, Dow Jones reported. Banco do Brasil said it will create a new company with OdontoPrev in order to provide the services. Banco do Brasil will hold a 75 percent stake in the company, while OdontoPrev will control the remaining stake, according to the report. Financial details were not disclosed. Last year, Odontoprev merged its operations with **Bradesco Saude**, the health insurance division of privately-held Bradesco, the country's third-largest bank and a competitor to Banco do Brasil.

Mexico's Qualitas Expanding Insurance Operations in Costa Rica

Mexican automobile insurer **Quálitas Compañía de Seguros** said Aug. 17 it will invest $4 million to open an insurance company in Costa Rica as part of its international expansion strategy, Dow Jones reported. Qualitas said it will offer low-cost auto insurance to the Central American nation's 4.5 million people and 900,000 automobiles. Costa Rica will be the company's second international market after El Salvador, where Qualitas launched operations two years ago. Before the sector liberalized two years ago, auto insurance in Costa Rica was provided through a government monopoly, the Instituto Nacional de Seguros, or INS. Since then, the **American Life**

Insurance Company (Alico), Panama's **Grupo Mundial** and Spain's **Mapfre** have announced plans to start operations there, according to a report by research service Mondaq.

Technology News

Hypercom Corporation Signs Deal with Banco Nacional de Costa Rica

Arizona-based **Hypercom Corporation** on Aug. 17 announced that **Banco Nacional de Costa Rica** (BNCR), one of the country's largest banks, will deploy more than 13,000 of its countertop and mobile payment terminals to merchants throughout Costa Rica. "The multi-million dollar, four-year roll out is believed to represent one of the largest in the country, and represents a significant expansion of Hypercom's high security product portfolio in Costa Rica," the company said in a statement. The card payment terminals and merchant field services will be provided by **Evertec Latin America**, one of the distributors of Hypercom products in Costa Rica. With assets of $6.6 billion, BNCR has more than 165 branch offices across the country and claims more than 1,500,000 customers.

Political News

Mayor of Santiago, Mexico Found Dead After Kidnapping

Six police officers were arrested Aug. 20 in connection with the murder of Edelmiro Cavazos, the mayor of the northern Mexican city of Santiago. Among those arrested was the officer in charge of guarding Cavazos' house, from which he was abducted Aug. 15, three days after his handcuffed and gagged body was found outside of town, the Associated Press reported. Adrian de la Garza, the head of Nuevo León state's police investigations agency, alleged the arrested officers had received $700 monthly to cooperate with criminals. Cavazos, 38, was abducted by 15 armed men wearing uniforms from a defunct federal police force, a tactic used by Mexico's drug gangs. Cavazos had participated in state security meetings and was "showing his face in the fight against organized crime," the government said. Nuevo León Gov. Rodrigo Medina said Cavazos may have been killed because of his efforts to purge corruption from the local police force, who are said to be in the service of drug traffickers, the *Los Angeles Times* reported. Medina urged the federal government to send more federal police and troops to the state and vowed to pursue Cavazos' killers. "Mexico's fate is our fate, and the fate of Nuevo León is the fate of Mexico," he said. President Felipe Calderón expressed outrage at the news of Cavazos' death and sent his interior secretary, Francisco Blake Mora, to Nuevo León for a security meeting with state officials. Cavazos is among a growing list of public officials targeted in drug-trade violence. In June, hit men fatally shot a popular gubernatorial candidate in Tamaulipas. Rodolfo Torre Cantú, 46, and four aides from the opposition Institutional Revolutionary Party were ambushed on their way to a campaign event for the July 4 state election, Reuters reported.

Cavazos
File Photo: El Porvenir.

Colombia's FARC Says It's Willing to Negotiate With Government

The Revolutionary Armed Forces of Colombia, or FARC, said in a statement Aug. 23 on an affiliated Web site that it is willing to "search for a peaceful way out of the conflict" with the government of Colombia, the Associated Press reported. It offered to discuss its ideas before presidents whose countries belong to the Union of South American Nations. Colombia has rejected the idea of any intermediaries and repeated its stance that negotiations will happen only if the rebels halt attacks and take other steps demonstrating a desire for peace.

Economic News

Argentine Farmers Rally at Congress Calling for Lower Export Tariffs

Argentine farmers calling for lower tariffs on grain exports protested at the nation's Congress Aug. 18, meeting with opposition leaders offering support for their cause, local daily *Clarín* reported. More than 500 farm producers of the Argentine Agrarian Federation, or FAA, converged in Buenos Aires, led by the head of the organization, Eduardo Buzzi, who met with Vice President Julio Cobos and other congressional leaders to call for differentiated tariff policies for small- and medium-sized producers. Growers are seeking a quota of 6 million metric tons, up from 3 million for the previous crop, David Hughes, president of the Argentine Wheat Association, told Bloomberg News. Opposition leaders sympathetic to the farmers used the rally to pressure the government of President Cristina Fernández de Kirchner over agriculture policies unpopular with small farmers. "We should totally cut duties on wheat and corn, which compete with soybeans and is a crop that distributes wealth more evenly," said Felipe Sola, an opposition lawmaker and former agriculture secretary, Bloomberg News reported. The current tax regime levies tariffs of 23 percent on wheat, 20 percent on corn and 35 percent on soybeans. Economy Minister Amado Boudou has said lower taxes on agricultural shipments, which generate about 9 percent of government revenue, would mean less spending on roads, schools and hospitals in South America's second-biggest economy. A reduction in the levies would be "hugely irresponsible," he said, according to Bloomberg News.

Ecuador Tax Collections Rise 14 Percent Year to Date

Ecuador's tax collections increased 14 percent in the first seven months of 2010, totaling $4.67 billion for the January-July period, Dow Jones reported. The country's Internal Revenue Service, known by the Spanish acronym SRI, said Aug. 22 that collections from the value-added tax in the seven months rose 21 percent to $2.38 billion from $1.96 billion a year earlier. Income-tax collections, however, fell 4 percent to $1.64 billion from $1.71 billion in the same period last year.

Mexico's Government Slaps Tariffs on More U.S. Products

Mexico's government said Aug. 16 it was adding more products to the list of U.S. imports subject to retaliatory measures related to a trade dispute over trucking, Reuters reported. Mexico has been using the tariffs to pressure the United States to act on a longstanding impasse over cross-border trucking within NAFTA. Mexico imposed a first round of tariffs last year after the U.S. government canceled a pilot program that allowed some Mexican trucks to transport goods into the country. Opponents of the cross-border trucking program, including U.S. transportation unions, have raised safety concerns. Economy Minister Bruno Ferrari told a news conference in Mexico City that while some items are being added to the list, others will be removed. U.S. Trade Representative Ron Kirk said in a statement he was "disappointed" with the decision. "Mexico is an important U.S. export market and President Obama understands the economic pain that these tariffs cause for American farmers, companies and workers," he said, adding that he was working with Transportation Secretary Ray LaHood and stakeholders in Congress to resolve the dispute "in a way that addresses safety concerns and upholds our trade obligations." "We are committed to continuing to work with Members of Congress and our counterparts in Mexico to resolve the dispute and end these duties," he said in the statement. In March 2009, Mexico targeted specific products and states in applying a first round of tariffs on 89 U.S. products. Late last month, Sen. Patty Murray (D-Wash.) said she was "extremely frustrated" at the lack of action by the Obama administration to work toward an end to the tariffs, which have been affecting farmers in her home state especially hard. She called on the administration to put forward a plan to resolve the dispute by Oct. 1. [Editor's note: See related Q&A in the Aug. 23 issue of the *Advisor*.]

Ron Kirk.

Photo: USTR.

Inflation Appears Under Control in Region's Largest Economies

Consumer prices remain in check in four of Latin America's largest economies, government reports released this month suggest. Mexico's central bank on Aug. 20 held its benchmark interest rate unchanged for a record 12th straight meeting as inflation slows and concern mounts that the U.S. economy's recovery may falter, Bloomberg News reported. Meanwhile, Brazil's consumer prices unexpectedly fell for a second straight month, pushing the annual inflation rate below the government's target for the first time since January, the national statistics agency said Aug. 20. Consumer prices in South America's largest economy, as measured by the IPCA-15 index, fell 0.05 percent in the month through mid-August. Also on Aug. 20, Colombia's central bank kept its benchmark interest rate unchanged at a record low, 3 percent, for a fourth month. The bank estimates economic growth this year at between 3.5 percent and 5.5 percent after growth of 0.8 percent last year due to the global financial crisis, Reuters reported. Meanwhile, in Peru, the government has forecast the country's inflation would remain within the target range of 1 percent to 3 percent this year, Reuters reported. Central Bank President Julio Velarde said Aug. 17 that "Our scenario for inflation is rather benign" as government monetary stimulus programs end.

POLITICAL & ECONOMIC BRIEFS

Brazil's Pace of Job Creation, Still Gaining, Slowed in July

Brazil's economy, the largest in South America, added payroll jobs in July for a seventh consecutive month, but the pace of job growth slowed, the country's Labor Ministry said Aug. 19, Reuters reported. The economy added 181,796 payroll positions last month, a decrease from 212,952 in June, the ministry said. For the year through July, Brazil added 1,655,116 payroll jobs.

Peruvian Court Orders Paroled U.S. Woman Back to Prison

A court in Peru on Aug. 18 revoked the parole of Lori Berenson, a 40-year-old New York woman sentenced to 20 years in jail in the mid 1990s on charges of aiding a Marxist revolutionary group, the Associated Press reported. Berenson had five years left of her sentence when released last month. The court said it based its ruling on a failure by other legal authorities to verify addresses in Lima that Berenson had provided them. Her husband and lawyer, Anibal Apari, said she had turned herself in to police and would return to prison.

Chinchilla Wants U.S. to Offer Central America Anti-Drug Plan

The United States should offer a new anti-drug program specifically for Central America, Costa Rican President Laura Chinchilla told the Associated Press Aug. 19 in an interview. Central America currently receives U.S. anti-drug aid through the Mérida Initiative, but the bulk of that money is directed to Mexico. Costa Rican officials say cartels are increasingly using the country as a transit point for cocaine, a complaint lodged by other Central American and Caribbean leaders.

Featured Q&A

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quarter of all adults have bank accounts. Unless competition from nonbank financial institutions makes serious inroads into the customer base of the traditional large banks, these problems will fester. I discussed some of these issues in depth in a Federal Reserve Bank of Atlanta podcast."

A David Olivares, vice president and senior credit officer and Felipe Carvallo, analyst at Moody's de Mexico: "Mexico's new restrictions on bank fees will limit revenue generation at a time of already depressed earnings and business activity given very modest business demand for the past 18 months, as well as still-high credit costs. Fee contribution to revenues is relevant at an average of 20 percent, but it has already been declining in response to mounting regulatory and competitive pressures. Restrictions will be more critical for small banks that are still in the start-up phase, because they rely on fee-rich products to reduce operating losses as they build scale to break even. In our view, the measure is part of a broad push by regulators to roll back the large number of fees put in place following the 1995 crisis that were aimed at compensating for a sharp downturn in lending. As the system evolved into a well-functioning set of large profitable banks, there has been an increasing public outcry about such fees in Mexico. This dispute has been embraced by Banxico. Banks and nonbank finance companies will no longer be able to charge their own clients fees for withdrawing cash or for checking their account balances, among other things. Banks will also be limited in the fees they can charge for late loan payments and account overdrafts. Also, the new rules will increase transparency in service fees for customers. These measures could nonetheless be positive, because they will encourage banks to expand credit intermediation."

> "Restrictions will be more critical for small banks that are still in the start-up phase."
>
> — ***David Olivares and Felipe Carvallo***

A Carlos Gonzalez, partner and Ricardo Ortiz, associate attorney at Diaz, Reus & Targ in Miami: "The new regulations will certainly impact banks' bottom line, but they will also spur these institutions to increase their offerings to the public. Specifically, the new regulations limit a bank's ability to charge fees to account holders based on amounts on deposit and loan payments. In a bid to increase transparency, banks will also be required to clearly disclose the total costs for specific transactions. These measures should translate into immediate benefits for the consumer in the form of actual savings. But the question is how long these savings will last. Fees and commissions represent an important part of a bank's total income. And while Mexico's banks may be forced to reduce their fees with respect to one set of services, consumers may be hit with new fees related to other products. For example, to offset the decline in commission income, banks may raise the interest rates charged for loans. This increase, coupled with a larger volume of loan activity, will certainly add to the banks' bottom line. But, it may also cut into consumer savings. The long-term impact of these regulations remains to be seen. Mexico's financial institutions are robust and have weathered the economic crisis. However, their success may yet be tempered by the government's desire to further clamp down on the high fees they charge for various services."

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

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