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

FEATURED Q&A

Are the Caribbean's Banks Treating Their Customers Fairly?

Q Jamaican Finance Minister Audley Shaw said earlier this month that the governor of the Bank of Jamaica will investigate the fees banks charge customers, the *Jamaica Observer* reported. Officials ordered the study after some banks reportedly were charging customers fees to make deposits. Shaw added that the investigation will also look at banks' adjustment of interest rates, saying that some banks are sluggish to decrease rates when treasury bill rates go down. Are fees charged by banks in Jamaica and across the Caribbean fair to customers and good for business? Are banks adjusting interest rates appropriately across the region? Is the current level of regulation and consumer protection laws for the Caribbean's banks and financial services companies appropriate?

A Earl Jarrett, member of the *Financial Services Advisor* board and general manager, of the Jamaica National Building Society (JNBS): "The Caribbean region operates with a free market economy, and the banking sector responds to the free market stimuli of demand, supply and competition. The suggestion that banks are overcharging in an environment where consumer protection laws prohibit price fixing therefore indicates that the real issue for the Caribbean is: a) the need for more competition through the introduction of new banking services and other money service businesses such as mobile commerce; and b) greater access to the internet for the majority, enabling persons to take advantage of many of the free online services offered by banks. There is no doubt that the banking and financial service institutions in the region are searching for ways to replace revenues lost as interest margins are reduced by the introduction of new fees, many of which consumers find offensive. The challenge for financial institutions is to lower their cost of service delivery, which invariably means the

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Brazil: Blackstone Invests $200 Million in Financial Firm

Stephen Schwarzman, the head of private equity giant Blackstone, has invested $200 million in Brazilian financial services firm Pátria Investimentos. See story on page 3.

File Photo: The Observer.

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FINANCIAL SERVICES BRIEFS

St. Vincent and the Grenadines Agree to Privatize State Bank

The government of St. Vincent and the Grenadines on Oct. 1 reached an agreement with **East Caribbean Financial Holding Company**, or ECFH, to privatize state-owned **National Commercial Bank (SVG) Limited**, the company said in a press release. ECFH will take over 51 percent share in the national bank. The government will retain the balance of shares, with the intention of divesting 29 percent of that to the St. Vincent and the Grenadines National Insurance Service, as well as bank staff and citizens.

Seattle Nonprofit Closes $20 Million Microlending Fund

Seattle-based Global Partnerships, a nonprofit focused on microfinance in Latin America, announced Sept. 30 that it closed its fourth social investment fund at $20 million. Forty-one investors have contributed to the fund, including the Inter-American Development Bank, Overseas Private Investment Corp., Linked Foundation, Perls Foundation, Seattle University, faith-based institutions and 23 accredited individual investors.

Su Casita Presents Bondholder Restructuring Plan to Creditors

Mexican mortgage lender **Hipotecaria Su Casita** said Oct. 4 it has presented a restructuring plan offering a recovery rate for bondholders of between 51 percent and 70 percent of the nominal value of their instruments, Dow Jones reported. The restructuring plan is subject to approval by creditors. Su Casita was hit hard by last year's recession and market volatility because of their dependence on short-term debt and mortgage bonds for funding.

Financial Services News

Scotiabank Acquiring Chilean Wholesale Bank Operations of RBS

Bank of Nova Scotia, or Scotiabank, is acquiring the Chilean wholesale banking operations of **Royal Bank of Scotland**, the Toronto-based said Sept. 27, Reuters reported. The bank will acquire approximately $900 million in assets and did not disclose the terms of the deal, saying they were not material. The deal "represents the continued potential to grow our operation in this country," said Scotiabank's general manager for Chile, Jim Callahan, said in a statement. The Canadian bank first entered Chile in 1990 and currently is the South American country's seventh-largest lender. It has $10.4 billion in assets in Chile. Last Thursday, Scotiabank announced it was purchasing the Brazilian wholesale banking division of **Commerzbank**. The deal with RBS is the second this year with the Edinburgh-based bank. In March, it acquired the bank's wholesale operations in Colombia. RBS acquired the operations in Chile through its purchase of **ABN Amro** in 2007.

Callahan

File Photo: Canadian Government.

Brazil Sees Fastest Expansion of Bank Lending in a Year

Bank lending in Brazil accelerated at its fastest pace in a year in August, increasing pressure on the country's central bank to boost interest rates next year, Bloomberg News reported Sept. 22. Outstanding credit in Brazil, Latin America's largest economy, grew 2.2 percent last month as compared to July, led by higher mortgage lending, the country's central bank said. Lending by government-run and nonstate banks increased to 1.58 trillion reais ($920 billion) last month, a 19.2 percent year-on-year increase. Mortgage lending increased 3.9 percent to 120.6 billion reais from a revised level of 116.1 billion reais in July, the central bank said. Mortgages account for approximately 7.6 percent of lending in Brazil. In August, credit grew to 46.2 percent of gross domestic product from a revised 45.5 percent the previous month. The average interest rate charged in Brazil declined to 35.2 percent from 35.4 percent in July. Growth in domestic demand and credit are leading to an unsustainable growth rate in Brazil, which will put pressure on inflation next year, Caio Megale, a partner and economist at **Mau Sekular Investimentos** in São Paulo, told Bloomberg news. "We have a threat that inflation will be considerably above target next year," said Megale. **Banco do Brasil** and **Itaú Unibanco**, Brazil's largest bank by market value, saw increases in earnings of at least 35 percent in this year's second quarter. **Banco Bradesco**, the nation's second largest bank by market value, said its adjusted net income for the year's second quarter rose 23 percent. In a Sept. 17 central bank survey, the median forecast of about 100 economists was for an increase in the benchmark Selic interest rate to 11.75 percent by June.

Brazilian Bank Workers on Strike for Higher Wages

Thousands of bank workers in Brazil on Sept. 29 began an "indefinite strike" calling for higher wages, Dow Jones reported. The labor dispute appeared to have little impact on operations in key urban centers on the first day of the strike, however. The São Paulo, Osasco and Region Bankworkers' Union said some 16,000 workers, or about 3.5 percent of Brazil's banking union members nationwide, had joined the strike to demand an 11 percent pay increase and other benefits, according to the report. The union said 358 bank buildings were affected, of which eight were administrative centers and 350 were bank branches. The nation's banker's federation, Febraban, has offered to guarantee a 4.29 percent increase in wages, in line with the rise in the cost of living.

Brazil Clears Western Union to Open Commercial Bank

U.S.-based **Western Union** has received approval from Brazil's government to open a commercial bank and a foreign exchange brokerage in the South American country, the company said Sept. 28. The approvals from Brazil's central bank and President Luiz Inácio Lula da Silva allows Western Union, which is based in Englewood, Colo., to offer its money transfer services directly to customers and to also introduce new services including domestic money transfers, consumer bill payments and prepaid cards, the company added. "Our goal is to offer throughout Brazil, a diversified range of fast, reliable and convenient financial services to complement our money transfer business, including the development of electronic channels and payment services to serve consumers better," Stewart A. Stockdale, Western Union's president for the Americas said in a statement. Western Union has provided international money transfers in Brazil through agents since 1998. The agent network includes almost 6,000 bank and foreign exchange brokerage locations.

Stockdale

File Photo: Western Union.

Blackstone Group Buying 40 Percent of Brazil's Pátria Investimentos

Blackstone Group, the New York-based private equity firm, announced Sept. 29 it will purchase a 40 percent stake in competing Brazilian investment firm **Pátria Investimentos**. Media reports estimated the deal to be worth $200 million. Stephen Schwarzman, chairman and CEO of Blackstone, said said in a press release Wednesday that Pátria will enable Blackstone's limited partners and advisory clients to benefit from fast-expanding business opportunities in the country. Luiz Otavio Magalhães, founding partner and CEO of Pátria, said the deal represents "one of the most significant partnerships to be established in Brazil's financial industry." Founded in 1988 as an investment banking arm in Brazil by **Salomon Brothers**, Pátria says it currently employs about 130 people and has $2.9 billion in assets under management. Latin America is attracting larger private equity deals as firms look to the region's booming economies for growth. The $3.8 billion invested from abroad in Latin America during the first six months of 2010 surpassed the $3.27 billion invested in all of 2009, according to the Latin American Venture Capital Association. Brazil attracted 66 percent of that investment.

Remittances News

Remittances to Colombia Fall by 10 Percent in First Half of 2010

Remittances sent home from Colombians abroad dropped 10.5 percent in the first

Featured Q&A

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reduction in staff numbers and branches; hence, the slow pace of interest rate adjustments. The opportunities for consumer protection lie in the state, including its regulators, actively pursuing strategies to increase competition; promoting the growth of domestic financial institutions; expanding access to the internet; facilitating more domestic banks with broad based local ownership; and redesigning compensation packages for managers in the banking sector that would encourage management to become more creative in generating profits for their shareholders."

A **Ronald Sanders, business consultant and former senior Caribbean ambassador:** "Audley Shaw's inquiry in Jamaica is long overdue. Similar inquiries should be conducted throughout the Caribbean. The very high interest rates charged by banks throughout the region for home mortgages and loans to businesses for capital expansion or for marketing are extremely onerous and are a major obstacle to development and economic activity. Conversely, the interest they pay on deposits, including deposits of a year and over, are notoriously low. This practice has become worse since the 2008 global financial crisis. The spread made by the banks is usurious in some cases. All banks—indigenous and foreign owned—are the beneficiaries of this practice. There has long been a need across the Caribbean for banks and financial services companies to be regulated to give customers greater protection and to ensure that savings accumulated by banks in Caribbean jurisdictions are lent within such jurisdictions for the benefit of the communities they serve. Caribbean countries—especially those that are members of the Caribbean Community (CARICOM)—should harmonize their laws governing banks and financial institutions to give greater protection to their consumers. Importantly, they should establish machinery to: a) apply common regulation to banks and financial institutions so that their profits are not earned on unfair spreads, and b) to ensure that interest rates applied by banks relate to Treasury bill rates. Such regulation has been necessary for decades in the Caribbean, but it is sorely needed now as the international market for financing has dwindled."

A **Xingjian Zhao is an associate attorney at Diaz, Reus & Targ in Miami:** "Contrary to Finance Minister Shaw's accusations, the motives behind Jamaican banks' reluctance to lower their interest rates despite reductions in the central bank's benchmark rate are not necessar-

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six months of 2010, according to a report by Colombia's central bank, *Colombia Today* reported Oct. 5. Colombians receive the most money from family members living in Spain and United States, and the drop in remittances is attributed to financial crises in both countries, according to bank data. Currently 7.5 percent of Colombians' earnings are attributed to remittances. The total number of remittances received reached $1.87 billion, a decrease of around $220 million compared to the same period last year. The decline in remittances flows is not being observed consistently across all countries, however, according to research published this month by the Inter-American Dialogue's Manuel Orozco in *Migrant Remittances*. "The slow rate of economic recovery in migrant host countries has led to a more erratic recovery of remittances levels following the drop in remittances sent in 2009," Orozco wrote. The first two quarters of 2010 has shown some turn around, with countries such as the Philippines, Morocco, Bangladesh, Honduras and El Salvador returning to or surpassing pre-crisis remittance growth rates. At the same time Kenya, Guatemala, the Dominican Republic, Colombia and Ecuador are still experiencing declining remittance levels, Orozco stated.

"The Philippines, Morocco, Bangladesh, Honduras and El Salvador [are] returning to or surpassing pre-crisis remittance growth rates."

— Manuel Orozco

Political News

Ecuador's Congress Plans to Change Contentious Police Salary Law

Ecuador's congress plans changes to a salary law that prompted a national crisis last week, including "additional compensation" for police and members of the military, congress President Fernando Cordero said Oct. 4, Bloomberg News reported. A member of President Rafael Correa's ruling Alianza Pais party, Cordero said in an e-mailed statement that congress will revise a public service law that cut wages and benefits. Lawmakers must take up the matter "immediately," he said. Military troops rescued the president the evening of Oct. 3 from police protesters following a dramatic course of events that escalated across the country throughout the day. The conflict began at about 7:30 in the morning when members of the national police in the capital city of Quito walked off the job, protesting wage cuts proposed by Correa's government in an effort to balance its budget. Meanwhile, airmen from Ecuador's air force reportedly stormed the international airport in Quito and blocked the runway. As unrest spread to other parts of the nation where local police units also took to the streets, businesses and banks closed their doors to prevent looting, which is reported to have occurred throughout the country. Early in the day, Correa engaged the protesters directly, scuffling with police officers at a barracks in Quito, where he emerged gasping for air after inhaling tear gas. Surrounded by protesters in a hospital room at the police compound, Correa, saying he was kidnapped, held radio interviews over the phone accusing the police of being "bandits" and suggesting a coup attempt was under way. Senior military officials throughout the day sought to distance themselves from the protests, which have been described as originating in the lower ranks. Critics of Correa's left-leaning administration accused the government of exaggerating the situation.

Rousseff, Serra Headed to Second Round in Brazil's Elections

Front-running Workers Party candidate Dilma Rousseff did not win enough votes in Brazil's Oct. 3 national election to take the presidency in the first round of polling, local daily *O Estado de São Paulo* reported. A run-off election is scheduled for Oct. 31. With more than 90 percent of votes counted, Rousseff, the hand-picked successor to popular current president Luiz Inácio Lula da Silva, held a commanding lead with 46 percent of the vote, while opposition candidate and former São Paulo governor José Serra captured 33 percent of the vote. Green Party candidate Marina Silva had 20 percent, a higher number than some polls predicted. Rousseff had been polling in the weeks ahead of the election with more than the 50 percent of the vote that would have been required to avoid the runoff, but Silva's strong showing cost Rousseff some support, along with recent allegations of a kickback scheme involving a former top aide to Rousseff. Three of Brazil's largest states went to Serra's party, the PSDB, in governor races. In São Paulo, Geraldo Alckmin narrowly won an outright victory with just over 50 percent of the votes, beating Aloizio Mercadante of the PT, who had 35 percent. In Minas Gerais, the PSDB's Antônio Anastasia will remain in office after gaining 63 percent of the vote. In all, 27 state governors, all 513 members of the Chamber of Deputies, two-thirds of the Senate and all 1,059 members of the state assemblies were elected. [Editor's note: See post-election analysis from David Fleischer on page 3 in the Oct. 5 issue of the daily *Advisor*.]

Marina Silva

File Photo: Campaign Web Site.

Tensions Rise in Chile-Argentina Relations Over Extradition Case

Diplomatic tensions mounted on Oct. 4 between Argentina and Chile, as officials from the neighboring nations met to discuss the status of former guerrilla fighter Sergio Galvarino Apablaza, a Chilean who last week was granted political asylum by

Argentina. Chilean Foreign Minister Alfredo Moreno formally lodged a complaint in a meeting with Argentine Ambassador to Chile Ginés Gonzáles García and Chilean President Sebastián Piñera. "The government of Chile strongly laments and rejects the decision" made by Argentina against the extradition of Apablaza, said Moreno after their meeting with Piñera, Mercopress reported. Apablaza is charged with the murder of Conservative Senator Jaime Guzmán, killed in 1991, and the kidnapping of businessman Christian Edwards del Río.

Prominent Colombian Opposition Senator Removed From Office

Piedad Cordoba, a prominent Colombian opposition senator, was removed from office Sept. 27 by Colombia's inspector general under accusation of improper links to the Revolutionary Armed Forces of Colombia, or FARC. The move by Inspector General Alejandro Ordoñez also bars Cordoba from serving in public office for 18 years. Ordoñez has broad power to dismiss public officials, except for top officials including the president and high-ranking judges, the Associated Press reported. Cordoba, 55, has not been charged with a crime and has denied any improper ties to the rebel group. She has been a member of the Senate since 1994 and last year was considered to be in the

Cordoba with Bolivan Pres. Evo Morales

File Photo: Piedad Cordoba Web Site.

running for the Nobel Peace Prize for negotiating the release of 14 hostages held by the FARC. The inspector general's office accused her of "promoting and collaborating" with the rebels. Cordoba, an ally of Venezuelan President Hugo Chávez, thanked her supporters in a message on her Twitter page. "We continue forward," she said. Leftist lawmaker Iván Cepeda, a friend of Cordoba, said Ordoñez has "demonstrated public hostility to Cordoba's work." Cordoba's lawyer, Ciro Quiroz, said he would seek to overturn Cordoba's ouster, possibly by suing him in Colombia's Constitutional Court. In a statement, Ordoñez's office said Cordoba was removed from office after the discovery of electronic documents found on the laptop computer of Raúl Reyes, a top FARC leader who was killed in a March 2008 raid by Colombia's military in Ecuador. The documents showed that Cordoba "overstepped her government-authorized role" in seeking the hostages' freedom, the inspector general's office alleged. Ordoñez's office also accused Cordoba of making statements "that favored the interests of the subversive group." Cordoba has voiced support for the FARC's stated goals of more evenly distributing wealth in Colombia.

Economic News

Argentina, Panama May Join New Securities Exchange

Argentina and Panama may join a new Latin American securities exchange in order to compete with larger countries' exchanges, Bloomberg News reported Sept. 22, citing Roberto Hoyle, the head of the Lima Stock Exchange. The new integrated exchange would be led by Peru, Chile and Colombia and aims to begin transactions in stocks including **Southern Copper**, **Cencosud** and **Ecopetrol** on Nov. 22, Hoyle added. The three exchanges would then establish a common market by the end of 2011 that would have a larger combined market value than the companies that trade in Mexico. The value of publicly traded companies in Peru, Chile and Colombia is $592 billion. The figure is $420 billion in Mexico and $1.29 trillion in Brazil, Bloomberg News reported. "Any kind of association, specially for such a small market like Argentina's, will definitely be positive for the stock market," José María Aristi of **Standard Investments** told the news service in an interview.

POLITICAL & ECONOMIC BRIEFS

Brazil Doubles Tax on Foreign Fixed-Income Investments

Brazil is raising the financial transactions tax, or IOF, which is levied on foreign investment in fixed-income securities, from 2 percent to 4 percent, Finance Minister Guido Mantega said Monday, Bloomberg News reported. The IOF tax was enacted in October 2009 to help slow down the tremendous flow of foreign capital into Brazil. Mantega added that the tax hike is designed to stem the sharp rise in the Brazilian real currency's exchange rate, which hit a two year high last week.

Tropical Storm Matthew Kills Six, Floods Sugar Crops

Tropical Storm Matthew, which drenched parts of Mexico and Central America Sept. 26, killed at least six people and damaged sugar crops. Amid severe flooding, four people were killed in Chiapas state and two others died in Nuevo León state in Mexico, EFE reported. At least three others were missing. Matthew flooded sugar crops in Honduras, where officials on Monday reduced their production forecast to 417,500 metric tons of sugar from 440,000 metric tons.

Colombia's Central Bank Maintains 3 Percent Interest Rate

Colombia's central bank on Sept. 27 held the benchmark interest rate at 3 percent, a record low, for the fifth straight month, Bloomberg News reported. "Demand conditions do not present an immediate challenge to the inflation outlook," said **Goldman Sachs** economist Alberto Ramos. The government said in September that the economy grew 4.5 percent in the second quarter year-on-year.

Featured Q&A

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ily invidious. Instead, this seemingly unjust disparity can be reconciled by reference to two key economic factors prevalent both in Jamaica and throughout the Caribbean region: a) mass banking deregulation that reduced the role of state-owned banks and, in turn, lessened competition over commercial interest rates and 2) high fiscal deficits that drew central banks' attention toward issues of monetary policy and away from basic banking supervision. In the early 1990s, over 50 percent of total banking assets in Jamaica and throughout much of the Caribbean were state-owned. This is no longer the case today. Officials began to realize that the existing governance structure was in large measure responsible for the severe shortcomings that have plagued the Caribbean banking system, and that the heavy weight of public sector financial entities was holding back critically needed financial sector development. Consequently, many such banks were privatized. Unlike state-owned banks, private banks are less beholden to the benchmark rate because they do not borrow exclusively from the central bank's discount window. Their interest rates, in turn, tend to run higher. Moreover, due to Jamaica's chronically high fiscal deficit, its central bank has been forced to adopt a bifurcated role, directing its focus more toward monetary policy and price stabilization than the regulation of commercial banks. This relative lack of regulation further diminishes the central bank's leverage over commercial interest rates, for it fosters a more liberal marketplace where rates are better determined by supply and demand than by government fiat. The disparity between Jamaica's commercial and benchmark rates is attributable not to some concerted scheme to defraud consumers, but to natural economic forces that help define the contours of any financial marketplace. Drastic government intervention to artificially depress interest rates in Jamaica is not only unwarranted, but can lead to graver consequences than those which such measures are designed to prevent."

A Eduardo D'Angelo P. Silva, former vice-chairman of the Cayman Islands Financial Services Association and former president of the Cayman Islands Bankers' Association: "Consumer protection laws are relevant and certainly play a role, but the best way of guaranteeing that the local population receives the best services at the lowest costs from the financial services industry (or from any industry, for that matter) is to allow the most open competition amongst independent providers of such services. Many countries in the Caribbean (and all over Latin America) are so restrictive and create so many bureaucratic barriers to the entrance of new players in the market that the banks presently in operation enjoy a de-facto monopoly, sharing the market comfortably and having very little incentive to compete on price or quality of services. In contrast, a small country like the Cayman Islands (with a population of only 50,000 people) enjoys top quality financial services because the regulator will consider, in a professional and timely manner, all license applications from reputable banks. Most of the 280 banks presently licensed by the Cayman Islands Monetary Authority do not operate within the local market, focusing exclusively on the offshore banking business, but our retail banks are all part of international financial groups and offer locally the same services at similar costs to Miami, London or São Paulo. Interest rates locally are adjusted on the same day as in New York. Accounts are open on any major currency and transfers and payments can be requested online from anywhere in the world. That's the result of a well-balanced regulatory environment and free competition amongst market participants."

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

The Inter-American Dialogue's *Financial Services Advisor*
is published biweekly. Copyright © 2010

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The Inter-American Dialogue's **Financial Services Advisor** is published biweekly, with the exception of major holidays, from
1211 Connecticut Avenue, Suite 510
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