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INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR ▸ FINANCIAL SERVICES

FEATURED Q&A

How Much Does Cybercrime Threaten Latin American Companies?

Q U.S. retailer Target acknowledged in March that it missed early signs of the security breach that eventually compromised 40 million credit- and debit-card accounts and the personal information of as many as 70 million customers late last year. To what extent are banks, retailers and credit-card companies in Latin America exposed to liabilities relating to financial cybercrime? As the usage of payment cards and online shopping increases in Latin America, will regulators in the region impose tighter rules on financial services companies and retailers? How costly will compliance with anti-fraud measures become for banks and other credit-card issuers in the region?

A Thomas Morante, member of the *Financial Services Advisor* board and partner at Holland & Knight in Miami, and Steven B. Roosa, partner at the firm: "Latin America is considered somewhat behind the curve on cyber-preparedness, although support is growing for regulation and cyber laws have been adopted in several countries, including Argentina, Brazil, Colombia, Mexico and Peru. In addition, the Organization of American States has developed a cyber security program to support the OAS Comprehensive Inter-American Strategy to Combat Threats to Cyber Security. Because cybertheft is a global phenomenon where the attackers know no borders, the recent experience of U.S. retailers paints a useful picture of what the industry in Latin America faces. Retailers and other consumer-oriented businesses confront an enemy that: (1) conducts extensive reconnaissance, (2) takes advantage of multiple vulnerabilities in a system—such as in the Target case, where back-end servers and point-of-sale devices were compromised, and (3) is skilled at exfiltrating large amounts of data from organizations while bypassing moni-

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Brazil's Febraban Appoints Leader for New Term

Brazilian banking association Febraban on March 24 named its head, Murilo Portugal, to a new term. Portugal is a former Finance Ministry official and is to serve another three years as Febraban's leader. See brief on page 2.

File Photo: Febraban.

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FINANCIAL SERVICES BRIEFS

Brazil's Banking Association Nominates Leader for New Term

Brazilian banking association Febraban has nominated Murilo Portugal, a former finance ministry official, for a second three-year term as executive president, the São Paulo-based group said in a statement on March 24, according to Bloomberg News. Portugal's re-election was proposed by Febraban's board, which is chaired by **Itaú Unibanco Holding** CEO Roberto Setúbal.

Jamaica's JMMB Group Gets Nod to Acquire AIC Securities Ltd.

Jamaica-based financial series company **JMMB Group** announced March 20 that regulators gave it approval to complete a transaction to acquire a 100 percent stake in securities dealer **AIC Securities Ltd.** in Trinidad and Tobago, the *Trinidad Express* reported. In late 2013, JMMB Group also acquired **Intercommercial Bank** (IBL Bank) and **Intercommercial Trust & Merchant Bank** in Trinidad and Tobago, and the company said the acquisition of AIC Securities will help deepen its expansion in the country by allowing it to provide more diversified financial solutions.

Annual Growth Rate of Private Credit in Peru Rises to 14.2%

The annual growth rate of credit to the private sector in Peru reached 14.2 percent in February from 13.9 percent in January on the back of a 0.9 percent increase in the total credit of depository institutions to the private sector during February, the Andean country's Central Reserve Bank said March 23, according to state news agency Andina. Total liquidity in the private sector grew 1.1 percent in February due to an uptick in deposits.

Financial Services News

Authorities Question CEO of Mexico's Oceanografía

Mexican authorities on March 22 held the chief executive officer of oilfield services company **Oceanografía** for questioning in connection with the loan fraud investigation at **Citigroup** unit **Banamex**, Reuters reported. Mexico's attorney general's office said Amado Yáñez, Oceanografía's CEO and majority owner, voluntarily presented himself for questioning. The attorney general also requested an order that would prevent Yáñez from traveling. Last month, Citigroup said it was forced to lower its 2013 profit after uncovering at least $400 million in fraudulent loans that Banamex made to Oceanografía. The bank uncovered the bogus loans after reviewing allegedly falsified invoices that Oceanografía had used as collateral for loans.

Panama's Promerica Buys Stake in Ecuador's Produbanco

Panama-based **Promerica Financial Corp.** has bought a 56 percent stake in Ecuador-based **Banco de la Producción** for $130.3 million, *The Wall Street Journal* reported March 21, citing a statement from the Guayaquil stock exchange. A stock exchange spokesperson said the deal happened on March 12 and that Promerica bought 108.6 million shares in the Ecuadorean bank, which is also known as Produbanco, for $1.20 each. A spokeswoman for Promerica said that the banks will undergo a consolidation. Financial sector regulators have already approved the deal, the newspaper reported. Last year, Produbanco had assets totaling $2.96 billion and liabilities of $2.7 billion. Produbanco is Ecuador's fourth-largest bank by assets and deposits. Its net profit amounted to $28.7 million last year. Promerica also owns banks in Nicaragua, Panama, El Salvador, Costa Rica, Guatemala, Honduras, the Dominican Republic and the Cayman Islands. It has had operations in Ecuador since 2000 and last year reported net profits of $5.34 million.

BTG Pactual to Seek Banking Licenses in Colombia, Chile

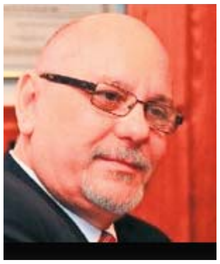
Brazil's **Banco BTG Pactual** plans to apply for banking licenses in Colombia and Chile in an effort to boost its operations in Latin America, *The Wall Street Journal* reported March 28. The investment bank already operates as a broker-dealer in Colombia, said BTG Pactual partner Mateus Carneiro, who is responsible for the bank's integration in the region. The bank plans to apply for the license from Colombia in the next few weeks and also expects Chilean officials to allow it to open a local bank there in the year's second half, said Carneiro. Starting operations in Colombia and Chile may allow BTG Pactual to raise and lend capital in local currencies and boost its current treasury activities, he added. In 2012, BTG Pactual bought Colombia's largest brokerage, **Bolsa Y Renta**, as well as Chile's **Celfin Capital**.

BTG Pactual already operates as a broker-dealer in Colombia.

Brazil's Caixa Expects Slower Credit Portfolio Expansion

Brazil's **Caixa Econômica Federal** is expecting its credit portfolio to expand more slowly this year after several years of fast growth, the bank's president told reporters March 26, *The Wall Street Journal* reported. The state-run lender expects its credit portfolio to grow by as much as 25 percent this year as compared to last year, said Jorge Hereda. Last year, the bank's credit portfolio grew 37 percent to 494 billion reais. Brazil's government for years has pushed Caixa and state-run development bank BNDES to boost lending in order to help spur the economy.

However, some economists have criticized that strategy because of the government's weakening finances and need to supply cash to the banks. Amid that criticism, ratings agency **Standard & Poor's** lowered its sovereign credit rating for Brazil on March 24 by one notch to BBB-, the lowest investment-grade level. Hereda said March 26, however, that the bank will be able to finance its own lending. "It is important to highlight that we don't need government funding to go ahead with our credit expansion," he said. In addition, the bank will improve the "quality of our credit portfolio," Hereda added. Analysts have expressed concerns that increasing default rates could be detrimental to the bank. At the end of the fourth quarter, Caixa's default rate stood at 2.3 percent. That was up from 2.1 percent at the same time the previous year, but lower than the 2.4 rate at the end of last year's third quarter.



Hereda

File Photo: Brazilian Government.

Insurance News

Bain Capital Signs Deal to Acquire Brazil's Intermédica

Boston-based private equity group **Bain Capital** has agreed to acquire Brazilian health insurance operator **Intermédica** for approximately 2 billion reais ($851 million), *The Wall Street Journal* reported March 24, citing two unnamed people familiar with the matter. The deal for Bain to acquire Intermédica from owner and founder Paulo Barbanti was signed over the weekend, according to the sources. A spokesman for Intermédica declined to comment to the newspaper, while representatives from Bain Capital were unavailable for comment. Intermédica is part of the **NotreDame Intermédica** group, which also includes a dental-services provider. Bain agreed to acquire only the health insurance operator, according to the report. Intermédica had revenue of 2.02 billion reais in 2012, the latest report avail-

Featured Q&A

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toring systems. The cost of compromise is large, including lost customer goodwill, data-breach lawsuits by consumers, and the cost of indemnifying companies affected by the breach of one's systems. Latin American governments are aware of these threats—with incidents of malware, spam, malicious Web site hosting and online banking theft on the rise. Playing defense has its costs: paying for implementation and operation of defensive systems, patching vulnerabilities and hiring information security professionals. Given the advantage that cyber thieves have, the quality of the attackers and the difficulty of mounting defensive measures, cyber woes will continue even if additional steps are taken in Latin America to strengthen defenses including enhancing cyber liability insurance against privacy breach and cyber attacks. This first- and third-party coverage is becoming more widely available, affording protection for fraud and theft, forensic investigation, business interruption, extortion, computer data loss and restoration, costs of litigation/regulatory response, and notification to customers."

A **Marta Colomar-Garcia, associate attorney and Albert Xiques, senior paralegal at Diaz, Reus & Targ, LLP in Miami:** "The level of Internet use in Latin America has grown over the past decade. As a result, Latin America is increasingly becoming a cybercrime target. Online banking theft and hacking attacks tend to be the most common cyber liability risk in Latin America. Cyber liability cases regularly dominate headlines across Latin America. When a network security or data breach occurs, repercussions include liability, fines and penalties, and damage to the company's reputation. Most cases of cyber liability end with embarrassment, apologies, job terminations and loss of clients. However, victims have gone further by demanding compensation for damages or for reputational damage. Due to the increasing cybercrime in Latin America, the legal environment regarding privacy is evolving rapidly. The majority of countries are enacting data protection laws. Some countries like Brazil approach cyber-risks as a national security issue; others like Colombia focus on the economic impact of those risks. However, the Latin American legal landscape can vary considerably from one country to another. Most countries in the region are fostering partnerships among governments and with private businesses to act together and coordinate their approach to cyber-risks. Unfortunately, there is still a lack of legal uniformity, and companies should be aware of how the laws differ from one country to another. Although many governments have passed information security laws related to cyber data, companies cannot rely on government guidance for cyber security risks. If a cyberattack causes damage to a third party, the company could face liability or at least a claim. Given the costs of investigations, potential for fines, penalties and reputational costs, finding ways to set the proper tone and be proactive in deterring cyberattacks should be a top priority for corporations."

> "Latin America is increasingly becoming a cybercrime target."
> — *Marta Colomar-Garcia & Albert Xiques*

A **Wally Swain, senior vice president for emerging markets at The Yankee Group in Bogotá:** "With an unfortunate tradition of fraud, money laundering and organized crime in many countries, Latin American banks and bank regulators are typically obsessed with security. This has, in fact, slowed the development of online and especially mobile banking and payments solutions. Sometimes they

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able. That compared to revenue of 1.88 billion reais in 2011. **Itaú BBA** and **Morgan Stanley** advised Bain Capital on the acquisition. In 2012, U.S.-based **UnitedHealth Group** acquired Brazilian insurer **Amil Participações** for more than $4.3 billion.

Economic News

Chile's Bachelet Sends Tax Reform Bill to Congress

Chilean President Michelle Bachelet on March 31 sent her tax-overhaul legislation, a centerpiece vow of her campaign, to Congress, Bloomberg News reported. The measure, which Bachelet has said will increase equitable and sustainable growth in the South American nation, would boost the government's tax revenue by $8.2 billion, or 3 percent of gross domestic product. The measure would hike the corporate tax rate from 20 percent to 25 percent by 2017. Bachelet said the increased revenue would boost spending on education and health care and also enable the government to balance its budget by the end of her four-year term. "This reform won't slow economic growth," said Bachelet, who took office March 11. "On the contrary, we can only have sustainable and equitable growth in an economy that improves its human capital and the quality of its public institutions." Years of protests over the cost and quality of public education led Bachelet as a candidate to promise improved free education in the country. The tax-reform bill also includes new incentives for Chileans to save and invest. "Tax reform is a necessary and important measure and one of the most important instruments for a state to create a more united, democratic and fair society," Bachelet said Monday in a televised address. The tax increases would come just as Chile's economy is slowing down. The country's manufacturing output declined 2 percent in February as compared to the same month a year earlier. Retail sales increased 5.3 percent in February, but that rise marked the slowest increase since November 2009, Chile's statistics agency said. Finance Minister Alberto Arenas dismissed concerns of the opposition that the prospect of higher taxes has crimped growth and investment. "No serious economist makes a connection between the tax reform and the economic slowdown," he told reporters Monday in Santiago. [Editor's note: See Q&A on Chile's economy and Bachelet's agenda in the March 13 issue of the Dialogue's daily *Advisor*.]

Bachelet

File Photo: Chilean Government.

Political News

Venezuelan Forces Clear Barricades in San Cristóbal

Venezuelan forces have cleared barricades from San Cristóbal, the western city where the country's wave of deadly protests began nearly two months ago, BBC News reported March 31. Security forces have retaken control of San Cristóbal's streets, said a top military commander. Police officers and National

The Dialogue Continues

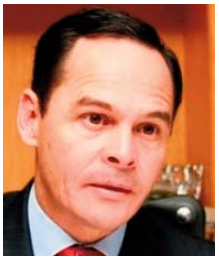
Why Has Guyana Failed to Pass an Anti-Money Laundering Bill?

Q The Caribbean Community Secretariat in February expressed concern at Guyana's failure to pass its Anti-Money Laundering and Countering the Financing of Terrorism Act, a measure that the secretary general of the Organization of American States has also called upon Guyana to approve. The Caribbean Financial Action Task Force has blacklisted the country over the matter. What does the legislation aim to achieve, and why is it being resisted? How will the wrangling affect financial services companies in Guyana and the country's economy overall? Is Guyana's inaction a blow to coordinating anti-money laundering efforts in the Caribbean?

A Allan Ramlall, director of global outreach at the National Money Transmitters Association: "Last November, the CFATF blacklisted Guyana due to its inability to pass the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) bill. In addition, Guyana missed a Feb. 28 deadline to submit a report to the CFATF along with the bill, for consideration in its May plenary meeting. The non-passage of the legislation will have devastating economic impacts on Guyana and the Caribbean if Guyana is blacklisted internationally. Such blacklisting can reduce the ease and increase the cost of processing international financial and trade transactions, which will negatively affect trade and financial flows in the region and adversely affect regional integration. For Guyana, consequences can also include closure of accounts with foreign banks not wanting to conduct business with Guyanese firms and financial institutions, delays or refusals to process bank transfers until increased documentation is completed and the continuation of Guyana's inability to access foreign development funds. Guyana's government and local trade, industrial and banking sectors are fully aware of the dire consequences. However, two opposition political parties are insisting on three key amendments to the legislation that would strengthen the reforms and require the president to address several outstanding issues. Since Guyana is a parliamentary democracy with opposition parties holding a one-seat majority, the government and the opposition will have to come to a compromise before this impasse can be resolved."

Editor's note: The above is a continuation of a Q&A published in the March 6-19 issue of the Financial Services Advisor.

Guard troops have "ended the curfew imposed by terrorists," said Gen. Vladimir Padrino, the head of the National Armed Forces Strategic Operational Command. No one was hurt in the operation to clear the barricades that had been set up on Carabobo, Ferrero Tamayo and España avenues during the anti-government protests, Padrino added. Gov. José Vielma Mora of Táchira state, where San Cristóbal is located, applauded the operation. "The best present we can give to San Cristóbal is the return of our children to school and of our good people to work," said Vielma Mora, a member of the country's ruling PSUV party. Last week, San Cristóbal Mayor Daniel Ceballos, a member of the opposition Popular Will party, was removed from office and sentenced to a year in prison on charges of failing to remove the barricades. The country's Supreme Court ruled that Ceballos also supported protesters engaging in violence. At least 39 people have been killed in the anti-government protests, which have also occurred in Caracas and other cities across the country.



Vielma Mora

File Photo: Venezuelan Government.

Salvadoran Opposition Party Concedes Defeat in Presidential Vote

El Salvador's opposition Arena party on March 27 conceded defeat in the country's razor-close presidential election, BBC News reported. Arena's conservative candidate Norman Quijano lost the March 9 election to leftist Salvador Sánchez Cerén of the ruling Farabundo Martí National Liberation Front (FMLN) by 0.22 percentage points. After the vote, Quijano had alleged fraud and demanded a full recount, which election officials rejected. On March 27, the party conceded, saying it would present "democratic, serious and honest" opposition to Sánchez Cerén. "As proof of our democratic vocation and respect to the institutions, we accept the Supreme Court's decision against a vote-by-vote recount," Arena said in a statement. "We will be watching the government and making sure it respects the law. But we will be the first ones to applaud their achievements." In the weeks leading up to the vote, Sánchez Cerén had been expected to comfortably defeat Quijano. However, Quijano made gains in the final weeks. Quijano had compared his rival to Venezuelan President Nicolás Maduro and said El Salvador would be plunged into economic chaos if Sánchez Cerén won. Despite his past as a guerrilla leader in El Salvador's civil war, Sánchez Cerén campaigned as a moderate. Since being named the winner of the election, Sánchez Cerén has said he wants to seek unity with the opposition and has invited opponents to take part in "efforts to rebuild El Salvador." Sánchez Cerén plans to visit other Central American countries in the coming days and also visit the United States before his inauguration on June 1.

Mexico's Peña Nieto Submits Telecom Bill to Congress

Mexican President Enrique Peña Nieto on March 24 submitted legislation to Congress that would be the final step in overhauling regulations of the country's telecommunications and television markets, Dow Jones reported. The so-called secondary legislation comes after lawmakers' approval last year of constitutional changes governing the sector. The secondary legislation would give unprecedented power to the new autonomous regulator that is in charge of determining dominant players in the industry and awarding concessions. The regulator will also be in charge of settling disputes in areas such as sharing telecommunications infrastructure. The reforms are an effort by Peña Nieto's government to increase competition in a sector dominated by billionaire Carlos Slim's **América Móvil** and broadcaster **Grupo Televisa**. The reforms also would impose heavier fines for monopolistic practices. A company could face a fine of as much as 4 percent of its revenue from the previous year for attempting to block new competitors from entering the market.

POLITICAL & ECONOMIC BRIEFS

Knights Templar Cartel Leader Killed in Mexico

Enrique Plancarte, a leader of the Knights Templar drug cartel, was killed March 31 during a clash with Mexican marines in the central state of Querétaro, Mexican officials told the Associated Press on the condition of anonymity because they were not authorized to speak publicly. Plancarte was one of four leaders of the Michoacán-based cartel. Mexican security forces in recent weeks have also arrested Templar leader Dionisio Plancarte and killed leader Nazario Moreno.

World Cup Will Give Brazil 'Short-Lived' Boost: Moody's

This year's World Cup will give host country Brazil a "short-lived" economic boost, **Moody's Investors Service** said March 31 in a report, Bloomberg News reported. "The tournament will capture the world's attention, but an estimated 25.2 billion reais ($11.1 billion) economic boost pales before Brazil's $2.2 trillion economy," said Moody's. Brazil is spending 8 billion reais on the tournament and has struggled to meet construction deadlines imposed by soccer's governing body, FIFA.

Cuban National Assembly Approves Foreign Investment Law

Cuba's National Assembly on March 29 unanimously approved a measure designed to boost foreign investment in the communist island nation, BBC News reported. The law reduces taxes on profits to 15 percent from 30 percent and also allows new investors to be exempt from paying some taxes for eight years. President Raúl Castro's government announced the reform last week. Last year, Cuba's economy grew 2.7 percent.

Featured Q&A

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impose layers of physical security on top of online transactions. My leading Colombian bank requires that I physically go to a bank branch to validate a new payee. But sometimes security technology is available but not used. I have an EMV (chip credit card), but I am not required to use the PIN. PIN codes are only used with EMV debit cards. Surveys show that Latin American consumers are surprisingly unaware of the need for data security. With consumers unaware and banks either applying inappropriate technologies or not applying available technologies, the region is ripe for a major scandal."

A **Luca Tenzi, Switzerland-based security consultant:** "There is no doubt that Latin America countries are aligning their legislation with the best international standards when it comes to fighting cybercrime. With the upcoming World Cup and Olympics, Brazil will be the front-runner when it comes to protecting credit- and debit-card accounts and the personal information of the thousands of tourists who will be visiting the country. In that view, banks and financial institutions have made a strong push for the use of smart cards with the rapid deployment of EMV-compliant cards and terminals. Diminishing the risk of skimming fraud and the use of PIN-enabled chip cards have provided card users an extra layer of security. Nevertheless, while legislation against economic and cybercrime exist and new laws will be implemented, offenders are unlikely to be convicted, let alone penalized. In South America, the issue is not implementing stricter rules, but rather enforcing them. In the fight against fraud, the judiciary would need to support the efforts that banking and financial institutions are undertaking by imposing strong sentences on those committing fraud and institutions that do not comply with the law."

A **Kai Schmitz, senior investment officer for Global FinTech and ePayments International Finance Corp.:** "Fraud in credit card transactions is lower than the high-profile cases and media attention would suggest. Card companies claim that fraud amounts to just 2 percent of transaction volume. However, consumers and retailers hit by fraud may find this is bad enough. Most concerning in the Target case (and other recent cases) is that the retailers were certified to comply with card industry security standards, but allegedly broke the rules. When even very tight rules do not prevent security breaches, something fundamental may be broken. The response in the United States has been to call for finally implementing chip and PIN cards, but this has been called for many times before. Unless retailers are convinced, past experience suggests it will not happen this time either. Regulation may force a change, but few in the industry wish for even more regulation. Alternatives to card payments, however, are few and from a security standpoint so far are also not promising. Bitcoins and other virtual currencies may be inherently more secure than card payments, but unless standards and regulations are enforced on the providers, only adventurous consumers and merchants will dare to use them. At least Latin America has its own answer for secure ecommerce payments: Safetypay, a company operating out of Peru and headquartered in Miami, which allows secure payments online to be made from consumers' bank accounts, without giving financial information to the merchants or Safetypay. Maybe U.S. card companies should take notice."

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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