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### FEATURED Q&A

#### Is the Dominican Republic Ready for Banking Through Retailers?

**Q** In March, the Dominican Republic's central bank announced new regulations that will allow financial intermediaries, including savings and loan associations, to contract with retailers across the country as subagents. The change, intended to increase access to financial services among the nation's poor, will allow pharmacies, hardware stores, convenience stores and other outlets to provide basic financial services such as deposits and withdrawals from savings and checking accounts, credit card payments and domestic money transfers. Are the changes a good idea? Does the Dominican Republic's government have the right regulations and plans in place to manage these new financial services? What business groups and consumers stand to gain the most, and who has the most to lose? What else needs to be done in order to improve access to financial services to the country's underserved communities?

**A** Ernesto Armenteros, member of the *Financial Services Advisor* board and vice president of Banco de Ahorro y Crédito Unión in Santo Domingo: "I feel these new regulations are an important step in the direction of integrating the very large number of Dominicans that still don't have access to regulated financial services. The Dominican banking regulators have

been thorough and inclusive in the process of gathering opinions, pondering and producing a pragmatic set of rules; and though we don't necessarily agree with all the precepts, the results are commendable and I'm sure they'll improve through the implementation process. I also think the regulators have the resources to manage it because it's a relatively simple variation to a system they've supervised successfully through a period of worldwide financial turmoil. It's a good idea because it will make these serv-

*Continued on page 4*



#### BBVA Plans More Investments in Mexico Through 2016

Francisco González (L), the chairman of Spain's BBVA, plans to invest \$3.5 billion in the bank's Mexico operations through 2016. González made the announcement alongside President Enrique Peña Nieto. See story on page 2.

*Photo: Mexican Government.*

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## FINANCIAL SERVICES BRIEFS

**Banco de Chile Plans to Invest \$97.7 Million This Year**

**Banco de Chile**, the country's second-largest bank, said March 21 it would increase its capital spending by 28 percent in 2013 from a year earlier, Reuters reported. The bank is controlled by Chile's Luksic family and **Citigroup**. It also plans to expand its loan portfolio by just over 9 percent this year, said chief executive officer Arturo Tagle. The bank increased its total loans by 8 percent last year to more than \$39 billion, equivalent to a 19 percent market share.

**Stewart Departs Morgan Stanley to Run International at Itaú BBA**

Brazil's **Itaú Unibanco** on March 27 named Charles Stewart to become the new head of its overseas investment banking operations, Reuters reported. He will be based in London starting in June and replaces Almir Vignoto, who will move to New York later this year to head Itaú BBA's U.S. operations, according to the report. Stewart had previously worked as **Morgan Stanley's** head of investment banking for Latin America in São Paulo.

**Puerto Rico Insurance Sector Posts Strong Growth Rates**

Puerto Rico's insurance industry had a compound annual growth rate of 5.8 percent between 2007 and 2011, *Insurance News* reported March 22, citing data from U.K.-based research firm **Timetric**. The sector's growth, which came in the face of hard economic times for the island, was driven by the government's health care reforms, the implementation of a Medicare program and compulsory third-party car insurance, **Timetric** said, adding that such growth rates will be hard for the sector to sustain.

## Banking News

**Ecuador's Bank Profits Fall 47 Percent in February**

Profits at Ecuador's biggest banks fell a combined 47 percent in February, **Dow Jones** reported March 26. The Andean country's banking regulator said that profit at 25 private banks, plus state-run **Banco del Pacífico**, fell to \$32.88 million from \$61.62 million the same month a year earlier. **Banco del Pichincha**, **Banco del Pacífico**, **Banco de Guayaquil** and **Banco Bolivariano** topped the list with \$6.55 million, \$5.50 million, \$4.49 million and \$3.28 million in profits, respectively, according to the report. Those four banks accounted for 60 percent of the reported combined income. Only about 9 percent of the profits in February came from foreign banks operating in Ecuador, a figure consistent with past monthly reports. Assets in the banking system totaled \$27.55 billion in February, while liabilities were \$24.75 billion. There were 29 banks operating in Ecuador at the start of the year. In related news, banking regulators in March ordered one of the smallest banks in the country to suspend operations due to solvency and liquidity problems that have plagued it for years, Reuters reported. **Banco Territorial** currently has assets worth \$170 million and 75,000 clients, most of whom have deposits of less than the \$31,000 that would generally be insured by the government, according to the report. **Pedro Solines**, the head of the country's banking superintendency, told reporters that he believes five or six banks are interested in taking over **Territorial's** assets and liabilities.

**BBVA Plans to Invest \$3.5 Billion in Mexico Through 2016**

The chairman of Spanish bank **BBVA** said March 21 his company will invest \$3.5 billion in its Mexico operations under its 2013-2016 business plan, *El Financiero* reported. **Francisco González** made the announcement at Los Pinos alongside President **Enrique Peña Nieto**. About \$1.28 billion will be spent on improve-

ments to branches over the next four years, plus \$700 million to open new branches. Some \$1.5 billion will be spent on technology upgrades. With 20 million customers, **BBVA's** Mexico unit contributed about 30 percent, approximately \$2.3 billion, of the parent bank's net profit last year, according to the report. The bank's business in the United States, **BBVA Compass**, has also performed relatively well recently, growing at double-digit rates with net income of \$613 million last year, **BBVA** said in an earnings release last week. The bank's earnings in South America were up about 20 percent last year, it said.

**Brazilian Banks Pull Back on New Credit in Face of High Default Rates**

Brazil's private-sector banks pulled back on new credit in February, Reuters reported March 26. The pace at which non-mandatory, non-subsidized lending is growing annually across Brazil slipped to 12.8 percent that month. The data suggests that private-sector banks are restricting loan origination in the face of high default rates. Outstanding bank loans in Brazil totaled a record 2.384 trillion reais (\$1.19 trillion) in February, up

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*Lending rates for consumers rose for the second straight month after almost a year of uninterrupted declines.*

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0.7 percent from the prior month, the central bank said. Lending rates for consumers rose for the second straight month after almost a year of uninterrupted declines, the report added. The average lending rate in the banking system rose in February for a third month to 26.4 percent. The spread, or the difference between the rates banks charge for their loans and the ones they pay for deposits, narrowed to 18.2 percent from 18.4 percent the prior month, Reuters reported. Over the past year, Brazil's government has been using its state-run banks, among

the largest in the country, to expand access to credit with mixed results. On March 21, ratings agency **Moody's Investors Service** downgraded its ratings for two big state-run banks—the **National Development Bank**, or BNDES, and the **Caixa Econômica Federal**—by two notches, saying use of the banks by government policy makers to fuel economic activity has weakened their capital structure, Dow Jones reported.

### Evertec Could Raise \$400 Million in Initial Public Offering: Report

Puerto Rico-based transaction processing firm **Evertec** could raise \$400 million in an upcoming initial public offering, *Business News Americas* reported April 1. The company, which is owned by **Apollo Management** and **Popular Inc.**, will offer 21.1 million shares in a price range of \$18-\$20, according to the report. The stock has been approved to list on the New York Stock Exchange under the ticker symbol EVTC. **Goldman Sachs** and **JP Morgan** are handling the deal. With 1,500 employees, Evertec says it executes more than 1.2 billion transactions annually and operates networks of over 4,900 automated teller machines and more than 107,000 point-of-sale payment terminals. In addition to Puerto Rico, the company has offices in the Dominican Republic, Mexico, Panama, Costa Rica and Guatemala.

## Insurance News

### France's CNP Targets Expansion in Southern Brazil With Previsul Deal

**CNP Assurances** said March 20 that it has finalized a deal to take over Brazilian personal insurer **Previsul**, the France-based company said in a press release. The agreement, which was negotiated through its Brazilian subsidiary, **Caixa Seguros**, gives CNP the 70 percent of outstanding shares of Previsul, a personal insurer founded over 100 years ago in the state of Rio Grande do Sul. CNP said it paid 70 million reais (\$35 million) for the shares. Caixa Seguros plans to expand in the southern part of Brazil through the deal,

a market of 24 million people. Previsul has a portfolio of nearly 600,000 policyholders, 143 employees and close to 3,000 partner brokers. In 2012, the company reported revenue of 146.5 million reais and net profit of 5.9 million reais. Caixa Seguros, majority owned by CNP Assurances along with banking partner **Caixa Econômica Federal**, is Brazil's fifth largest insurer, with eight million policyholders.

### ACE Completes \$293 Million Deal for Fianzas Monterrey in Mexico

Zurich-based **ACE Limited** said April 2 that it has completed its acquisition of **Fianzas Monterrey** in Mexico, which it bought from **New York Life** for approximately \$293 million in cash. Mexico City-



Greenberg

File Photo: ACE Group.

based Fianzas Monterrey is the nation's second-largest surety lines writer and the third-largest in Latin America, according to an ACE release. It offers administrative performance bonds primarily to construction and industrial clients. The company has 25 branch offices in Mexico and distributes its products through a network of nearly 600 independent agents and brokers. Led by Evan Greenberg, the ACE Group is one of the world's largest multiline property and casualty insurers, with operations in 53 countries.

## Financial Crimes

### U.S. Regulators Press Citigroup Over Money Laundering Controls

The U.S. Federal Reserve on March 26 named **Citigroup** in an enforcement action over breakdowns in money laundering controls related to Mexico, *The New York Times* reported. The Fed, acting in its role as regulator, said that Citigroup's **Banamex USA** unit failed to monitor cash transactions for potentially suspicious activity. Citigroup and

**Banamex USA** did not admit wrongdoing, and no fines were issued related to the lapses. Instead, the regulator faulted Citigroup for lacking "effective systems of governance and internal controls to adequately oversee the activity." Citi's board must outline a plan to fortify its monitoring of transactions and bolster its compliance program, including how to finance a "compliance risk management program that is commensurate with the compliance risk profile of the organization," according to the report.

### Bill Targeting Advance-Fee Fraud Passes Jamaica's Lower Chamber

A bill that aims to more effectively prosecute criminals involved in Jamaica's illegal lottery scam passed Jamaica's House of Representatives on March 26, the Jamaica Information Services reported. The bill is expected to be signed into law soon. The Caribbean island's lower house approved 14 amendments to the law, which passed the Senate on March 21. The bill makes it easier for police to investigate and apprehend people involved with an advanced-fee fraud network that has bilked millions of dollars, primarily from elderly United States residents. [Editor's note: Access a [video](#) of the Inter-American Dialogue's recent event on Jamaican lottery scams.]

## Remittances News

### Remittances to Colombia Fall 2.3 Percent in 2012: Central Bank

Remittances from Colombians living abroad to relatives at home declined by 2.3 percent last year, or by about \$94 million, *El Espectador* reported March 27. The economic downturn in the European Union, especially in Spain, where a relatively large population of Colombian workers live, was largely behind the decline, according to central bank data. Remittances from abroad totaled \$4.07 billion between January and December 2012, representing 1.1 percent of the Andean nation's gross domestic product. Increased remittances flows originating in the United States and Venezuela partially

offset declines from Europe, however. Colombian officials might need to wait for a rebound in remittances from the European Union. The economic outlook for Europe's recovery remains dim this year, the World Bank said in March. "The risk of another financial crisis in Europe seems much weaker compared to last year but it could happen," Andrew Burns, manager of the Global Macroeconomic Trends Team at the World Bank, told the *Financial*, an English-language newspaper based in Georgia. "It is pretty clear that countries in Europe, including Greece, Spain, and Portugal, are continuing to struggle. Growth there will be very slow with many negative sides," he said.

### Mexico Remittances Remain Weak for Eighth Consecutive Month

The amount of remittances Mexican workers abroad sent home remained weak in February, **Goldman Sachs** said in a client note April 1, citing central bank data. The amount of money fell 11.1 percent in February as compared to the same month in 2012 and marked the eighth consecutive month of declines. The total remittances transferred in February came in at \$1.6 billion, below analyst expectations, according to the report. Workers' remittances last year peaked in May and have decelerated or remained relatively flat since then. Industry leaders hope a rebound in the U.S. construction sector, a traditional source of jobs for Mexican immigrants, will bring money flows back to historic highs.

### Nicaragua Sees Money Transfers Rise by 6.78 Percent in January

Remittances to Nicaragua rose 6.78 percent in January compared to the same month last year, *The Costa Rica News* reported March 31. According to Central Bank of Nicaragua data, some \$83.4 million was sent home from Nicaraguans living abroad in January, with most coming from the United States (60.1 percent), followed by Costa Rica (19.8 percent), Spain (6.3 percent) and Panama (2 percent). Canada, Mexico and El Salvador each sent about 1 percent of the total during the month. In all last year, Nicaragua received

### Featured Q&A

*Continued from page 1*

ices available to neighborhoods, towns and other communities that don't have access because they cannot muster the critical mass needed to support a bank branch, and they'll be offered to them in less intimidating surroundings (such as their neighborhood drug or convenience store). Because banks will piggyback on chains of outlets that are already built and require little investment to empower, we'll be able to accelerate the expansion and increase the capillarity of our bank networks, which should translate into more competition, better products and better rates. The big winners will be the general population, those small businesses that will acquire new income and traffic, and the banks that partner with them. The big losers will be unregulated lenders (loan

sharks), unregulated currency exchange operations and informal remitters. If we can find a practical way to also make these services available to our large Haitian immigrant community, and to expand the menu of products we can offer through these outlets, the impact will be that much more important."

**A Mario Trujillo, member of the Financial Services Advisor board and president and CEO of DolEx Dollar Express:**

"The Dominican Republic's recent regulatory changes allowing for the extension of limited banking services into non-bank financial intermediaries as sub-agents, in an effort to extend banking into rural and remote locations, is a welcome and positive change that has been successful-

*Continued on page 6*

\$1.01 billion in remittances, a record amount, with \$102.6 million more than in 2011, an increase of 11.25 percent, according to the report.

## Political News

### Race to Succeed Chávez Formally Begins in Venezuela

The candidates seeking to replace late Venezuelan leader Hugo Chávez formally began their campaigns April 1 by rallying supporters and trading barbs less than two weeks before the April 14 vote, Bloomberg News reported. Though this marked the formal start of the campaign, the candidates have been holding rallies since soon after Chávez's death on March 5. Henrique Capriles, who lost to Chávez last October, led thousands of supporters in a march through Caracas. "This is a fight for the future, for life. God has given us an opportunity to choose between life and death," said Capriles. In his effort to defeat the country's acting president and Chávez's handpicked successor, Nicolás Maduro, Capriles is focusing on problems including rising crime and inflation. Maduro, who served as vice president under Chávez, has said fighting crime will also be among his

top priorities. The Andean country has had 3,400 murders since the beginning of the year, Néstor Reverol, the justice and interior minister, said on state television. Miranda state, where Capriles is governor, had 545 of those homicides. Venezuela's number of homicides rose from 13,080 in 2010 to 16,030 in 2012, Maduro told the National Assembly in a Feb. 28 report. The nongovernmental Venezuelan Violence Observatory says the number is higher, with 21,692 murders in 2012. As expected, the campaign is shaping up to be controversial. Capriles said the opposition received a letter from members of the military saying the armed forces planned to bring voters to the polls in military vehicles so that they can cast their ballots for Maduro. The military should remain neutral in the election, Capriles told the Globovisión television network. National Assembly President Diosdado Cabello said the letter that Capriles mentioned was fake. Cabello said, "What are they looking for? An extraordinary event to lift a candidacy that can't be lifted?"

### Obama to Visit Mexico, Costa Rica in May

U.S. President Barack Obama will visit Mexico and Costa Rica in early May as his

administration pushes immigration reform in the United States and continues its focus on the role of trade in the economy, the White House announced March 27. During the May 2-4 trip, Obama will meet with Mexican President Enrique Peña Nieto and Costa Rican President Laura Chinchilla. While in Costa Rica, Obama will also meet with the heads of state of other Central American countries and the Dominican Republic. "We've done a lot of work with the previous Mexican administration on security issues and on economic issues. But sometimes the relationship gets characterized just as being about borders or just as being about drug cartels," Obama told Spanish-language television network Telemundo in an interview, *The Washington Post* reported. Obama also told Telemundo that he expects that an immigration bill will be ready for debate when Congress returns after its recess later in April.

## Economic News

### Brazil Consumer Confidence Picks Up in March: CNI Poll

Brazil's consumer confidence rose slightly in March, Agência Brasil reported April 1. The country's National Confederation of Industry, led by Robson Braga de Andrade, said its index of consumer confidence rose 0.6 percent in March compared to the previous month, posting a gain after three straight months of declines. Compared to the same month last year, the group's INEC index was up 1 percent in March. Improved expectations about inflation were in large part behind the brighter numbers, according to the report. Brazilians are also more optimistic about their household budgets and capacity to pay off debt, the survey indicated. Although more optimistic in March overall, Brazilians remain cautious about



Braga de Andrade

File Photo: Agência Brasil.

some aspects of the economy in 2013. The index suggests the number of consumers who plan to buy higher-value goods this year fell by 1.6 percent in March. Worries about unemployment also weighed on consumers, according to the survey, which polled 2,002 people in 141 municipalities across the country between March 8 and 11. A separate consumer confidence survey released recently by the Getúlio Vargas Foundation in Brazil suggested that consumer sentiment had declined slightly in March, however.

### Argentina Submits Proposal to Pay Bond Holdouts

Argentina's government on March 29 proposed paying the holders of \$1.3 billion of the country's defaulted bonds an amount equal to one-sixth of what a judge in the United States has said the bondholders should receive, Bloomberg News reported. One analyst said the South American country's move amounted to it "thumping its nose" at the court. Argentina's filing of the proposal happened an hour before a court-imposed deadline and now clears the way for the U.S. Court of Appeals in New York to rule on a case brought by creditors, led by **Elliott Capital Management's NML Capital Ltd.** The holdouts refused to accept debt restructurings after Argentina's massive \$95 billion default in 2001. In a 22-page letter filed with the U.S. court, Argentina said it would submit a bill to the South American country's lawmakers that would allow holders of the defaulted bonds to exchange them for new bonds. The proposal amounts to Argentina "ignoring (even thumping its nose at) the court," Joshua Rosner, an analyst at **Graham Fisher & Co.** told Bloomberg News in an emailed note. The Court of Appeals, which can issue a new ruling at any time, could find that Argentina must pay holders of defaulted bonds immediately. That would expose the country to an additional \$43 billion in claims and could trigger a new default, the government has said. The government's proposal is similar to past restructuring offers that NML and other creditors have rejected, analysts of the offer told reporters.

## POLITICAL & ECONOMIC BRIEFS

### Chilean Youths Clash With Police in Santiago

Thousands of Chilean youth took to the streets March 28 in violent clashes with authorities to mark the "Day of the Young Combatant," *La Tercera* reported. Students traditionally protest on March 28 to commemorate the death of leftist brothers Rafael and Eduardo Vergara Toledo at the hands of police in 1985 during the military regime. Authorities said 60 people were arrested and one policeman was injured.

### Colombian Rebel Group Leader Killed in Clash With Army

A leader of a Colombian rebel group was killed during a clash with the army, Fox News Latino reported March 28, citing military sources. The rebel, known only by his nom de guerre, "Omar," was killed in a military operation in Colombia's southwestern Cauca department. Omar led the National Liberation Army's Camilo Cienfuegos Brigade. The military said it seized several weapons. The guerrilla group, known as the ELN, is Colombia's second-largest after the FARC.

### Trinidad's National Security Minister Subject of FBI Probe

Jack Warner, Trinidad's controversial minister of national security, is the subject of an investigation by the U.S. Federal Bureau of Investigation and the Internal Revenue Service into possible tax fraud and corruption, the *Trinidad Express* reported March 27. A former vice president of the International Federation of Football Association, or FIFA, Warner stepped down two years ago over a bribery scandal involving the election of FIFA's president. A report by Reuters names his son, Daryan Warner, as a key witness.

**Featured Q&A***Continued from page 4*

ly developed in other major countries. For example, in Mexico and Guatemala, several major banks have used sub-agents in the last several years to extend their reach effectively and efficiently into rural communities, where they would not normally be able to operate a traditional bank branch. Initially, many sub-agent networks are developed and, over time, market forces allow for the most efficient, better agent operators to remain and prosper. Also, local bank regulators are requiring financial institutions to supervise these sub-agents with a high degree of oversight, which is required to maintain the integrity of the regulatory regime. Finally, at a time when major financial global institutions (due to their own unrelated regulatory problems) are exiting these underserved communities and exiting basic bank account, remittance and other simple banking offerings, these innovative solutions to provide regulated financial products in partnerships with non-bank regulated alternative financial providers are an essential part of supporting developing economies and a welcome policy change at a critical time."

**A** **Mary Fernández Rodríguez, founding partner at Headrick Rizik Alvarez & Fernández in Santo Domingo:** "Broadly speaking, this change is an important step toward the creation of more inclusive economic structure in the Dominican Republic. This new model, which the private sector has actively promoted, is aimed at broadening access to financial services and providing access to such services in areas where they would not ordinarily be available. These networks will not only serve as a new way to provide banking and other private-sector services, but will also permit broader access and commercialization of a variety of financial services that are now limited to people in the urban and affluent areas. Additionally, the new regulations may also allow the government to use these as vehicles to distribute subsidies without the need to create additional inefficient distribution structures. The winners will

be the Dominican people, and in particular the less affluent and poor. The public and private sectors will also benefit from broader and more efficient distribution channels. The losers from this provision are likely to be institutions that have benefited from providing costly and inefficient banking services. The implementation process will not be simple. A number of controls need to be put in place to enable the identification of users and ensure the system is safe. However, this is an important step forward and a very positive development in the Dominican Republic."

**A** **Richard Child, member of the Financial Services Advisor board and CEO of Matrix Group:** "This is a common trend we are seeing throughout Latin America, with the type of services and merchants involved varying from market to market. The objective of correspondent banking as it is been called, and as stated by banks and regulators, is to increase the geographic availability of financial services to a larger part of the population, with a strong focus on parts

“Controls need to be put in place to enable the identification of users and ensure the system is safe.”

— *Mary Fernández Rodríguez*

of the population that historically have not had access to financial services. However, regulation and oversight varies. In some cases, banks self supervise and in other cases the authorities oversee the merchant networks as well. I believe this is an effective and efficient way to extend the offering of financial services, as long as the financial industry works in conjunction with banking regulators to ensure appropriate authentication methods for customers and merchants, clear communications and customer disclosure. Otherwise, these sort of programs can be very susceptible to abuse and fraud."

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