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FEATURED Q&A

How Can Colombia's Gov't Better Fight Money Launderers?



Over the past three and a half years, Colombian authorities have discovered some \$20 billion in operations that could be related to money laundering. // Image: Marco Verch via Creative Commons.

Q The Colombian government's financial crimes unit has detected some \$20 billion in financial operations over the past three and a half years that have potential ties to money laundering, the unit's director, Javier Gutiérrez, said Aug. 9.

The Financial Information and Analysis Unit has detected approximately 570 channels, including currency trading, cryptocurrencies and fake invoices, through which money is laundered, said Gutiérrez. What are the biggest obstacles facing Colombian authorities in their pursuit of money launderers? How adequate are anti-money laundering safeguards at Colombian banks and other financial institutions? What new actions to fight the crime could Colombia see under the new government of President Gustavo Petro?

A Marcelo Buendía Vélez, associate attorney at the Bogotá office of Díaz Reus and former prosecutor in Colombia's anti-money laundering unit: "Colombia has invested a significant amount of resources in the prosecution of money laundering cases, and results have so far been very positive. New investigative techniques, proper training for investigators and prosecutors, and cooperation within public and private entities have been the main reasons for Colombia's results. However, there is still much to do because money launderers are always searching for new ways to accomplish their goals. In the fight against money laundering, Colombian authorities face three main obstacles. First, criminality moves faster than authorities, which take too long investigating and then prosecuting. The lack of swiftness in investigations and legal processes is, undoubtedly, one of the main

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Colombia's financial regulator is considering measures aimed at reducing rising indebtedness amid concerns about consumers' capacity for repayment amid inflation and higher interest rates.

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Sagicor Group Acquires Alliance's Dealer Book

Sagicor Group Jamaica announced that its Sagicor Investments subsidiary had acquired the securities dealer book of Alliance Investment Management Limited for a base price of more than \$17 million.

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BANKING

Banco do Brasil Reports 38% Rise in Profit for Q2

Brazilian state-controlled lender Banco do Brasil, led by CEO Fausto de Andrade Ribeiro, reported a 38 percent rise in profit for the second quarter, beating analysts' estimates.

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Ribeiro // File Photo: Brazilian Government.

BANKING NEWS

Banco do Brasil Reports 38% Rise in Net Profit for Q2

Brazilian state-controlled lender Banco do Brasil on Aug. 10 reported better-than-expected earnings for the second quarter and increased its full-year forecast, Reuters reported. Banco do Brasil said its full-year adjusted net profit for 2022 is estimated to reach between 27 billion and 30 billion reais (\$5.3 billion to \$5.89 billion), an increase from the previously forecast range of 23 billion and 26 billion reais, the wire service reported. The adjustment was boosted by higher net interest income and cost control measures. In its second quarter, the lender reported a 38 percent net profit increase to 7.62 billion reais. "We are confident that we will continue to be profitable while generating value for society," said the bank's president, Fausto de Andrade Ribeiro, Valor Econômico reported. "The level of profitability we have reached is an unequivocal demonstration of our commitment to efficiency, productivity and the permanent construction of a business model that is increasingly closer to our customers," he added. Banco do Brasil's forecast adjustment came even as the lender projected higher bad-loan provisions, which currently stand at between 14 billion and 17 billion reais for this year, Reuters reported.

CONSUMER CREDIT NEWS

Colombia Eyes Measures to Curtail Rising Indebtedness

Colombia's financial regulator is considering measures aimed at curtailing increasing household indebtedness amid concerns about the impact of inflation and higher interest rates on capacity for repayment, Reuters reported Aug. 17. The country's financial superintendent,

Jorge Castaño, spoke at a banking convention in Cartagena, where he warned about two specific trends: increasing consumer credit limits and longer term loans, according to local news station La FM. Consumer credit has shot up more than 22 percent as the economy has recovered, higher than the long-term average of 8 to 9 percent, while the amount of credit available on credit cards has reached 96 trillion pesos (\$22.7 billion), compared to its pre-pandemic level of 62 trillion pesos, Reuters reported. Meanwhile, repayment periods on loans are beginning to exceed eight years or more. Castaño said that this level of growth in consumer credit generates concerns about repayment. As a result, the superintendency is going to begin requiring financial institutions to assume financial liability for unused portions of consumer credit limits, with the aim of incentivizing banks to adjust credit limits to consumers' ability to pay, according to La FM. The regulator will decide whether to implement the measure or not based on financial entities' results in the fourth quarter, he said, Reuters reported.

CREDIT CARD NEWS

Brazilian Central Bank Chief Predicts End of Credit Cards

Brazilian central bank chief Roberto Campos Neto on Aug. 12 said he believes that credit cards will cease to exist because of the growth of open finance, which allows customers to authorize the sharing of financial data with various institutions, Reuters reported. The Brazilian central bank has implemented open finance in phases since last year. During an event on cryptocurrencies, Campos Neto said that through open finance, consumers will be able to manage all aspects of their financial affairs through one "integrator" on their mobile device, instead of using several apps from various banks. Such practices would allow for the development of products for cash management that would allow consumers

NEWS BRIEFS

Costa Rica's Chaves Seeking to Sell State-Owned Banks

Costa Rican President Rodrigo Chaves announced Aug. 16 that he is presenting legislation to sell two state-owned banks and is also planning to sell a stake in the national insurance company, Reuters reported. The measure would include the sale of state-owned banks Banco de Costa Rica and Banco Internacional de Costa Rica. Chaves added that the government is also planning to sell a 49 percent stake in state-owned insurance company Instituto Nacional de Seguros (INS) to pension funds. Chaves estimated the sale of the banks could raise \$1.8 billion, with the sale of the stake in INS raising another \$890 million.

Nu Holdings Reports Record \$1.2 Bn in Revenue

Brazilian digital banking platform Nu Holdings reported its second quarter results on Aug. 15, highlighting that total revenue reached a record high of \$1.2 billion in the quarter. The company reported that it added 5.7 million new customers in the quarter to reach a total of 65.3 million customers across Brazil, Mexico and Colombia. The company also noted that its Brazilian operation became profitable in the first half of the year, with net profit of \$13 million.

Mexican Digital Banking Platform Covalto to List on Nasdaq Exchange

Mexican digital banking provider Covalto, formerly known as Credijusto, announced Aug. 18 that it will list its shares on the Nasdaq exchange, Reuters reported. The listing, which is planned through a special purpose acquisition company, or SPAC, will mark the first time that a Mexican financial technology company is listed on a U.S. exchange, the wire service reported.

to decide to use Brazil's Pix system, which allows for payments between individuals and also between individuals and companies or government offices. "This system eliminates the need to have a credit card," said Campos Neto. "I think that credit cards will cease to exist at some point soon," he added. Some banks are already offering credit through the Pix system, said Campos Neto. Brazilians have widely adopted the Pix system, and the number of transactions using it have already exceeded the number of credit- and debit-card transactions in the South American country, Reuters reported. Pix could expand "at least" to other parts of Latin America, and Canada has also expressed an interest in it, said Campos Neto. Still, the volume of credit- and debit-card transactions grew 36.5 percent in the first half of this year as compared to the same period last year, state-run news agency Agência Brasil reported Aug. 10, citing the Brazilian Association of Credit Card Companies and Services, or Abecs. While the use of credit cards grew 42.2 percent in the first half of this year, the use of debit cards grew 16.6 percent during the same period, according to Abecs.

INSURANCE NEWS

Sagicor Group Acquires Alliance's Dealer Book

Sagicor Group Jamaica announced that subsidiary Sagicor Investments Jamaica had completed the acquisition of the securities dealer book of business of Alliance Investment Management Limited (AIML), local newspaper The Gleaner reported on Aug. 17. Sagicor, which had announced its intention to move forward with the deal in April, said its completion followed a due diligence process and compliance with regulatory requirements. The base cash purchase price was 2.6 billion Jamaican dollars (\$17.17 million), with the possibility of reaching 3.4 billion Jamaican dollars if certain performance criteria are met, Loop News Jamaica reported, citing a Sagicor financial

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obstacles. Second, there is still a lack of knowledge on investigative techniques to fight nontraditional money launderers. Cryptocurrency or even art markets used for money laundering are among the examples of unexplored cases for most officers in charge of investigating and prosecuting. Third, corruption and money laundering are closely related. Fighting corruption is still one of the duties Colombia must accomplish to adequately combat money launderers, who in many cases are closely linked to corrupt politicians. Thanks to Colombian regulations, the financial system actively cooperates with the authorities. Nevertheless, there is an important challenge in incorporating regulation for new financial services such as virtual wallets or cryptocurrency platforms and apps. Regarding new actions, the Petro administration will probably have more information exchanges with countries such as Venezuela, Nicaragua, Argentina and Peru. In the past, getting information from these countries was rather difficult. However, now, due to Petro's relations with these jurisdictions, Colombia could obtain important data."

A Julia Yansura, program director for Latin America & the Caribbean at Global Financial Integrity:

"Global Financial Integrity (GFI) estimates that criminal proceeds in Colombia amount to between \$6.5 billion and \$16.2 billion a year and that 70 percent of those proceeds are laundered, primarily using channels such as the financial system, the trade system and anonymous companies, to cite a few of the most common. The announcement by Colombia's Financial Information and Analysis Unit (UIAF) regarding the detection of \$20 billion in suspicious transactions reflects two things: first, Colombia faces a very challenging and complex financial crime landscape, and second, the country's anti-money laundering (AML) system is working, at least to some extent. That said, Colombia still has a ways

to go. Detection is important but not sufficient; Colombian authorities should bolster efforts in financial crime prevention as well as prosecution, which has traditionally lagged. Moreover, Colombia's AML efforts have focused on the financial system while

“Colombian authorities should bolster efforts in financial crime prevention as well as prosecution...”

— Julia Yansura

neglecting trade, despite the fact that the Financial Action Task Force has identified trade-based money laundering (TBML) as one of the three most prevalent forms of money laundering worldwide. GFI identified discrepancies in Colombia's trade with other countries in the range of \$10 billion a year, which is highly concerning and suggests the presence of trade-related financial crimes including money laundering and tax evasion. In terms of immediate next steps, Colombian authorities should prioritize implementing the country's beneficial ownership registry. Because many financial crime typologies involve the use of shell companies and front companies, knowing the real, or 'beneficial' owners is key to combating financial crimes. While the registry is underway, both the private sector and the government need to do more prior to the Dec. 31 deadline to ensure its success."

A Katrina Moscarella, financial consultant at Owl Consultancy Group: "Since Colombia's issuance of the first anti-money laundering/countering the financing of terrorism (AML/CFT) regulations in 1992, the country's efforts have been focused on strengthening and reinforcing the regulations of its financial system, moving from a compliance approach to one of prevention and effective-

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report. Sagicor Group Jamaica President and CEO Christopher Zacca said the purchase of AIML's client portfolio "expands the business of Sagicor investments, offering an opportunity to serve a wider client base," The Gleaner reported. Previously, in April, Sagicor Group completed the purchase of 100 percent of the shares of Alliance Financial Services (ASFL), another Alliance entity. ASFL was recently enabled on the international MoneyGram platform, and its acquisition allowed Sagicor to expand into new business segments, such as remittances and microfinance.

POLITICAL NEWS

Thousands Protest in Haiti to Demand Henry's Resignation

Thousands of Haitians took to the streets across the country on Aug. 22 to call for a better quality of life and demand the resignation of Prime Minister Ariel Henry, the Associated Press reported. Protesters marched, blocked roads and set up burning barricades in Port-au-Prince and other major cities to express frustration with gang violence, poverty and inflation, as well as a shortage of gasoline and diesel, Reuters reported. Gang violence and killings have spiked since President Jovenel Moïse's assassination last year with turf battles leaving many dead and displaced. Meanwhile, inflation rose to 29 percent year-on-year in June, the highest rate in the last decade, and the economy is expected to contract by 0.4 percent this year, Haiti's central bank governor, Jean Baden Dubois, said recently.

Prosecutors Seek 12-Year Sentence for Argentina's Kirchner

Prosecutors in Argentina on Aug. 22 asked a judge to sentence Vice President Cristina Fernández de Kirchner to 12 years in prison and

ADVISOR Q&A

Is Mexico Taking the Right Measures for the Economy?

Q Mexico's government will not let energy prices rise, and it will seek to increase imports of basic goods, while it will also limit white corn exports in order to increase food reserves, Finance Minister Rogelio Ramírez de la O announced Aug. 2. At the same time, Mexico's government said subsidies to help Mexicans amid rising inflation have cost some \$28 billion this year. What effect are the subsidies, including ones to help consumers pay for gasoline and basic food staples, having on inflation and on the economy? Will the government be able to achieve its goals of strategically increasing imports and limiting some exports, and what effects will those efforts have on prices? What are the major reasons that Mexico's economy beat estimates by growing an estimated 1 percent in the second quarter, and how much will Mexico grow in 2023?

A Ernesto Revilla, managing director and head of Latin America economics at Citigroup: "The Mexican government's inflation fighting announcements are mostly hollow. Inflation forecasts by analysts were largely unmoved after the announcement of the 'Package Against Inflation and Shortage' (PACIC). The main policy that has had a meaningful effect on inflation is the subsidy to the price of gasoline and diesel, which has kept inflation close to 2.5 percentage points lower than what it would have been.

bar her from holding public office for life for allegedly leading a criminal conspiracy that irregularly awarded public works contracts to allies, Clarín reported. Attorney Diego Luciani laid out a case implicating Fernández in maneuvers to direct bidding for public works in Santa Cruz province that benefited Lázaro Báez, 51, a close friend whose construction company was

However, this measure was in place before PACIC (through many administrations, in fact), and comes at huge fiscal and environmental costs. The expected fiscal cost of keeping gasoline prices low is close to \$21.5 billion, or 2.4 percent of GDP –about half the education budget. This might not be the best use of those resources, especially as the benefit goes to the highest income deciles. Nevertheless, in the minds of many, is it better to spend them subsidizing gasoline rather than fueling bad ideas, or political operation. The other measures in PACIC are mostly cosmetic. The support for fertilizers and agricultural programs was already in the budget. The limit on white corn exports is inconsequential as Mexico exports little and imports a lot of it. In sum, PACIC follows other announcements (such as the public-private infrastructure drives) that repackage existing policies and seem inconsequential. Of course, the main inflation fighting mechanism is monetary tightening by Banxico, which will continue to hike rates until they reach a level closer to 10 percent. The Fed, and its impact on U.S. growth, remains the most important determinant of Mexico's prospects in the short term."

EDITOR'S NOTE: More commentary on this topic appears in the Aug. 15 issue of the Latin America Advisor.

awarded numerous state contracts during her eight years as president that ended in 2015. The alleged fraud against the state cost the country's coffers around \$1 billion, Luciani said. The former president has vehemently denied charges against her in the three-year trial and has said the judges already have the sentence against her decided, the Associated

NEWS BRIEFS

Colombia to Launch Police Training Program With Help of U.S., U.N.

The head of Colombia's national police force on Aug. 22 announced plans to launch a training program with the help of the United States and United Nations meant to prevent abuses and human rights violations by officers, Reuters reported. General Henry Sanabria said the program will "promote institutional human rights policies based on international standards." The \$3.85 million funding for the plan from the United States is in addition to \$8 million that the Biden administration promised in February to support human rights and anti-corruption training in Colombia.

El Salvador's Attorney General Launches Probe of Former Officials

El Salvador's attorney general on Aug. 22 announced that nearly 20 former Salvadoran public officials and two businessmen are under investigation for ties to the diversion of more than \$183 million from state coffers during ex-President Salvador Sánchez Cerén's administration, Reuters reported. Two former presidential aides, Manuel Arturo Ayala and Jorge Antonio Revelo, are named in the case, as is the former presidential treasurer, Daysi Armida Díaz.

Argentine Economy Minister Names Second in Command

Argentine Economy Minister Sergio Massa on Aug. 21 named Gabriel Rubinstein, a vocal critic of the policies of former President and current Vice President Cristina Fernández de Kirchner, as his second in command, Reuters reported. "With professionalism and passion, I will do my best to address the challenges we have to face," Rubinstein said in a tweet.

Press reported. In a tweet, Fernández called the proceedings a "media-judicial firing squad," adding that she would reveal new evidence in her defense that judges did not allow in her trial. The prosecutors' request marked the first time that a trial against the former president has gotten to the point of a prosecutor formally asking for a sentence against Fernández, the AP reported. A ruling is expected by the end of the year and Fernández de Kirchner will have the option to appeal the ruling.

Nicaraguan Police Arrest Bishop in Raid at Diocese

Nicaraguan authorities on Aug. 19 raided the residence of a Roman Catholic bishop who has been critical of President Daniel Ortega's government, arresting the bishop and at least seven other priests and seminarians, CNN reported. At about 3 a.m., police officers knocked down a door and burst into the residence of Bishop Rolando Álvarez of the diocese of Matagalpa in northern Nicaragua, The Wall Street Journal reported. The country's National Police said Álvarez and the other clergymen were taken away in separate vehicles. Álvarez was transported to Managua where he was placed on house arrest at another residence, the newspaper reported, adding that he was able to meet with relatives and also speak with the vice president of the Nicaraguan Episcopal Conference. The others arrested were being held at a prison in the capital, The Wall Street Journal reported. "With my heart outraged and in pain, I condemn the kidnapping at night of Monsignor Álvarez," Managua Auxiliary Bishop Silvio Baez, who fled the country in 2019 after receiving death threats, said in a posting on Twitter. Álvarez's arrest also drew condemnation from outside Nicaragua. Panamanian Archbishop José Domingo Ulloa demanded Álvarez's release. "The aberrant acts around this detention are cause for alarm and pain throughout the Latin American church," said Ulloa, The Wall Street Journal reported. The National Police did not say why Álvarez was arrested, only saying that it was part of an

investigation that authorities launched on Aug. 5 into "destabilizing and provocative" activities, CNN reported. Hours after Nicaraguan First Lady and Vice President Rosario Murillo said police were re-establishing order in Matagalpa, adding that it was "necessary" for the bishop to be arrested. Pope Francis on Aug. 21 told a crowd of thousands of people in St. Peter's Square in the Vatican that he was closely following the situation in Nicaragua "with worry and sorrow," the Associated Press reported. "I would like to express my conviction and my hope that through means of open and sincere dialogue, one can still find the bases for respectful and peaceful co-existence," the pope said.

ECONOMIC NEWS

Cuba to Allow Foreign Investment in Wholesaling, Retail

The Cuban government announced Aug. 15 that it will open its state-run wholesale and retail sector to some foreign investment, marking a major shift in a policy that had been in place since Fidel Castro took power in 1959, Reuters reported. The opening comes as Cuba faces a severe economic crisis—including shortages of basic goods and electricity blackouts—that has worsened in recent years amid the Covid-19 pandemic and U.S. sanctions. Cuba's deputy trade minister, Ana Teresita González, said foreign investors will be allowed to fully own local wholesalers or participate in joint ventures. Foreign investment in the retail sector would be more restricted, she added. González said the government will "selectively" allow investors into the sector through joint ventures, though the state will remain the dominant actor in the retail sector. The government said it will prioritize businesses that have been based in Cuba for several years or that sell green energy technologies, BBC News reported. According to government officials, the measures aim to ensure that local producers and consumers have access to raw materials and goods.

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ness. The Superintendency of Finance has been able to understand and recognize the dynamics of the new financial reality and has been able to respond and adapt to the new challenges. It is also aware that it cannot be oblivious to the dynamics related to virtual assets and decentralized finance. Thus, in July, it issued a draft circular related to the linking of virtual asset service providers to the financial system and the development of operations with virtual assets by supervised entities. Finally, it is worth mentioning that Colombia is constantly developing strategic alliances and strengthening international cooperation in the region, increasing inclusion and banking penetration. Nevertheless, as highly regulated as it is, it is important to note that criminals are savvier than ever and are always pioneering new methods to get around the system. In order to fully stop criminals, a stronger focus needs to be placed on non-bank entities engaged in international trade activities. With the right incentives, companies will be less likely to engage in fake-invoicing or be willing to properly scrutinize invoices and receipts to ensure their veracity. Regarding the financial sector, it can be expected that with

the aim of fighting crime, Gustavo Petro's government will focus on the regulation of crypto-assets, decentralized finance and everything related to open banking. Although during the previous government some provisions were issued in this regard, there is still

“Criminals are savvier than ever and are always pioneering new methods to get around the system.”

— Katrina Moscarella

no firm binding regulation that provides legal certainty and confidence for supervised entities to be encouraged to venture into these businesses. Currently, the main obstacles authorities face in pursuit of money launderers are related to linkage of new customers through the use of digital channels.”

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

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Q&A

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