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FEATURED Q&A

Will Headwinds Stall Growth of Colombian Banks?



The banking sector in Colombia is facing challenges, the CEO of financial conglomerate Grupo Aval said recently. Bogotá is pictured. // File Photo: Kevin Castañeda Villamil via Creative Commons.

Q Colombia's banking sector is facing headwinds, including low fixed investment rates and a potential decline in economic growth, Grupo Aval CEO María Lorena Gutiérrez Botero said May 15 during the financial conglomerate's first-quarter earnings call. While household consumption remains strong in Colombia, it has "moderated significantly" and is forecast to see only moderate growth this year. How strongly are Colombian banks performing, and what is their outlook for the second half of the year? What are the main challenges facing the country's financial services sector? How are the policies of Colombian President Gustavo Petro affecting banks?

A Alexandre Albuquerque and Marcelo de Gruttola, vice presidents and senior analysts at Moody's Ratings: "Colombian banks continued to report high loan delinquencies in the first quarter of this year. Banks began to report stabilization, or even declines, in the problem-loan ratios associated with their consumer loan portfolios, reflecting the conservative underwriting policies adopted last year. Despite this, a weakening of loan quality in commercial and mortgage lending portfolios is still evident. Although new problem-loan formation is beginning to show signs that it is becoming less intense than in 2023, we expect the overall level of problem loans will only consistently reduce toward the end of 2024 and early 2025, provided that both inflation and policy rates continue to decline and Colombia's economy recovers. In addition, the banks' conservative approach has contributed to a low volume of loan origination, which will also lead to upward pressure on problem-loan ratios in the next one to two quarters. As a result

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TOP NEWS

FINANCIAL SERVICES

U.S. Lifts Some Restrictions on Cuba Transactions

The U.S. Treasury on May 28 lifted some financial restrictions involving Cuba. Among them is a move allowing Cuban entrepreneurs to open U.S. bank accounts and access them from Cuba.

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INSURANCE

Sura Withdraws From Colombia's Health System

Grupo Sura said it is withdrawing from the country's health care system because the government is not providing it enough resources to cover rising costs.

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FINANCIAL TECHNOLOGY

Nubank Becomes Region's Most Valuable Financial Institution

Nubank, led by CEO David Vélez, on May 28 became Latin America's most valuable financial institution, as its market capitalization increased to \$58.2 billion, putting it ahead of Itaú Unibanco.

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Vélez // File Photo: LinkedIn Profile of David Vélez.

BANKING NEWS

U.S. Lifts Some Financial Restrictions Involving Cuba

The U.S. Treasury on May 28 lifted some financial restrictions involving Cuba in what it said was an effort to support small businesses in the country, the Associated Press reported. The changes will allow independent entrepreneurs in Cuba to open bank accounts in the United States and then access them online once they

“This reinstated authorization is intended to help the Cuban people...”

— U.S. Treasury

are back in Cuba. The United States will also again allow U.S. banks to process so-called “U-turn” transactions, in which money transfers originate and terminate outside the United States and in which Cuba or a Cuban national has an interest, the Treasury’s Office of Foreign Assets Control said in its announcement. The changes also allow more Internet-based services and software in Cuba, including social media platforms, collaboration platforms and video conferencing, the Treasury said. “These regulatory amendments update and clarify authorizations in support of Internet-based services to promote Internet freedom in Cuba, support independent Cuban private sector entrepreneurs, and expand access to certain financial services for the Cuban people,” the Treasury added. “This reinstated authorization is intended to help the Cuban people, including independent private sector entrepreneurs, by facilitating remittances and payments for transactions in the Cuban private sector.” Cuba’s government downplayed the changes. Johana Tablada, deputy director of the Cuban Foreign Ministry’s U.S. department, said the moves were “limited” and would do little

to ease the sanctions or the decades-long embargo against the island, the AP reported. Cuba’s economy is in a dire economic crisis where residents face high inflation, blackouts and shortages of goods including food and medicine. [Editor’s note: See related [Q&A](#) in the March 29 issue of the daily Latin America Advisor.]

INSURANCE NEWS

Sura Withdraws From Colombia’s Health Care System

Colombian insurance provider Grupo Sura said May 28 that it is withdrawing from the South American country’s health care system because the government is not providing it enough resources to cover its rising costs, the Associated Press reported. “The Colombian health system faces major challenges that have been going on for some time and have been aggravated by budget insufficiency in recent years,” Grupo Sura said in a statement, Finance Colombia reported. “We have done everything we can to protect the lives and well-being of our members, including by evaluating different alternatives in the current legal framework and in the government’s new proposals.” However, it added that “at this time we must take steps to prevent further deterioration, which would prevent us from meeting our obligations,” Finance Colombia reported. Colombian opposition politicians expressed regret at the company’s withdrawal, and they accused President Gustavo Petro’s government of seeking to push private insurance companies out of the market in order to force Colombians to rely on state-owned insurance companies, the AP reported. “The crisis at Sura is the crisis of our country,” former President Álvaro Uribe said in a posting on social media site X. “I hope there are widespread actions against these government decisions that are destroying the health sector,” he added. Colombia’s government establishes rates for health insurance payments using a calculation

NEWS BRIEFS

Nubank Becomes Region’s Most Valuable Financial Institution

Brazil-based digital lender Nubank on May 28 became Latin America’s most valuable financial institution, taking that title away from Brazil’s Itaú Unibanco Holding, Bloomberg News reported. Nubank’s stock closed 3.8 percent higher that day, boosting its market capitalization to \$58.2 billion, putting it just over Itaú’s market cap of \$56 billion. Nubank’s shares have risen about 46 percent so far this year, and the company posted strong results for the first quarter. In mid-May, Nubank’s parent company, Nu Holdings, reported \$378.8 million in net income for the first quarter, beating estimates.

Citi Private Bank Hires Four Bankers for Mexico Business

Citi Private Bank has hired four bankers away from Santander for its business in Mexico, CityWire Americas reported May 31. Citi Private Bank hired Víctor Fernández, Juan Carlos Rodríguez, Fernando Mendivil and Pablo Figueroa from Santander Private Bank, where they served clients with ultra-high net worth. The four will work under Sonia Garcia-Romero, the global market manager for Citi Private Bank in Mexico.

Brazil Expects Crypto Regulatory Proposals by End of Year

Brazil’s central bank said May 20 that it will separate the process of regulating cryptocurrency assets into phases and expects regulatory proposals by the end of the year, Reuters reported. The bank’s director of regulation told lawmakers in a hearing last year that rules would be wrapped up by June 2024. However, breaking the process into phases will delay the regulation process, the wire service reported.

that is largely based on a person's income, the AP reported. Monthly insurance payments are then placed into a government-run fund, which makes payments to insurance companies that pay hospitals and other health care providers on behalf of their customers. However, Colombians file thousands of complaints every year, saying that insurance companies take excessively long to approve surgeries and other medical procedures and sometimes deny critical treatments, the wire service reported. Petro has said the problems of the health care sector could be eliminated by replacing private health insurers with a government-run agency that would make payments directly to hospitals and manage all of the country's patients, the AP reported. However, Colombia's Congress has rejected legislation to overhaul the health care system amid worries that it would give the government too much power over health care expenditures and could lead to mismanagement, the wire service reported.

REMITTANCES NEWS

Western Union, Katapult Sign Deal on Cuba Remittances

Western Union has struck a deal to offer remittance services to Cuba via the website of Katapult Marketplace, an online company that Cubans in the United States use to send groceries to family members in Cuba, Western Union announced May 31. Senders will be able to use Katapult's website or mobile application to send up to \$2,000 per transaction, Western Union said. The funds are not paid out in dollars but rather in Cuba's MLC virtual currency, the Miami Herald reported. The new service will also provide real-time tracking for customers with accounts at Cuban banks Banco Popular de Ahorro, Banco Metropolitano and Banco de Crédito y Comercio, with money being available the same day, Western Union said. "The service aligns with both companies' mission to offer its customers a first-class experience using digital and physical means to connect families

FEATURED Q&A / Continued from page 1

of lingering high loan delinquency, banks continue to report provision expenses at their highest levels in recent years. Bottom lines have also been constrained by interest expenses on funding instruments, which have remained high since the new regulatory long-term funding requirements began in the first quarter of 2023, thereby changing funding cost dynamics. Over the next two to three quarters, downward pressure on banks' margins is likely to subside as funding costs ease in line with a gradual decline in policy rates, although interest income from loans will be constrained by limited credit demand and the banks' conservative appetite for expanding loan origination. At the same time, subdued economic activity and persistently high interest rates will continue to undermine borrowers' ability to repay bank loans, likely requiring banks to maintain high provision volumes and consequently weighing on their bottom-line results."

A **Alfredo Calvo, managing director and sector lead for financial institutions ratings at S&P Global Ratings:** "Following a weak performance in 2023, we believe the key challenges that Colombian banks will be facing over the next 12-18 months will be to stabilize their asset quality and profitability levels—amid still challenging economic conditions—and accelerate the recovery process toward 2025-2026. We expect marginal credit expansion, about 4 percent in nominal terms, this year due to a mild improvement in economic growth coupled with more stringent lending policies to contain deterioration on asset quality. We expect GDP to grow around 1.1 percent in 2024 from 0.6 percent in 2023, both very low rates. In our opinion, the political uncertainty related to the reforms proposed by President Gustavo Petro, which are facing stiff opposition in Congress, are affecting the business climate and will continue limiting credit demand. For next year, we expect credit growth to improve to around 5 percent

to 6 percent, in nominal terms, following an economic recovery, with real GDP growth at about 2.8 percent, and lower interest rates. Banks' weaker asset quality is mainly explained by the performance of unsecured consumer loans. We expect nonperforming assets (that is, loans past due greater than 90 days, plus foreclosed assets) to total loans will peak at about 3.75 percent-4 percent this year and then improve toward 3.25 percent-3.5 percent in 2025, based on more conservative lending policies. Based on our expectations on credit growth, interest rates and asset quality, we believe profitability levels will remain weak with respect to historic levels, with return on equity still at single digits in 2024-2025."

A **Andrés Márquez, senior director for Latin America financial institutions at Fitch Ratings:**

"Fitch currently maintains a neutral outlook for the Colombian banking sector this year, anticipating stabilization of key credit metrics and a modest recovery in credit growth following a recent slowdown due to rate hikes since September 2021 and the unsecured retail loan growth from 2022, which significantly affected credit costs last year. Despite the agency envisioning a stable operating environment, Colombian banks face challenges such as lower expected GDP growth, a complex political climate and ongoing discussions about reforms. These factors create uncertainty in the capital markets and could affect private investment decisions, ultimately influencing banks' growth and performance prospects. Fitch expects a recovery in the banks' profitability this year. This should be supported by the confluence of easing funding costs due to a less restrictive monetary policy and a somewhat lower burden of loan loss provisioning. The gradual relief from funding cost pressures due to a likely reversal of monetary tightening and the net stable funding ratio implementation, along with lower operating costs, should support financially stable cred-

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and communities, while enhancing financial inclusion in the communities they serve,” Western Union said in the statement. Katapult Marketplace is popular with Cuban exiles living in Miami, the Miami Herald reported. The company sells groceries that are delivered to customers in several cities in Cuba, and it provides access to more than 150 online stores where small and medium-sized businesses in Cuba sell products, the newspaper reported. The service is currently in a testing phase, a Western Union spokesman told the newspaper. Western Union’s remittances services to Cuba resumed last month after being shut down in January when Cuba’s government announced that a cybersecurity “incident” had affected the country’s systems for electronic payments.

ECONOMIC NEWS

Ruling Party’s Victory in Mexico Rattles Financial Markets

Mexico’s peso and the country’s stocks dived on June 3 following the landslide presidential election victory of Claudia Sheinbaum of the ruling Morena party and the party’s strong showing in congressional and state elections, The Wall Street Journal reported. The peso fell more than 4 percent to 17.72 against the U.S. dollar, and Mexico’s IPC benchmark stock index plunged 6 percent, its sharpest drop by percentage terms since the beginning of the Covid-19 pandemic in March 2020. Mexico’s nationalist movement may now have the ability to push constitutional changes that its opponents say could weaken the country’s democracy and also increase the role of the government in the economy, the newspaper reported. Sheinbaum had a double-digit lead in polls leading up to the June 2 election, so while her victory was expected, the scale of Morena’s gains surprised markets, Reuters reported. Sheinbaum won the election by more than 30 percentage points ahead of her nearest competitor, Xóchitl Gálvez, a businesswoman and former senator. The scale of Sheinbaum’s victory appears to be

ADVISOR Q&A

What Challenges Face Mexico’s First Female President?

Q **Claudia Sheinbaum of the ruling Morena party was elected Mexico’s first female president in a landslide on June 2. She defeated Xóchitl Gálvez of the National Action Party and Jorge Máynez of the Citizens’ Movement party, both of whom conceded. Mexicans also voted for more than 20,000 local, state and congressional candidates, and the ruling party is projected to have also won both chambers of Congress. What are the biggest challenges facing Sheinbaum when she takes office on Oct. 1? What are the main initiatives she is likely to push, and to what extent will her policies differ from that of her predecessor and mentor, outgoing President Andrés Manuel López Obrador? How well will she be able to work with Mexico’s Congress, and with other countries, including the United States?**

A **Rebecca Bill Chavez, president and CEO of the Inter-American Dialogue:** “Critics often label Claudia Sheinbaum as a ‘carbon copy’ or ‘puppet’ of AMLO, suggesting her sexenio will mirror his populist policies and authoritarian approach to governing. While Sheinbaum shares key aspects of AMLO’s vision for Mexico, dismissing her as incapable of independence sadly echoes common gender stereotypes that undermine women in leadership and are often inaccurate. In fact, Sheinbaum’s record as mayor of Mexico City reveals a leader who can diverge from AMLO’s approach and implement distinct

the largest for a Mexican president since 1982, The Wall Street Journal reported. Also on June 2, the ruling party’s candidate won the Mexico City mayoral race, and the party may have a two-thirds supermajority in both chambers of Congress, Reuters reported. Morena also

policies, which we saw most clearly in her approach to security, the energy transition and the pandemic. Take Sheinbaum’s approach to the urgent challenge of public insecurity. Unlike AMLO, who embraced the failed policy of militarization, Sheinbaum focused on strengthening Mexico City’s civilian police force through growth, modernization and professionalization. However, withdrawing the armed forces from civilian roles faces significant challenges. AMLO’s administration has deeply embedded the military in the Mexican economy, granting it control over infrastructure projects, airports, seaports and customs operations. This entanglement complicates any efforts Sheinbaum might make to demilitarize these sectors and law enforcement more generally. One of the greatest outstanding questions is whether Sheinbaum will strengthen the democratic institutions AMLO sought to dismantle, including the independent electoral commission and the judiciary. Which direction she chooses is a critical question not just for Mexico but also for the United States, given Mexico’s importance as the United States’ largest trading partner and its role as an indispensable stakeholder on fundamental issues such as democracy, illicit trafficking, nearshoring and immigration.”

EDITOR’S NOTE: More commentary on this topic appears in the June 4 issue of the Latin America Advisor.

won seven of the nine gubernatorial elections on June 2. “We’re now firmly in the territory of one-party rule in Mexico,” Duncan Wood, a senior advisor at the Wilson Center in Washington, told The Wall Street Journal. “Not just the presidency and Congress, but across the

NEWS BRIEFS

Conille Sworn in as Haiti's Interim Prime Minister

Development specialist Garry Conille was sworn in June 3 as interim prime minister of Haiti and said the country's political groups are working together, Reuters reported. "We are going through an interesting moment for the Haitian people, a moment of political groups putting aside their differences for the interest of the nation," Conille said. Gangs have increasingly taken control of territory in Haiti, and the country is awaiting a police contingent to be deployed from Kenya to help restore order.

Canadian Border Agents Enter New Talks With Gov't as Strike Looms

The Canadian border agents' union entered fresh negotiations on June 3 with the government with the aim of avoiding a potential strike that may disrupt the passage of commercial trucks across the border as well as other services, The Wall Street Journal reported. The union, which has been without contract for over two years, has several demands, including higher pay, and will be in a legal strike position by June 6, according to the union, the newspaper reported.

Brazil Withdraws Ambassador to Israel

Brazil withdrew its ambassador to Israel, Frederico Meyer, on May 29, following months of sharp criticism from Brazilian President Luiz Inácio Lula da Silva over Israel's military offensive in Gaza, the Associated Press reported. An unnamed source told the AP that the decision was a response to Israeli Foreign Minister Israel Katz summoning the Brazilian ambassador for a public scolding at Jerusalem's Holocaust museum following comments Lula made comparing the war in Gaza to the Holocaust, the wire service reported.

country. It's an absolute tidal wave," he added. Potential constitutional changes in Mexico could include overhauling the judiciary by allowing judges to be selected by popular vote, elimination of autonomous regulators for some industries with their responsibility transferred to government agencies and expanding the government's role in the power sector, The Wall Street Journal reported. Other changes would include reducing the size of Congress and reducing the funding of political parties. "Some bills are perceived as leading to institutional erosion and weakening the current checks and balances; and several are not viewed as market friendly," Alberto Ramos, the chief Latin America economist at Goldman Sachs, told The Wall Street Journal. Outgoing President Andrés Manuel López Obrador and others in the ruling party have said the changes would improve the country's democracy. The ability to vote for judges, including on the supreme court, would make them more accountable to the public, López Obrador has said. He has long accused judges of catering to wealthy business leaders. Sheinbaum has said she would respect private investment and also maintain fiscal discipline and the independence of the central bank. "We are democrats and out of conviction would never be an authoritarian or repressive government," Sheinbaum told a cheering crowd in Mexico City in her victory speech.

POLITICAL NEWS

El Salvador's Bukele Sworn in for Second Term in Office

Salvadoran President Nayib Bukele was sworn in for his second term on June 1 following a landslide victory in February's elections in which he garnered over 80 percent of the vote, Reuters reported. Argentine President Javier Milei and son of former U.S. President Donald Trump, Donald Trump Jr., were among those at the ceremony. "Salvadoran society is still sick, but it no longer has cancer," Bukele said in speech from the National Palace's balcony,

referring to his ongoing security crackdown as having rid El Salvador of the "cancer" of gangs, Reuters reported. "Now that we have fixed the most urgent thing, which was security, we are going to focus on the important problems, starting with the economy," he added. The national poverty rate in El Salvador is over 25 percent, and Bukele's hardline security policies have drawn sharp criticism from human rights groups such as Amnesty International, which accused Bukele's government in a report last year of "systematic use of torture and other mistreatment." Bukele's New Ideas party also swept the February elections, winning a supermajority in the Legislative Assembly and setting Bukele up for a five-year term in office during which he will have wide-ranging power to advance his policy agenda, Agence France-Presse reported. "Bukele now has free rein to do pretty much whatever he wants," Peter Hakim, president emeritus of the Inter-American Dialogue, told the Latin America Advisor in a March 4 Q&A. "Any checks and balances went out the window when he disregarded El Salvador's constitutional restrictions on presidential re-elections," he added.

Colombia's Uribe Charged in Witness Tampering Case

Former Colombian President Álvaro Uribe was charged May 24 with witness tampering and bribery in a case that dates back 12 years, the Associated Press reported. Prosecutors allege that Uribe, who was president from 2002 to 2010, attempted to discredit a political opponent who was probing purported ties between Uribe's family and right-wing paramilitary groups. In 2012, Uribe filed a compliant with Colombia's supreme court, alleging that left-wing lawmaker Iván Cepeda had slandered him, the AP reported. Six years later, the court announced that it was dismissing the case against Cepeda and had opened an investigation against Uribe for alleged fraud and manipulation of testimony. Uribe has denied wrongdoing and has accused the chief prosecutor of acting with "political vengeance."

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it metrics by the end of this year. The agency also foresees that sustained capitalization and adequate reserve coverage ratios will provide banks with headroom to withstand potential stress. Fitch anticipates a slow improvement in asset quality metrics later in 2024, with a return to acceptable levels consolidating by 2025, as the formation of new nonperforming loans is believed to have peaked already. Capital ratios may experience a slight pressure from the projected higher loan growth, but they are expected to remain solid, bolstered by recovering profitability."

A **Marcelo Buendía Vélez, associate attorney in the Bogotá office of Diaz, Reus & Targ:** "As Gutiérrez said recently, Colombia is technically not in an economic recession. However, indicators could show economic stagnation. For example, GDP growth stagnated in the first quarter of this year. Additionally, according to the National Association of Industrialists (ANDI), there is a stagnation in final consumption by both the private sector and the government. This stagnation has direct consequences for the financial sector. There is a deterioration and little increase in the financial entities' loan portfolios, along with high costs for funding loans. This has led to a decrease in profits for almost all financial sectors. Historically, the performance of financial institutions in Colombia has led them to have significant reserves and healthy portfolios. However, many of the factors affecting them are not directly related to their management strategies but rather to the economic reality of Colombia and the world. We do not foresee a radical improvement in the end of 2024. The sector will have to focus on expanding or at least maintaining their portfolios in a healthy manner, securing effective funding sources, and modernizing, as competition has increased (new online banks and online financial solutions). Colombia has been reducing its inflation levels for over a year now, and interest rates are gradually decreasing.

These factors, combined with the adequate management of financial entities, will yield better results in 2025. The Petro government faces a significant challenge regarding public spending. Spending and budget execution are key factors in driving the economy."

A **Daniel Mora Ardila, equity research associate for Andean banks at Credicorp Capital in Bogotá:** "Banks in Colombia have been facing one of the most challenging periods in recent history. Their performance is explained by weak economic activity, the effects of high inflation, high interest rates and a material deterioration of asset quality indicators. Thus, we expect 2024 to be a transition year for the banking sector, considering the normalization of key economic variables such as inflation and interest rates and the improvement in risk metrics. However, it seems that, after results from this year's first quarter, the improvement in financial results might take longer than initially expected. The key banks under our coverage continued facing pressures in margins due to the still-high interest rates, although with some improvement in recent months due to the decreases of rates coming from the central bank. Moreover, the need for provision expenses remained high, amid a severe loan portfolio deterioration to levels not seen in at least a decade. Under this context, banks have become stricter in their loan origination policies, especially in the consumer segment. Therefore, we expect to see improvements in the year's second half as banks report better margins, in line with the decreases in rates and a lower need for provision expenses. Bancolombia has been the best bank in this context, with profitability levels well above those of peers in Colombia and above the company's long-term target."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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