



Inter-American Dialogue

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Featured Q&A

Q To some observers, controversy surrounding former World Bank President Paul Wolfowitz reflects wider divisions over the Bank's governance and its approach to development issues. What is the future of the Bank? What changes do you see taking place, if any? How would Latin America be affected?

A **Guest Comment: Nancy Birdsall:** "The recent crisis at the World Bank creates an opening for new directions in its work that are especially relevant for Latin America. Whether new leadership takes these new directions will depend in part on whether Brazil, Mexico, and other countries of the region that are benefiting from private capital inflows and are no longer reliant on World Bank (and IDB) lending to finance their own development push for them. Here are three possible future directions. First, the Bank could set a price on its 'advisory services' and test demand for them when lending is not on the table. Latin America can still benefit from exchange of ideas, dialogue, and sharing of best practices on the 'how to' of poverty-reducing development ... A demand-responsive 'ideas' function is all the more important today as an alternative to the misguided populist 'socialism' proffered by oil-rich President Chavez. Second is risk management. Latin America's open economies remain more vulnerable than ever to external financial and other shocks. High reserves are costly insurance.

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In Focus

Redecard's IPO Comes at a Good Time—Analyst

Brazilian credit card network provider Redecard's plan to go public comes at a good time, with positive economic developments and expectations for continued growth in Brazil's credit card market creating a good climate for such operations, Jan Smith, managing director of Miami, FL-based InfoAmericas, told the *Financial Services Advisor* this week.

"Redecard's announcement to go public is a logical and opportune decision," said

“It is very likely ... that the IPO will be well received.”

— Jan Smith

Smith, noting that the move, announced May 8, was not unexpected because the company's owners—Brazil's Itau and Unibanco, and the US' Citibank—are all publicly traded banks.

Smith, a member of the *Financial Services Advisor* board, said recent upgrades of Brazil's credit by ratings agencies, lower country risk, a stronger currency, and the positive effects of the Novo Mercado, a special listing for companies that adhere to

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INDUSTRY BRIEFS

Parana Banco's IPO Could Raise up to \$350 Million

Brazil's **Parana Banco** on May 28 revealed the details of its upcoming IPO, which could be worth up to 680.4 million reais (\$US 349.5 million), Reuters reported. The bank said it plans to sell 37.8 million preferred shares on the Brazilian stock exchange and expects it to price between 14 and 17 reais per share.

Lazard to Acquire 50 Pct Stake in Argentina's MBA Group

New York-based investment banking and asset management firm **Lazard**, along with Brazilian joint venture **Signatura Lazard**, said May 23 that it plans to buy a 50 percent stake in Buenos Aires-based **The MBA Group**, parent to **MBA Banco de Inversiones**, in order to expand in Latin America, Reuters reported. The company, re-branded as **MBA Lazard**, will have access to all major financial markets in Central and South America, it said. Financial terms of the deal, subject to regulatory approval in Argentina, were not disclosed.

Brazil's CVM Okays Debt Issue by Banco Safra Leasing Unit

Brazil's CVM securities regulator on May 25 approved a 1 billion-real (\$US 507 million) non-convertible debenture issue by the leasing unit of **Banco Safra de Investimento**, Dow Jones reported. The debenture by **Safra Leasing Arrendamento Mercantil** will mature December 18, 2016. So far this year, Brazilian companies have raised just 4 billion reais from debenture issues, versus a record 69.4 billion reais for all of 2006.

Banking News

Citibank Says it Will Cooperate in Ecuadorean Probe of Insider Dealing

US financial services giant **Citibank** said May 30 it will cooperate with Ecuadorean authorities in their investigation of possible insider dealing in the country's foreign debt, Reuters reported. Ecuadorean prosecutor Jorge German on May 29 gave Citibank 48 hours to release the names of debt holders who in February received payments on the country's 2030 global bond. "We plan on cooperating with the appropriate legal authorities," a Citibank spokesman was quoted as saying. In February, Economy Minister Ricardo Patino announced that Ecuador would miss a deadline for a \$135 million payment on the 2030 bond because it lacked funds, but two days later the government said it would make the payment on time, raising suspicions that Ecuador was trying to spark sharp fluctuations in bond prices. Last week, a video became public showing Patino meeting with foreign investors before the debt payment was made. At the meeting, an unidentified voice is heard proposing to "shock" the market to supposedly generate \$150 million in bond sales at a higher price. Patino denies any wrongdoing, saying he rejected the proposal to shock the market. President Rafael Correa has stood by the economy minister, calling him an "honest man."

Buyout May Help Puerto Rico's Doral Avoid Bankruptcy

Struggling Puerto Rican banking firm **Doral Financial Corp.** on May 17 agreed to be bought out by **Bear Stearns Cos.**' private equity unit for \$610 million, Reuters reported. Doral was once Puerto Rico's biggest mortgage lender, but in the last two years has seen its share price drop more than 97 percent. **Bear Stearns Merchant Banking** will acquire 90 percent of Doral at 63 cents per share for \$610 million, which is 49 percent lower than the bank's closing price, the Caribbean bank said, according to Reuters. "We are familiar with the Caribbean and Latin American markets and finding plenty of growth opportunities," David King, a partner a

Bear Stearns Merchant Banking, was quoted as saying by Reuters. "We've looked to invest in depository institutions for quite a few years," he said. The buyout still must receive approval from shareholders, and Doral may have to file for bankruptcy protection if the deal doesn't close by July 20, when \$625 million of the company's floating-rate notes mature. The company wants to use proceeds from the Bear Stearns sale to repay those notes. Last year, Doral lost \$223.9 million on narrowing margins, larger mortgage losses, and high-

Doral may have to file for bankruptcy protection if the deal doesn't close by July 20, when \$625 million of the company's floating-rate notes mature.

er legal costs, the bank said. It had to restate its earnings for the years 2000-2004 last year to fix accounting for mortgage transactions, leading to \$129 million in lawsuit settlement fees, according to Reuters. In March, the bank said it would sell its 11 branches in New York City to **New York Community Bancorp.** Bear Stearns partnered in the buyout offer with **Canyon Capital Advisors, Eton Park Management, GE Asset Management, Goldman Sachs Group, Marathon Asset Management, Perry Capital, D.E. Shaw Group, and Tennenbaum Capital Partners**, according to Reuters.

Bradesco's Market Cap Surpasses 100 Billion Reais for First Time

Brazilian bank **Bradesco's** market capitalization for the first time surpassed 100 billion reais (\$US 51.9 billion) in trading on the **Sao Paulo Stock Exchange** last week, putting it among the top three Brazilian public companies, news service Agencia Estado reported, citing a report by local consulting firm **Economática.** In trading on May 21, ordinary and preferential shares in Bradesco, Brazil's biggest private

bank, rose to a total of 100.4 billion reais. The bank is only behind state-owned oil and gas company **Petrobras** and mining giant **CVRD** in terms of its market capitalization on the Exchange, and is the fourth largest in all of Latin America. Bradesco is the only Brazilian bank with a market capitalization above 100 billion reais. **Itau**, Brazil's second-largest private bank, had a market capitalization of about 99.4 billion reais as of May 23. The increase in Bradesco's market capitalization follows a general increase in share prices in Brazil amid high levels of global liquidity. Bradesco posted a first-quarter profit of 1.71 billion reais as its loan portfolio grew 25.1 percent compared to the same quarter of 2006 to 122.35 billion reais, according to Agencia Estado.

Brazil's Sofisa Gets \$258.7 Million in IPO

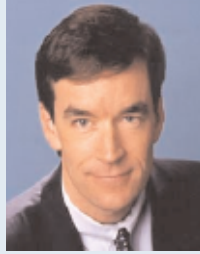
Banco Sofisa, one of several Brazilian banks to go public this year, raised 504.5 million reais (\$US 258.7 million) in its May 24 initial public offering, Dow Jones reported. The operation, coordinated by **UBS** on the **Sao Paulo Stock Exchange**, brought in much more than the 438.7 million reais Sofisa had earlier predicted. The bank, which specializes in loans to small- and medium-sized businesses, said it sold extra shares to meet high demand, according to Dow Jones. Of the 42 million preferred shares Sofisa sold, foreign investors purchased 31.9 million.

Top Colombian Brokerage Houses Merge

Two Colombian brokerage houses, **Interbolsa Comisionistas de Bolsa** and **Inversionistas de Colombia**, received regulatory approval on May 23 to merge their operations, Dow Jones reported. Interbolsa, Colombia's largest brokerage, announced the takeover of Inversionistas last August. Interbolsa said earlier this year that it plans to buy at least 51 percent of Brazilian brokerage **Finabank Corretora Cambio, Titulos e Valores Mobiliarios**, according to Dow Jones. It is also looking to open offices in the United States and Peru, Interbolsa CEO Rodrigo Jaramillo said.

Profile

Rick Gallagher



Editor's note: Rick Gallagher is the newest member of the Financial Services Advisor board. Subscribers can pose queries to the Board for publication in the Featured Q&A by writing Assistant Editor Elisabeth Burgess at eburgess@thedialogue.org.

Rick Gallagher is executive vice president for Latin America at global information solutions and credit reporting firm **Experian**. He heads a team responsible for business in Latin America, overseeing offices in Brazil, Argentina, and Mexico.

Prior to his position as head of Experian's Latin America division, Gallagher was executive vice president of strategic business development, where he guided M&A activity and industry alliances. Before that, he was president of Experian's fraud solutions business unit. He joined the firm in 2002.

Gallagher worked with several private equity-owned information services companies before joining Experian. He was vice president for sales at enterprise commerce software firm **Interworld Corporation**, a top executive at **Aurora Electronics**, and held key leadership roles at **Strategic Mortgage Services** and **MCI Communications Corporation**.

Gallagher holds a bachelor of arts degree from **Denison University** and a master's in business administration from the J.L. Kellogg Graduate School of Management at **Northwestern University**.

In Focus

Continued from page 1

stricter corporate governance standards and international accounting principles," make 2007 an excellent year for Brazilian companies in general to go public."

"Added to this climate of optimism is a very promising growth market in credit cards," he said. The credit card market in Brazil is growing at record rates higher than 25 percent per year, and is expected to continue to grow at a similar pace for at least the next three years, according to Smith.

"Furthermore, the expansion of the acquired merchant network has more than doubled and become the largest network in the region within the last two years. It is very likely then that the IPO will be well received."

Smith said Redecard will likely focus its growth strategy on expanding use of cards to lower-income consumers and on building loyalty and use among existing cardholders. "This will imply development of new products and targeted at narrower consumer goods, and the enhancement of existing loyalty programs and card attributes," he said.

Redecard will also work to improve systems for profiling customer risk and use patterns, according to Smith.



Jan Smith

Photo: InfoAmericas

Insurance News

Mexico's GNP Halts Underwriting Policies for Beachfront Property

Amid soaring reference rates since a spate of hurricanes slammed Mexico in 2005, **Grupo Nacional Provincial (GNP)**, the country's biggest insurance company, said May 25 it would not underwrite insurance policies this year for beachfront property, Dow Jones reported, citing a company filing with the **Mexican Stock Exchange**. In the filing, GNP, which was hit with \$625 million in claims from the 2005 hurricane season, said it would review the decision not to underwrite insurance policies for beachfront property next year. Hurricanes Emily, Stan, and Wilma caused about 23.4 billion pesos (\$US 2.17 billion) of insured claims in Mexico in 2005. GNP, part of Mexican conglomerate **Grupo Bal**, also said it would forgo 220 million pesos in auto insurance premiums this year as it scales back its business with **Chrysler** and the federal highway administration Capufe, according to Dow Jones. Rising auto insurance claims have forced GNP to raise its reserves by 257.6 million pesos. GNP also said it has cut its workforce by 18 percent for annual cost savings of 194 million pesos. GNP had a 15.1 percent market share by premiums last year. It reported a 108.5 million-peso net loss in 2006 due to lower revenues and rising claims.

Economic News

Bush Nominates Robert Zoellick for Presidency of World Bank

US President George W. Bush on May 30 nominated Robert Zoellick, vice chairman at Goldman Sachs and former top US trade official and diplomat, to be the next president of the World Bank. If approved by the Bank's board, which hopes to make a decision by the end of June, Zoellick would replace outgoing Bank President Paul Wolfowitz, whose two years at the helm of the multilateral institution have been wracked by internal division. Wolfowitz announced his resignation,

The Dialogue Continues

What Accounts for Slower Growth of US Remittances to Mexico?

Q Growth in the amount of money Mexican migrants in the United States send back home is likely to slow to as little as 5 percent this year from 15 percent last year, when remittances hit a record \$23 billion. What accounts for the slower growth and how will it affect Mexico's economy? Do you see a trend continuing beyond 2007?

A **Board Comment: Thomas Morante & Yani Contreras:** "The various primary factors affecting the slowdown in growth of remittances from the United States to Mexico this year include the increasing difficulty for Mexicans to cross the United States' border, the expectation of immigration reform, and the recession in the US construction and real estate sectors, which historically have been a source of employment for Mexican migrant workers. However, the reduced growth in the flow of remittances could also be attributed to factors related to Mexico's economic reforms, which have been spearheaded by the new administration of President Felipe Calderon. These initiatives include a pension reform bill for state workers passed last March, which showed Calderon's determination to push through much-needed reforms in Mexico. Calderon is expected to present tax, labor, and energy reforms to Congress, and thus there is optimism in Mexico relative to the economy. His administration has also made employment one of its top priorities, launching a program granting an allowance to employers hiring recent graduates and individuals that have had informal employment in the past—by eliminating

employer contributions to the Mexican Social Security Institute for one year. The continuing previous increases in the growth of remittances to Mexico do not suggest a growing economy, but the current growth slowdown might have a positive connotation. As Donald Terry, president of the Multilateral Investment Fund, an IDB fund promoting development through the private sector, said on March 17 at the IDB Board of Governors' annual meeting, "a country receiving a high amount of remittances shows that its economy is not strong enough to create employment—forcing residents to leave." Thus, a slowdown in remittance growth might be a signal of anticipated stronger economic growth (*i.e.*, families in Mexico with greater earnings, thus less need for remittances). Thus, the continuation of the trend of lower growth of remittances in 2007 and subsequent years could be suggestive that Mexico's economy is growing stronger or at least that there is optimism about the future growth of the economy. In fact, Agustin Carstens, Mexico's minister of finance, predicts that the economy is poised for a minimum of 4 percent growth in 2008."

Thomas Morante is a member of the Financial Services Advisor board and Chair of the insurance, banking and financial services industry group at Jones Walker LLP. **Yani Contreras** is an international attorney at Jones Walker LLP.

Editor's note: the above is a continuation of the Q&A featured in the May 15, 2007 issue of the Financial Services Advisor.

effective at the end of June, on May 17 amid charges of unethical behavior stemming from a controversial compensation package he gave to a girlfriend employed by the Bank. To some observers, the con-

troverly reflected wider divisions over the Bank's governance and its approach to development issues [Editor's note: see related Q&A in the [May 21](#) and [May 22](#) issues of the daily *Latin America Advisor*].

Featured Q&A*Continued from page 1*

The World Bank ought to work in the region to 'make' a market in more efficient and less costly risk management products, including state-contingent bonds and insurance against weather and other shocks. Third is dealing with global public goods and 'bads' that are beyond the scope of any single nation state. Adaptation to the brutal transitions that climate change could bring to the region's agriculture is only one example. Latin America should take the lead in rethinking the role of the World Bank in addressing global challenges. It should have greater representation and voice in deployment of any Bank funds in these areas, in return for its own financial contributions."

A Guest Comment: Desmond Lachman: "The World Bank's future does not appear to be bright unless it is prepared to embrace radical reform to the way it operates. The increased globalization of capital markets over the last decade has rendered the Bank largely irrelevant to middle-income countries, including most Latin American countries. These countries, which presently receive over 70 percent of the World Bank's loans, can more than meet their external borrowing needs from the market. At the same time, many studies show that the World Bank has very little to show by the way of poverty alleviation among its client countries for the tens of billions of dollars that it has loaned over the past 60 years. If the World Bank is to become a more relevant institution, it will need to reorient its lending program away from middle-income countries that do not need its resources to those poorer countries, especially in Africa, that are still starved of international capital. In addition, it will need to narrow its focus away from grandiose and multiple objectives to those objectives that are truly relevant to alleviating poverty in emerging markets. Judging by the resistance to Mr. Wolfowitz's modest efforts at reducing corruption both at the Bank and in its client countries, and mindful of the Bank's entrenched and cosseted bureau-

cracy, I am not holding my breath to see real change at the World Bank in the years ahead."

A Guest Comment: Joseph Stiglitz: "The World Bank went through a period in which it had a predominant ideology focused on Washington Consensus policies ... that often did not work, often were inappropriate to the conditions in the countries in which they were being pushed, and often were pushed in ways that undermined democratic processes and support for the policies themselves. Under [former Bank President James] Wolfensohn there was a change, a rebalancing ... The concern over Wolfowitz's corruption agenda is not that it was wrong to fight corruption. The corruption agenda, one that was introduced while I was at the World Bank under President Wolfensohn, is an agenda that will continue to be pursued and will be pursued even more comprehensively going forward. But, for the World Bank to be effective in pursuing that agenda, the agenda cannot be seen as disguising a political agenda. It is difficult to simultaneously argue that one should not lend to countries that are corrupt, and to argue that you should expand lending to at least one of the countries that is rated the most corrupt because the US wants an expansion of aid to that country. I hope that this will begin a process of re-examining the Bank's own governance. But corruption is only one of the issues that affect development effectiveness. And I think there is a recognition that the agenda under Wolfowitz had been narrowed excessively. The focus should be development effectiveness in which corruption is one, but only one, pillar."

Nancy Birdsall is President of the Center for Global Development.

Desmond Lachman is a Resident Fellow at the American Enterprise Institute.

Joseph Stiglitz is Executive Director and Co-Founder of the Initiative for Policy Dialogue at Columbia University and was awarded the Nobel Prize in Economics in 2001.

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