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Featured Q&A with our Board of Advisors

Q Mobile banking is gaining popularity in many parts of the world as more and more consumers use cell phones to make financial transactions. Where does Latin America stand in this trend? Is the market there? What needs to be in place to make mobile banking more widespread in the region?

A **Guest Comment: Tricia Juhn:** "Latin America has one massive advantage in the mobile banking market: the \$60 billion in remittances that flow into it every year, mostly from the US. Fewer than 30 percent of that moves through official channels; the rest of it is cash in somebody's shirt pocket. If you monetize that flow on a transaction basis, you are looking at \$1 million in fees every day. Mobile operators in the Philippines and other remittance-heavy markets are already seeing that kind of revenue; as are operators in India, China, the Gulf states, the UK, and North Africa. So the potential is there, but except perhaps for the Japan-Brazil corridor, Latin America lags behind the rest of the world. The raw demand exists, but it isn't ready-to-market: a number of critical intermediaries are still offline, such as the financial partners to handle the transactions, the prohibitive regulatory environment, and material estrangement between Latin banks and middle- and lower-income segments—the very customers who drive any new market. The good news is that with the right set of

relationships, the Latin mobile banking market is ripe for explosive growth. What we need to see are entrepreneurs partnering with the most forward-thinking financial institutions to tap into the hundred of millions of unbanked and underbanked customers—and their cell phones. Keep in mind, too, that these financial institutions might not be banks."

A **Guest Comment: Tuong Nguyen:** "Mobile banking/payment/commerce has significant potential for Latin America and other developing regions that don't have as
Continued on page 5

FEATURED CHART

Use of Card-Based Remittances by Latin American Immigrants in the US
(% of population)

Mexico	1.8%
Dom. Rep.	5.0%
Jamaica	6.5%
El Salvador	12.8%
Guatemala	1.0%
Bolivia	8.0%
Nicaragua	13.0%
Average	6.3%

See "In Focus" story on page 4.

Source: CFSI: "Card-Based Remittances: A Closer Look at Supply and Demand."

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INDUSTRY BRIEFS

Merrill Lynch Applying for Bank License in Mexico

Merrill Lynch has applied for a bank license in Mexico, Carlos Gutierrez, head of Merrill Lynch in Mexico, said February 26, according to Reuters. A bank license would give Merrill Lynch more flexibility in taking deposits and the freedom to create structured products for institutional clients, Gutierrez said. Merrill Lynch, which hopes to receive the license this year, has no immediate plan to operate a retail or commercial bank, he said.

Banco do Brasil Posts 69 Percent Growth in Fourth-Quarter Profit

State-owned **Banco do Brasil**, Latin America's biggest bank, said February 27 its fourth-quarter profit rose 69 percent to 1.25 billion reais (\$US 593.26 million), boosted by lending growth and lower provisions for bad debt, Reuters reported. Loans rose to 133.16 billion reais in the fourth quarter from 101.79 billion reais at the end of 2005.

Citigroup Divulges More Details of SEC Probe

Citigroup on February 23 gave more details about a US Securities and Exchange Commission probe into the US bank's activities in Argentina during the South American nation's 2001-02 banking sector collapse, saying the investigation concerns "certain potential Argentina-related losses" in the fourth quarter of 2001, Reuters reported. In 2001 and 2002, Citigroup took some \$2.2 billion of Argentina-related charges.

Banking News**GE Money to Acquire 39.3 Percent Stake in Colombia's Colpatría**

GE Money, the consumer lending unit of **General Electric Company**, on February 28 announced it would acquire a 39.3 percent stake in **Banco Colpatría**, Colombia's second-largest credit card issuer. "Colombia is an important growth market for GE as we continue to expand our business in Latin America," Mark W. Begor, president and CEO of GE Money in the Americas, said in a press release. The com-

Societe Generale Acquiring Brazil's Banco Cacique for \$407 Million

France's **Societe Generale** announced February 26 that it entered an agreement to acquire Brazil's **Banco Cacique** in a deal said to be worth over \$400 million. According to Reuters, sources close to the deal revealed that Societe Generale paid about 850 million reais (\$US 407 million) for the Brazilian bank. With nearly \$800 million in new lending last year, Sao Paulo-based Banco Cacique is a major

“Colombia is an important growth market for GE as we continue to expand our business in Latin America.”

— Mark W. Begor, president and CEO of GE Money-Americas

pany said under the agreement it would have the option to acquire up to an additional 25 percent stake in the Bogota-based Colpatría from its parent company, **Mercantil Colpatría**, by 2012. The initial purchase of the 39.3 percent stake in

BANK FACTS**Red Multibanca Colpatría S.A.**

- * A subsidiary of Mercantil Colpatría S.A.
- * Has over \$2.4 billion in assets
- * Operates 139 branches
- * Serves over 1 million customers

Colpatría, which GE Money expects to close within the next few months pending regulatory approvals, is worth an estimated \$227.9 million, based on GE Money's offer to buy the stake at \$ 0.016 per share and an estimate of 36.26 billion Colpatría shares outstanding at the end of last year, according to Reuters. GE Money's Latin America unit has operations in Mexico, Argentina, and Brazil, as well as in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama through a joint venture with a local partner. GE Money's Latin America division has about \$7 billion in assets.

player in the South American country's consumer credit market. "We are very pleased with this acquisition, which enables us to capitalize on the expertise of Banco Cacique, one of the major Brazilian actors in consumer credit," Jean-Francoise Gautier, head of specialized financial services at Societe Generale, said in a company press release. "This deal signals a major step forward in our development in Brazil," he added. Last year, the French financial services giant acquired Brazil's **Banco Pecunia**, and has lately favored emerging market acquisitions over banks in developed countries, according to Reuters. In its bid for Banco Cacique, it was chosen over several other contenders, including **Ibi**, **GE Capital**, and **BNP Paribas**. Banco Cacique has 1,800 employees and some 600,000 customers in the Brazilian states of Sao Paulo, Rio de

BANK FACTS**Banco Cacique**

- * New lending of \$800 million in 2006
- * Operates 150 branches
- * Employs 1,800 people
- * Serves 600,000 customers
- * Has 200,000 credit cards in circulation

Janeiro, Minas Gerais, Parana, Rio Grande do Sul, and Santa Catarina. Societe Generale said it expects the bank's network to double in the next four years. It said Brazil "offers substantial development potential in consumer credit activities" adding that the South American nation "could outweigh the consumer credit markets in such countries as Italy and Spain."

US Court Rejects Lawsuit Against Bancolombia Executives

Bancolombia, Colombia's biggest bank, said March 1 that a US federal judge rejected a lawsuit by minority shareholders accusing the bank's directors of manipulating share prices, breaking banking laws, and breaking a contract, Reuters reported. Bancolombia said Judge Jed Rakoff of the US Court for the southern district of New York denied the suit by Colombia's Gilinski family, which in 1997 sold their 51 percent stake in **Banco de Colombia** to **Banco Industrial Colombiano**, creating Bancolombia, the largest transaction in the country's history. The Gilinskis, who say they have lost close to \$700 million as a result of alleged fraud in the deal, want control of Bancolombia, which is majority held by the conglomerate **Grupo Empresarial Antioqueno** and 21 percent held by foreign funds. In January, Colombia's attorney general ordered the house arrest of Bancolombia President Jorge Londono and Vice President Federico Ochoa stemming from their involvement in the 10-year-old deal. However, the arrest order was dropped just days later. Colombia's Constitutional Court is also reviewing a judicial action that would end the Gilinski's claim, according to Reuters. Last May, an arbitration court ordered Bancolombia, its former board of directors, Londono, and Financial Vice President Jaime Velasquez Botero to pay \$16.8 million in compensation to the Gilinskis over the 1997 transaction, well short of the \$675 million sought by the Gilinskis. The court said the Gilinskis received less than they should have in the deal, but also ruled that Bancolombia and its board had not engaged in any fraudulent acts. [Editor's note: see related Q&A

Profile

Tom Haider



Editor's note: The Financial Services Advisor is introducing one member of its Board of Advisors in each issue. Subscribers can pose queries to the Board for publication in the Featured Q&A by writing Assistant Editor Elisabeth Burgess at eburgess@thediologue.org.

Tom Haider is vice president of government affairs and chief compliance officer at Minneapolis-based **MoneyGram International**, where he works with the company's compliance teams around the world, focusing on anti-money laundering and OFAC compliance.

He also directs MoneyGram's legislative, regulatory, and licensing programs and manages the company's ethics program.

Haider holds a bachelors degree in economics and political science and a law degree from the University of Minnesota in Minneapolis.

in the January 23, 2007 issue of the *Financial Services Advisor*.]

Banco Galicia to Pay Off Debt to Argentina's Central Bank

Banco Galicia, Argentine's biggest locally owned bank, said February 28 it would pay off its remaining debt of 908.7 million pesos (\$US 292 million) to the South American country's Central Bank in March, Reuters reported. Last year, Banco Galicia, controlled by financial conglomerate **Grupo Financiero Galicia**, paid off most of its debt to the Central Bank, which made emergency loans to the bank during Argentina's 2001-2002 economic crisis. Last month, Grupo Financiero Galicia reported a 19 million-peso loss for 2006, due to its banking unit's debt payoff operation with the Central Bank in the fourth quarter.

Citigroup Finalizes Grupo Financiero Uno Acquisition

US financial services giant **Citigroup** on March 5 said that it finalized its acquisition of **Grupo Financiero Uno** (GFU), Central America's largest credit card issuer, according to a press release. Financial details of the acquisition, which was first announced in late October last year, were not disclosed. However, the pres-

ident of Honduras' national banks and insurance commission (CNBS) revealed late last year that the shares Grupo Financiero Uno sold to Citigroup were worth \$1.1 billion, according to the Associated Press. GFU has \$2.1 billion in assets and is Central America's largest credit card issuer with 1.1 million credit card accounts and \$1.2 billion in credit card receivables. Citigroup said that it named Edgardo del Rincon Gutierrez, previously GFU's integration team director, to be CEO of GFU in Central America. From 1985 to 2006, del Rincon Gutierrez held various posts at Citigroup's Mexican subsidiary, **Banamex**. Analysts told the *Financial Services Advisor* in November that the acquisition brings Central America's credit card market into the hands of two dominant international players, Citigroup and **GE Capital**, who are likely seeking to further expand their retail banking presence among US Hispanics and in South America. "While the credit card business, when well managed, has proven to be a profitable one for these two regional players, the attraction of these franchises to their acquirers in all likelihood includes the prospect of using existing and prospective client bases as a platform for building a broader retail franchise in a region with close ties to the growing Hispanic population in the US home markets of Citigroup and GE Capital," said

Peter Shaw, director for Latin American banks at **Fitch Ratings**. Through its 49.99 percent stake in **BAC International Bank**, GE Capital has a stake in Central America's **Credomatic** credit card franchise. Carlos Imendia, an economist and independent consultant based in Honduras, wrote that "acquiring GFU allows Citigroup a dominant position from Mexico ... to Panama, setting a platform to develop new niches farther south." [Editor's note: see related Q&A in the November 7, 2006 issue of the *Financial Services Advisor*.]

Economic News

Analysts: Recent Market Dive Likely a Correction, But Concerns Linger

A February 27 plunge in bourses in Latin America and the rest of the world—triggered by a stock sell-off in China and worries about the US economy—is likely a market "correction" and not an ominous economic sign for Latin America, analysts told the daily *Latin America Advisor*. Javier Kulesz, a senior economist at **UBS**, said the outlook for Latin America, where countries are enjoying fiscal and current account surpluses, has not changed following the February 27 global sell-off, when stock markets in Brazil, Mexico, and elsewhere in the region posted their biggest declines in years. "I think [Latin America] is capable of sustaining some market volatility provided that we don't have a large enough correction on the commodity markets and the global outlook remains reasonably strong," Kulesz told the *Advisor*. Jonathon Flott, senior economist for Latin America, Africa, and the Middle East at US automaker **General Motors**, said that strong demand for Latin American commodities was expected to continue, and that, "overall, one would expect this stock market decline to be a blip." However, he said Argentina and Venezuela were especially vulnerable to a global economic downturn because of their "least orthodox" economic policies, although he added "this remains a low probability outcome." Beatrice Rangel, president and CEO of Miami, FL-based **AMLA Consulting**, said the steep market decline in China was part of a "state-engi-

In Focus

Report: Supply of Remittance Cards Not Keeping Up with Demand

By Elisabeth Burgess

WASHINGTON, DC—As Latin Americans living abroad send increasingly more money back home, market demand for card-based remittances is growing steadily, but supply is not keeping pace, according to a report published last month by the Center for Financial Services Innovation (CFSI).

"The robust and increasing demand for person-to-person cross-border remittance services coincides with the increasing dominance of electronic transactions and the rise of prepaid cards," the report stated. But there are "significant gaps" between the market demand for card-based remittance solutions and the supply available from money transfer firms and other financial services companies.

"There is potential to capitalize on a product set that offers value for underbanked remitters given the right product design," concluded the report's authors, Inter-American Dialogue Senior Associate Manuel Orozco, Federal Reserve Bank of Chicago researcher Katy Jacob, and Jennifer Tescher of CFSI.

"Lack of financial literacy is at the intersection of the gap between supply and demand," Orozco told the *Financial Services Advisor*. "There is a mix of differences in communication and awareness of the financial preferences and needs of migrants by the supply side, and cultural misunderstandings among migrants about the value added of using prepaid instruments," he explained.

On average, fewer than 7 percent of Latin American migrants in the United States use card-based remittances (see adjacent chart), while less than 60 percent use any kind of card payment at all, with the exception of phone and transportation cards, according to the report.

In order to tap growing demand for card-based remittances, companies must adopt effective distribution networks for payers on the sending and receiving sides, Orozco said. "The receiving side needs to offer alternative payment instruments, not only card transfers but cash transfers with the option over time to shift into cards," he said. He added that companies should implement "less cumbersome pricing fees that add transparency and value to the sender" and should partner with governments and grassroots organizations to educate people about the value of money transfers through these payment instruments.

Editor's note: the full text of the CFSI report is available at:
http://www.cfsinnovation.com/document/card_based_remittances.pdf

neered correction" of Chinese capital markets and will result in a drop in Chinese demand for commodities, thus

hurting Latin America. [Editor's note: see Q&A in the March 6, 2007 issue of the daily *Latin America Advisor*.]

Use of Card-Based Remittances by Latin American Immigrants in the US (% of population)

Mexico	1.8%
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Jamaica	6.5%
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Guatemala	1.0%
Bolivia	8.0%
Nicaragua	13.0%
Average	6.3%

Source: CFSI: "Card-Based Remittances: A Closer Look at Supply and Demand."

POLITICAL & ECONOMIC BRIEFS**Bush Says US Committed to Fighting Poverty in Latin America**

President George W. Bush said Monday the United States is committed to alleviating poverty and strengthening democracy in the region. In a speech to the US Hispanic Chamber of Commerce in New York given on the eve of his March 8-14 five-country tour of the region, Bush touted US foreign aid to the region that has totaled \$8.5 billion since he took office in 2001, and said the region stands to receive \$865 million in new assistance through Washington's Millennium Challenge Account aid program.

Brazilian Economy Grew a Slow 2.9 Percent in 2006

The Brazilian government said February 28 the country's economy expanded 2.9 percent in 2006, the slowest rate of growth in South America last year, Bloomberg News reported. Brazil's expansion last year brought the average annual rate of growth during President Luiz Inacio Lula da Silva's first four-year term to 2.6 percent, the lowest in the Hemisphere except for Haiti and El Salvador, Bloomberg News reported, citing a Brazilian planning ministry estimate.

FTA Between US and Dominican Republic Goes Into Force

A free trade agreement between the United States and the Dominican Republic went into force on March 1 as part of a wider pact, known as DR-CAFTA, that also includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Dominican President Leonel Fernandez called the trade deal's entry into force an "historic day" for his country. Costa Rica is the only country not to have yet ratified the agreement.

Featured Q&A

Continued from page 1

advanced, legacy infrastructure (whether it's financial, telecom, post, etc). It's especially suitable for regions like Latin America where mobile penetration is significantly higher than wireline (phone

“Consumers have to have confidence in the security of mobile banking, and end-user perception of security is a key here.”

– *Tuong Nguyen*

banking) and Internet (e-banking). It's also well suited in cases where security concerns exist, like in the case of many cities in the region where crime is often initiated after the victim visits the bank or ATM. Micro-payments represent an alternative to carrying cash and stand to become the most popular application for mobile banking. Latin America is in line

in terms of global adoption. It's behind some of the more advanced countries, like Japan, but slightly ahead of regions like North America. A number of different institutions (wireless operators and banks) in various countries have launched initiatives in this field—from receiving simple bank information via SMS to payments and transfers. Banks that have launched services include Banco Galicia and Banco Rio in Argentina; Banco do Brasil; Bancolombia; and Banco Sol in Bolivia. For mobile banking to really flourish in the region, a number of conditions have to be met. Consumers have to have confidence in the security of mobile banking, and end-user perception of security is a key here. Additionally, the interfaces have to be user-friendly and standardized, providing a common experience across different providers' platforms as to maximize usability. Cross-collaboration between financial institutions and mobile operators is also a must since operators are the principal distribution and sales channel in this space."

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Subscriber Notice

Inter-American Dialogue Discussion on

Corporate Responsibility in Capital Markets

with

Raymundo Magliano Filho

Sao Paulo Stock Exchange (BOVESPA)

Friday, March 16, 2007

8:30 - 9:45 a.m.

Inter-American Dialogue

1211 Connecticut Avenue NW, Suite 510

Washington, DC

To RSVP and to inquire about phone access, send an email to meetings@thedialogue.org.

Please include your name and affiliation.

Featured Q&A*Continued from page 5*

A Board Comment: Manuel Orozco: "Most of Latin America and the Caribbean is lagging behind in the adoption of technology solutions in mobile banking, although there are a few firms implementing mobile banking. One of the reasons the region is lagging behind is that telecommunications rules are unclear about how to regulate payments, and second, the banking industry is uncertain as to what benefits mobile banking would offer to the revenue streams of the industry: no one sees an

“Consumers have to have confidence in the security of mobile banking, and end-user perception of security is a key here.”

– *Tuong Nguyen*

already existing critical mass of consumers. However, there are also real concerns as to the implementation of such solutions. Specifically, although one in three Latin Americans has a cell phone, and those with more purchasing power are more likely to hold these devices, the use of the tool for banking and payments depends on the effective readiness of retailers, cellular carriers, and financial service providers to operate the transaction and do so affordably. This means first that businesses need to have ready and installed on-site devices, such as wireless point-of-sale terminals, among merchants nationwide. Thus, someone has to provide the initial investment. Second, the operating cost and commission sharing must be affordable to consumers. In some countries, costs range between 3 and 5 percent per transaction, making the use of the device difficult for consumers. The opportunities, however, exist. The experience in the Philippines in using mobile banking for money transfers through SMS notification is

slowly proving to be successful, and Latin America's private sector needs to identify the point of entry for this solution: money transfer is surely one way to do so, provided that merchant payment systems are modernized."

A Guest Comment: Carlos Blanco: "Signals notes that in Latin America mobile banking has been a service whose development has been promised since the introduction of WAP at the end of the 1990s. If indeed the initial development of WAP was limited for a number of reasons, among them the lack of attractive content, acceptable navigation speeds, and friendly handsets, the slowdown experienced by mobile banking was linked to the fact that banks did not trust the conditions for security offered by mobile operators to protect transactions. In any event, with improvements made at the technical level, in 2006 the first developments in mobile banking began to appear, created basically for inquiries and the payment of some services. Signals understands that with the passage of time there will be more and complex options available. Nevertheless, the main obstacle to the takeoff of mobile banking is directly tied to the low banking penetration in Latin American countries."

Tricia Juhn is Director of the Financial Services Practice at InfoAmericas.

Tuong Nguyen is a Senior Analyst for Mobile Devices & Consumer Services at Gartner Dataquest.

Manuel Orozco is a member of the Financial Services Advisor board, and Executive Director of the Remittances and Rural Development Project at the Inter-American Dialogue.

Carlos Blanco is Director of Market Research at Signals Telecom Consulting.

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