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FEATURED Q&A

What Will 2010 Yield For Mexico's Banking Industry?

Q The head of HSBC's Mexican unit, Luis Pena, said Dec. 2 that he expects a return to growth at Grupo Financiero HSBC as the country emerges from its recession, suggesting that although Mexico's recovery will be slow, '2010 will be better than 2009.' Will Mexico's banks indeed see growth next year? If so, how strong will that improvement be and which banks are best positioned for growth? How are new entrants in the financial sector like Walmex having an effect?

A Ricardo Ortiz and Marta Colomar Garcia, associate attorneys at Diaz, Reus & Targ, LLP in Miami: "It has been a difficult year for Mexico. The United States, which previously bought as much as 80 percent of Mexico's exports, dropped into a recession. As a tourist destination, Mexico was wracked by continuous news of extreme drug-related violence in the nation. In addition, the H1N1 flu struck the country, shuttering businesses and frightening travelers away. Fortunately, economic analysts have projected a 3 percent growth and an increased capital influx for Mexico in 2010. Despite a tumultuous 2009, Mexico's banking system remains robust. Banks are well capitalized and supported by a strong regulatory framework. Unlike its neighbor to the north, the Mexican government was not forced to bail out any of its banks. In fact, one of the best-positioned banks for

growth in Mexico is Grupo Financiero HSBC. This financial institution has made it clear that it will continue to extend credit to small businesses, the real estate sector and consumers in 2010. Additionally, Spain's Grupo Santander is also flexing its financial muscles by working actively with Latin American governments and major regional clients to further boost its banking operations. Finally, BBVA Bancomer has received media attention as an institution positioned for growth. Indeed, the U.S. publication 'Banks of the Year 2009' named Bancomer the 'Best Bank in

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Venezuelan Government Creates New State-Run Bank

The government of Venezuelan President Hugo Chavez on Dec. 21 used the assets of three nationalized banks to create a new state-run bank, Banco Bicentenario. See story on page 2.

Photo: Venezuelan Government.

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FINANCIAL SERVICES BRIEFS

Mastermind of Colombian Pyramid Scheme Sentenced to 30 Years

The mastermind of a pyramid scheme that bilked Colombians out of hundreds of millions of dollars was sentenced Dec. 16 to 30 years and eight months in prison, the Associated Press reported. Judge Jose de los Reyes also fined David Murcia \$12.5 million and said he had been "inebriated by wealth." Murcia, who is expected to be extradited soon to the United States, ran DMG Group Holdings, which collapsed last year. Murcia's operation took in \$2 billion, but only returned about \$100 million to investors.

Banco do Brasil Eyes Acquisition of Argentina's Banco Patagonia

State-owned **Banco do Brasil** said Dec. 15 it is in talks to acquire **Banco Patagonia**, Argentina's fourth-largest bank, in what would be its first foray into the international market. In a note to Brazil's securities regulator, Banco do Brasil said it hadn't yet made a decision on a "possible partnership." Brazilian paper *O Estado de S. Paulo* reported that Banco do Brasil was considering purchasing the 49.94 percent stake in Banco Patagonia owned by the Stuart Milne family.

Argentina's Banco Supervielle Plans Share Offering in 2011

Argentina's privately-held **Banco Supervielle** is planning an initial public offering in 2011 in New York, London or Sao Paulo, the bank's president told Bloomberg News Dec. 10. "There's a big interest in Argentine banks, they have room to grow," said Juan Carlos Nougues. The bank, based in Buenos Aires, has more than 120 branches in the South American country and 3.4 billion pesos (\$U.S. 890 million) in deposits.

Financial Services News**Venezuela Inaugurates New State-Run Banco Bicentenario**

Venezuela's government on Dec. 21 merged three nationalized private-sector banks and a state-controlled bank into a new state-owned bank that will give the government control of nearly a quarter of the country's deposits, Dow Jones reported. The three private-sector banks, **Banco Bolivar**, **Banco Confederato** and **Central Banco Universal** were among eight banks that the government seized, alleging

“They can give me the banks.
I'll take them.”

— *Hugo Chavez*

improprieties, since last month. They were combined with government-run **Banfoandes** to create the new **Banco Bicentenario**, which will have more than 300 branches nationwide. Venezuelan President Hugo Chavez said Monday that his government would seize more banks if they do not reduce interest rates for individual borrowers, Reuters reported. "Don't we want to help the poorest, the weakest?" Chavez said at a ceremony to mark the opening of the new state-run bank, where he handed a 30-year mortgage to a borrower at a 5.5 percent interest rate. "The private bankers who don't like this are totally at liberty to take up another economic activity that suits them better, and they can give me the banks. I'll take them," Chavez added. Venezuela seized the eight small banks, which also includes the still-closed **Canarias**, **Banco Real**, **ProVivienda** (BanPro), **Baninvest** **Banco de Inversion** and **BaNorte** and has arrested 10 bankers. Currently, Venezuela's largest state-run bank is **Banco de Venezuela**, which the government purchased in July from Spain's

Banco Santander for \$1.05 billion. Venezuela has more than 40 banks, the largest 10 of which hold 76 percent of Venezuela's deposits.

Mexico's Banorte Acquires Pension Fund Assets of Seguros Argos

Mexico's **Grupo Financiero Banorte** said Dec. 21 that it has acquired the pension fund assets of **Seguros Argos**, Dow Jones reported. Banorte, the fourth-largest banking group in Mexico, acquired the assets after receiving approval from pension fund regulatory agency Consar and the Federal Competition Commission antitrust agency, Banorte said in a stock exchange filing. The acquisition is the bank's third this year in Mexico's pension fund industry. The bank's pension fund unit, **Banorte-Generali**, acquired more than 22,000 retirement accounts from Seguros Argos, amounting to approximately 600 million pesos (\$U.S. 46.4 million) in assets. In 1997, Mexico instituted a system that requires private-sector workers drawing salaries to have individual retirement accounts. The system was also extended to self-employed workers who can contribute to the accounts on a voluntary basis. Pension companies known as Afores manage the accounts. Mexico's 17 Afores had 1.12 trillion pesos in assets under management at the end of November, according to Consar.

Chilean Central Bank Warns of Lower Banking Profits Ahead

Chile's central bank on Dec. 16 advised the nation's banks to factor into their 2010 plans the risks of a slower global economic recovery, capital outflows and tight credit abroad, Reuters reported. In

To Our Subscribers

In observance of the Christmas and New Year's holidays, the next issue of the Financial Services Advisor will be published Jan. 13, 2010. We wish our readers a happy holiday season and a prosperous new year.

its "Financial Stability" report for the second half of the year, the central bank said the country's financial services companies were "well placed" to face external shocks, but added that it expects the sector's profits to fall as interest rates normalize and on continued losses on bad loans. Chile's economy this year suffered its first recession in a decade as copper prices plummeted due to expectations for reduced global demand, and growth has been slower to pick up than in some other countries of the region. Chile's banking industry is made up of 25 institutions, led by **Santander Chile**. The central bank said the industry's profits have stayed high, up more than 15 percent from a year ago, thanks to trading earnings and low financing costs, but those winnings would likely fall due to a potential increase in interest rates and continued losses from bad loans. Chile's banking system profits jumped 25.5 percent in October from September on wider margins helped by rising consumer prices, according to the Reuters report. "It is likely that bank profits would be lower in the future," the central bank said. [Editor's note: See related Q&As on Chile in the [Aug. 17](#) and [Dec. 7](#) issues of the Dialogue's daily *Advisor*.]

Insurance News

Mexican Auto Insurer Qualitas Sees Single-Digit Sales Growth Next Year

Mexico's largest auto insurance company, **Qualitas Compania de Seguros**, is forecasting single-digit sales growth in 2010 after a recession hurt business this year, a top executive told Dow Jones Dec. 17. Chief Financial Officer Wilfrido Castillo said in an interview that Qualitas premiums will probably grow in the "low single digits" as a recovery in the economy boosts domestic vehicle sales in the second half of 2010. New car sales are a key growth driver for car insurance companies in Mexico, where there is no federal mandate for auto insurance and the few states that do require coverage don't enforce it, according to Dow Jones. About two-thirds of auto sales are financed by banks and non-bank lenders who require that a vehicle carry insurance during the

Featured Q&A

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Mexico.' If the predictions are accurate, Mexico will be an attractive market for business. New entrants in the financial sector will continue to create an incentive for better quality and increased competition. For example, by gaining more

“Unlike its neighbor to the north, the Mexican government was not forced to bail out any of its banks.”

— *Ricardo Ortiz & Marta Colomar Garcia*

market share based on the quality of its product and its low-price campaigns, Walmex has increased competition and has created challenging situations for smaller businesses. Similarly, traditional financial institutions need to adapt new strategies to avoid changes in their relationships with traditional consumers. As Mexico's economy improves in 2010, so will its banking sector. Look for the jumpstart to begin with the business community reactivating the loan market, while the consumer segment becomes more dynamic."

A Rogelio Ramírez de la O, director of Ecanal in Mexico City: "Bankers in Mexico expect credit to recover in 2010 and may even incorporate this into their plans. But that would be too sanguine a view of the real economy, which, in the end, is the only sustenance of a healthy credit expansion. The feeble real economy is more likely to contribute to further credit deterioration. For one thing, there is no discernible increase in employment, Manufacturing employment fell 9.4 percent in October, while INEGI data on unemployed and under-employed rose by 2.3 million in the three quarters through last June. Adding those working

less than 35 hours a week and those inactive but 'available', the loss in jobs has been 5 million. Most employed workers did not receive a pay increase in 2009 and employers do not plan one for 2010. Thus, due to inflation alone, real wages will lose 10 percent over the last two years. In addition, the recent tax reform will reduce 6 percent of take-home pay in 2010, according to accountants. To be sure, this is what explains that overdue housing loans jumped through October 48 percent on an annual basis, while for businesses the overdue loan rate increased 39 percent. Bankers have sold large consumer loan portfolios at a loss, and even so their consumer overdue portfolio is at 10 percent. This, in turn, explains reduced bank lending. Consumer credit fell 16 percent through October, while for business it grew 1.4 percent compared to 27 percent in 2008.

“The feeble real economy is more likely to contribute to further credit deterioration.”

— *Rogelio Ramírez de la O*

The cycle of deterioration in the real economy is far from complete; thus any increase in bank lending would remain risky."

A Tapen Sinha, professor of risk management at the Instituto Tecnológico Autonomo de Mexico and professor in the University of Nottingham Business School: "In December 2008, the consensus view of the 'experts' was that in 2009, the Mexican economy would grow 0.38 percent. By December 2009, the consensus view of the same experts was that the economy would contract 7.02 percent.

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life of the loan. Qualitas has more than 1.4 million insured vehicles and leads the Mexican auto insurance industry with 18.9 percent market share as of October. In addition to Mexico, Qualitas also operates in El Salvador, where it currently insures just under 1,200 vehicles through a joint venture with Canada's **Bank of Nova Scotia**.

Economic News

Calderon Nominates Carstens as Mexico's Central Bank Head

Mexico's Senate on Dec. 15 confirmed Agustin Carstens as the head of the country's central bank. Carstens replaces Bank of Mexico Governor Guillermo Ortiz, who has served two six-year terms at the bank's helm. President Felipe Calderon appointed his development minister, Ernesto Cordero, to replace Carstens as finance minister. [Editor's note: See profile of Cordero in the Dec. 16 [issue](#) of the Dialogue's daily *Advisor*.] Carstens was the central bank's chief economist from 1994 to 1999. On Dec. 9, the day Calderon appointed him central bank chief, Carstens said he would work to keep the peso stable. "The central bank's priority goal is to promote the stability of the national currency's buying power," **Carstens**



Carstens

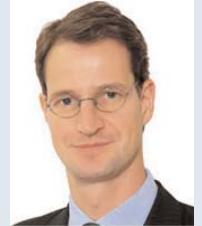
Carstens told reporters in Mexico City. "My commitment will be to make sure that this constitutional mandate is carried out faithfully." On Dec. 2, the central bank raised its forecast for inflation, saying consumer prices could increase by up to 5.25 percent on an annual basis in next year's third and fourth quarters. That forecast is higher than the bank's target of 3 percent. Between 2003 and 2006, Carstens was a deputy managing director at the International Monetary Fund. He graduated from the University of Chicago with a doctorate in economics and received his undergraduate degree at the Autonomous Technological Institute of Mexico.

File Photo: Mexican Government.

Subscriber Notice

Kai Schmitz Joins the Financial Services Advisor Board

The *Financial Services Advisor* is pleased to announce that Kai Schmitz has joined the Board of Advisors. He is executive vice president of **Microfinance International** in Washington.



Schmitz

File Photo: Microfinance Int'l.

Schmitz manages the company's processing division, ARIAS, which offers international payment services and software to financial institutions in several countries. He also helped to establish **Alante Financial**, a U.S.-based microfinance organization that provides basic financial services to unbanked consumers. Before joining Microfinance International, Schmitz co-founded a London-based remittance software company and also a company that develops digital imaging software.

Previously, Schmitz was a lawyer at firms in Hamburg and London. He is a member of the German bar association and earned a master of business administration from Henley Management College in London.

Cordero, Carstens' successor at the Finance Ministry, was Mexico's deputy finance minister for spending from December 2006 to January 2008, when he became development minister. Cordero, 41, holds a master's degree in economics from the University of Pennsylvania.

U.S. Senator Blocks Brazil Trade Bill Over Custody Battle

A U.S. senator, in connection with a long-running custody fight over a nine-year-old boy, has placed a hold on a trade bill that that would lift tariffs on some Brazilian exports to the United States, the Associated Press reported Dec. 18. Sen. Frank Lautenberg (D-N.J.) blocked the bill after a Brazilian Supreme Court justice stayed an order from a lower court that Sean Goldman be returned to his father, David Goldman, in New Jersey. David Goldman has been battling for five years to regain custody of his son. Sean's mother took the boy to her native Brazil in 2004, divorced Goldman and then remarried. Last year, she died in childbirth and Sean has been living with his stepfather in Brazil ever since. The U.S. State Department has pressed for the boy to be returned to his father as has Brazil's attorney general who, along with David Goldman, filed an appeal Dec. 18 asking

the Supreme Court to overturn the stay and allow the boy to be returned to his father. The two sides are awaiting a decision in the case from the Supreme Court's chief justice, Gilmar Mendes.

Peru's Economy Forecast to Grow 5.5% Annually Over Next Two Years

Peru's economy will grow 5.5 percent annually next year and in 2011 after 1 percent growth this year the central bank said Dec. 21, Bloomberg News reported. Growth of the South American country's

The annual rate of inflation could accelerate "in the coming months," the central bank said.

gross domestic product will grow at a quicker pace in 2010 due to the government's stimulus package and rebounding private-sector spending, the bank said. The annual rate of inflation also could accelerate "in the coming months" to the central bank's target of between 1 and 3 percent during the second half of next year, the bank said, adding that policymakers expect to leave the reference rate

unchanged at 1.25 percent unless the forecast for inflation changes significantly. Lowering interest rates to record low levels also has aided homebuyers and businesses in securing credit, the central bank added.

Political News

Colombia Building New Military Base Near Venezuelan Border

Colombia's government announced Dec. 18 that it is building a new military base near the country's border with Venezuela, Agence France-Presse reported. Construction of the new base, which is likely to increase tensions between the two feuding countries, will be located on the Guajira peninsula near Nazaret, said Colombian Defense Minister Gabriel Silva. The new base will have as many as 1,000 troops, said Silva, who added the \$1.5 million base also will have a health



Silva

File Photo: Colombian Government.

facility for indigenous people in the area. On Dec. 19, Colombian Army Commander Gen. Oscar Gonzalez said six air battalions, including two along the Venezuelan border, would be activated. In a local newspaper interview published Sunday, Silva said Colombia was preparing to defend itself against an attack. "In Colombia, we have concentrated on the internal threat. But the risk is growing because what has been clearly and directly presented is an eventual action against Colombia from outside," Silva told *El Tiempo*. "Colombia was not used to thinking about this eventuality in its foreign policy and defense strategy. Unfortunately now we have to put this variable on the map. There is a risk of a foreign aggression." On Nov. 8, President

Hugo Chavez said Venezuelan troops should be ready to go to war with Colombia and also restricted several Colombian imports from entering Venezuela in protest of an agreement Colombia made with the United States to allow U.S. troops greater access to Colombian military bases. On Dec. 20, he said Venezuela is not preparing to attack Colombia, Reuters reported. "We are not preparing any aggression against Colombia or against anybody," Chavez said on his weekly television show. He also said that if Colombia attacks Venezuela, Colombia would regret it. "Believe me, bourgeoisie of Colombia, if you hurt Venezuela you'll regret it. We are not unarmed. We do not have our arms crossed," said Chavez. On Sunday, Chavez also accused the United States of spying on Venezuela with unmanned drones, which he said violated Venezuelan air space. He said the incidents amounted to an "act of war" and said Venezuela's air force would shoot down any of the planes that they detect in the future.

Calderon Proposes Broad Political Reforms in Mexico

Mexican President Felipe Calderon on Dec. 15 proposed a sweeping package of political reforms, including re-election for many public officials and a reduction in the size the country's Congress, the Associated Press reported. Calderon outlined the proposals in a televised address. "The idea is to give citizens more power, to give them the capacity to shape public life and to strengthen our democracy," said Calderon. Under the plan, legislators and mayors would be able to serve up to 12 years if re-elected, the Senate would be reduced to 96 from 128 members and the Chamber of Deputies would shrink to 400 from 500 members. Also, presidential candidates would face runoff elections if no candidate receives a majority of the votes. Presidents would still be limited to one six-year term. The reforms face an uncertain future in Mexico's Congress. Francisco Rojas, the congressional leader of the opposition PRI told daily newspaper *El Universal* that debate on other topics, such as economic issues, will take precedence over the proposed reforms.

POLITICAL & ECONOMIC BRIEFS

Colombian Central Bank Keeps Interest Rate Unchanged at 3.5%

Colombia's central bank on Dec. 18 kept its benchmark interest rate unchanged at a record low, Bloomberg News reported. After eight cuts to rates this year alone, policymakers maintained the inter-bank rate at 3.5 percent. The annual inflation rate in 2009 has dropped to its lowest level in more than 50 years, as growth this year screeched to a halt. Colombia's economy contracted 0.2 percent in the year's third quarter, the country's statistics agency said Dec. 21.

Brazil's Unemployment Rate Drops for Third Straight Month

Brazil's unemployment rate dropped for the third consecutive month in November to its lowest level of the year, Bloomberg News reported Dec. 18, citing the country's national statistics agency. The jobless rate decreased to 7.4 percent last month as compared to 7.5 percent in October, the agency said. Brazil's economy fell into recession in this year's first quarter, but expanded 1.3 percent in the third quarter as compared to the previous three-month period.

Guatemalan President Intervenes in Protests Over Blackouts

Guatemalan President Alvaro Colom on Dec. 22 declared a 'state of prevention' in the San Marcos department, where peasants have been protesting extraordinary power outages, EFE reported. The decree limits protests, among other measures. On Dec. 18, more than 5,000 demonstrators blocked vehicle and pedestrian traffic on the Mexican border at El Carmen to bring attention to demands that a unit of Spanish-owned utility **Union Fenosa** get service back to normal.

Featured Q&A*Continued from page 3*

Given this background, it is hard to take the views expressed by the same experts about the growth of banking activity in 2010 seriously. Just over 100 years ago, in 1907, there was a bank panic in the U.S. that eventually led to the birth of the Federal Reserve System in 1913. One

term recovery prospects are weak, increasing the downside risks to bank activity. The economic recession continues to affect overall business volumes, and stagnant lending is now a clear pattern. We've witnessed a drastic reduction in loan underwriting this year, which

“Systemic stress seems unlikely because of banks' strong capitalization and reserves.”

— *David Olivares-Villagomez*

direct consequence of bank panic in the U.S. is mentioned less often: the depression of 1908-09 in Mexico. This in turn led to the Mexican Revolution in 1910. Historian Kevin Cahill noted that 'the U.S. depression crippled the Mexican economy. Generating widespread dissatisfaction with President Porfirio Diaz's government, it thus was one of the factors that provoked the Maderistas and other revolutionaries to rebellion in 1910.' It is remarkable how similar the situation is between 1909 and 2009. Of course, it would be foolish to suggest that Mexico is heading for a revolution now. It is not. In October 2009, Walmex received approval for a 'correspondent license,' which enables it to take deposits and cash paychecks in 1,356 branches across Mexico. The two biggest banks in Mexico, Banamex and BBVA Bancomer, each have more than 1,500 branches. However, Walmex will be open for business for 16 hours a day, seven days a week. In comparison, banks are open for six to seven hours a day and around 250 days a year. Thus, it is clear that Walmex will have a big impact on some of the routine services."

A David Olivares-Villagomez, senior credit officer for Latin American bank ratings at Moody's Investors Service:

"Macroeconomic risks remain high in light of Mexico's sharp economic recession, where GDP is expected to shrink by around 7.5 percent in 2009, and near-

combined with important government and corporate loan repayments, led to a modest annual loan growth rate of only 3 percent—a rather low mark compared to some 25+ percent of previous years. Loan contraction responds to scarce demand as a result of high levels of customer indebtedness, weak labor markets and lower consumer confidence overall, or the fact that enterprises find lower demand for their products. Lower lending activity also reflects a rather weak credit supply, indicating that banks are still largely reluctant to lend because they have found themselves forced to adopt stricter underwriting following a period of aggressive expansion into the consumer segment—and because they continue to deal with loan deterioration in a context where borrower credit quality is still worsening. Under such a scenario, we believe that Mexican bank earnings and asset quality performance will continue to be under pressure in 2010, but systemic stress seems unlikely because of banks' strong capitalization and reserves. We expect loan growth to remain below historical levels, in the single-digit range. This opinion mirrors our view of prolonged recessionary macroeconomics and may contrast with some banks' more optimistic growth estimates."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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