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FEATURED Q&A

What Is Driving Deals in Brazil's Insurance Sector?

Itaú Unibanco, led by CEO Roberto Setúbal, is selling its group life insurance operations to Prudential do Brasil Seguros de Vida. // File Photo: Osmar Valdebenito.

Q **Itaú Unibanco is selling its group life insurance operations to Prudential do Brasil Seguros de Vida, the Brazilian bank said in a September securities filing. A month later, Swiss Re and Bradesco announced a joint venture to create a commercial large-risk insurer in the South American country. What factors are driving deal making in Brazil's insurance sector? How are Brazil's broader economic conditions affecting the insurance sector? What policies of Brazilian President Michel Temer will affect the sector the most?**

A **Pablo Barahona, member of the Financial Services Advisor board and executive VP & COO for Global Consumer Markets West at Liberty Mutual Group:** "The recent joint venture activity in Brazil is mainly driven by operational and financial considerations. Increased regulatory capital requirements and growing sophistication in the insurance market are forcing the local players to seek strategic partners. Multinational companies, on the other hand, are looking for opportunities to expand their footprint or increase market share abroad. This is a win-win situation. For the local players, joining forces with multinationals allows them to leverage their global scale to bring innovation, pricing, underwriting, claims, distribution, IT, costumer experience and talent management capabilities to improve effectiveness and efficiency. In an increasingly competitive market and with more demanding customers, these capabilities can make the difference between success and failure. For multinationals, expanding in rapidly growing markets is appealing. Also, geographic diversification provides benefits in terms of capital management, in particular, for those under Solvency

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TOP NEWS

FINANCIAL SERVICES

Sagicor Reports 49% Rise in Profit

The Jamaican financial services firm said its net profit rose to 3.09 billion Jamaican dollars ($24 million) in the third quarter. The company has benefited from the strongest economic growth in Jamaica in more than a decade.

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FINANCIAL SERVICES

JNBS Members Approve Reorganization

Members of the Jamaica National Building Society voted to convert the building society into a commercial bank. The new entity, JN Bank, is to be launched early next year. Current JNBS Executive Maureen Hayden-Cater will head the new bank.

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BANKING

Itaú Names Bracher New CEO

Brazil's second-largest bank by assets, Itaú Unibanco, named Cândido Bracher its new CEO. Bracher will replace retiring CEO Roberto Setúbal in April.

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Bracher // Itaú Unibanco.

FINANCIAL SERVICES NEWS

Caixa Reports 67 Percent Drop in Profits for Q3

Caixa Econômica Federal, Brazil's largest mortgage lender, has reached an agreement with the Brazilian government to only pay 25 percent of its 2016 and 2017 profits in dividends, Chief Financial Officer Osvaldo Brasil said Nov. 14, Reuters reported. The agreement followed a report from the bank Monday that it had experienced a 67 percent drop in third quarter profit year-over-year of 998 million reais, or $294.3 million. Brasil said reducing dividends would help the lender strengthen capital levels. Caixa has cut back provisions for credit losses by 16 percent to 5.1 billion reais, and reported a delinquency rate of 3.5 percent in the third quarter, though Brasil said the figure may increase slightly in the coming quarters. Caixa's return on equity has fallen to 6.5 percent, which is less than half that of the lender's private Brazilian peers. Brasil said Caixa aims to have return on equity reach at least the benchmark Selic rate, which is currently at 14 percent, by 2018. He added that he expects the bank's loan book to grow by between 4 percent and 5 percent this year, down from a previously projected 7 percent to 10 percent growth.

Banco Bradesco's Third-Quarter Profit Slides 22 Percent

Banco Bradesco, Brazil's fourth-largest bank by assets, on Nov. 10 posted a nearly 22 percent drop in third-quarter net profit, due to the deterioration of its nonperforming-loan rate, which led the bank to take on more provision charges, The Wall Street Journal reported. Bradesco recorded a net profit of 3.24 billion reais, or $1.01 billion, for the quarter, down from 4.12 billion reais in the same quarter of last year. The bank's third-quarter nonperforming loan ratio increased to 5.4 percent from 3.8 percent year-over-year. The bank had decided during that period to take on more provisions for bad loans, reporting that its provision charges had reached 5.74 billion reais in the most recent period, up by nearly 50 percent from 3.85 billion reais year-over-year. Banco Bradesco's nonperforming-loan rate is likely to deteriorate further amid the country's economic recession and increasing unemployment. Brazil's economy contracted 3.8 percent last year and is expected to contract by another 3.2 percent this year, according to economists. Despite the conditions, the bank's executives felt hopeful that the worst is behind them, Reuters reported Nov. 10. In a conference call to discuss third-quarter results, Chief Executive Officer Luiz Carlos Trabuco Cappi said the worst of Brazil's deepest recession in eight decades had passed, and that demand for new loans would soon increase once the economy reacted to policy stimulus next year. "The country is finally entering a new cycle after dragging along for a while with one of the worst downturns on record," Trabuco said.

Trabuco Cappi // File Photo: Brazilian Government.

Jamaica's Sagicor Reports 49 Percent Increase in Q3 Profit

Financial services firm Sagicor Group Jamaica reported a 49 percent increase in profits during the third quarter as compared to the same period last year, the Jamaica Gleaner reported Nov. 9. The company said net profit rose to 3.09 billion Jamaican dollars ($24 million) in the quarter ending with September. Over the first nine months of 2016, Sagicor earned 27 percent more than a year earlier.

NEWS BRIEFS

Itaú Unibanco Names Bracher New CEO

Brazil's Itaú Unibanco on Nov. 9 named its managing director, Cândido Bracher, as the bank's new chief executive officer, The Wall Street Journal reported. Bracher, who has been with Itaú Unibanco since 2003, in April will succeed CEO Roberto Setúbal, 62, who reached the bank's age limit for retirement. Setúbal has led the bank since 1994.

JNBS Members Approve Reorganization Into Commercial Bank

Members of the Jamaica National Building Society, or JNBS, on Nov. 14 voted to reorganize the JN Group and convert the building society to Jamaica's only mutually-owned commercial bank, now called JN Bank, South Florida Caribbean News reported. More than 99 percent of JN members voted in favor of the changes, according to auditor PricewaterhouseCoopers. Altogether, nearly 25,000 members voted in person or by proxy. Current JNBS Executive Maureen Hayden-Cater will head the new entity, which is scheduled to be launched early next year. JN Bank will assume JNBS' current savings and loan portfolio.

First Data Sees Stronger Latin America Growth

Atlanta-based electronic payments firm First Data Corporation on Nov. 7 said its third-quarter revenue rose 1 percent to $2.9 billion. The company's Latin America operations posted strong percentage gains in the quarter, with its Global Business Solutions segment reporting revenue up 12 percent, or 45 percent on a constant currency basis, driven by strong results in Brazil and Argentina. First Data's Global Financial Solutions group reported its Latin America revenue was up 4 percent, or 28 percent on a constant currency basis, driven by growth in Argentina and Colombia.

"Profitability of the main segments surpassed expectations," Chairman Danny Williams and CEO Richard Byles said in a statement. Sagicor, whose business lines include insurance, banking, investments and property services, has benefited from the strongest economic growth in Jamaica in more than a decade. The country's economy grew by 2.3 percent from July to September, the highest single quarter of growth since 2002, the finance ministry said earlier this month. Agricultural output has risen strongly after recovering from a severe drought last year. Tourism has also been robust, bringing in $1.3 billion in the first six months of the year, a 7.5 percent increase as compared to the first half of last year. [Editor's note: See related **Q&A** in the Sept. 15 issue of the daily Latin America Advisor.]

Brazil Freezes Rio de Janeiro Accounts

Brazil's federal government on Nov. 7 froze Rio de Janeiro state's bank accounts, ordering the fiscally strapped state to pay $53 million in overdue debt, Agence France-Presse reported. Rio has been "blocked from making any kind of payment until the amount it owes the state has been paid," Rio's finance secretariat stated.

Pezão // File Photo: Brazilian Government.

However, the freeze will only apply for three days, officials said, and civil servants' salaries would be paid as scheduled on Nov. 16. Rio's spending is projected to exceed revenue by 40 percent this year, as tax revenues plunge amid one of the worst recessions in generations. On Nov. 4, Governor Luiz Fernando Pezão announced a package of painful cuts to social programs, a tax hike for retirees, a sales tax increase and a transport fare hike. "If this package isn't approved, there's nothing else we can do," Pezão said. Rio has already warned it may not be able to pay employees their December bonuses. With a deficit nearing 10 percent of gross domestic product and entitlement spending rising faster than inflation, the IMF has said Brazil is on track to become the world's most indebted emerging market country in coming years, The Wall Street Journal reported. Meanwhile, the administration of President Michel Temer is planning targeted spending to boost economic recovery.

Central Banks Adopt SWIFT Measures to Boost Transparency

Financial messaging service provider SWIFT announced Nov. 3 that eight central banks in Latin America have adopted its Financial Crime Compliance solutions in order to boost transparency and fight financial crime. The central banks of Belize, Bolivia, Costa Rica, Curacao,

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II, allowing them to improve profitability. The current Brazilian economic outlook is negative, as the economy is facing some headwinds. However, in the long run, most people in the industry remain confident that the insurance market will resume growth. Penetration remains quite low, and income per capita is at a point where insurance income elasticity is high. Brazil should also benefit from a demographic bonus as population ages. President Temer is facing serious challenges in terms of fiscal deficit, an overly complicated and onerous tax regime, corruption scandals and lack of trust from foreign investors. These challenges can also be seen as opportunities to improve efficiency in the government's expenses, improve local companies' competitiveness and regain investors' confidence. It remains to be seen if his government will be able to capitalize upon these opportunities but, the general consensus is that the country needs drastic changes."

A **Beatrice Rangel, director of AMLA Consulting in Miami Beach:** "Drivers for deal-making in Brazil are low valuation in general, particularly in the financial sector. But in the insurance services realm, Brazil has been a growth market for the last decade with a compound growth rate of 10 percent. Brazil also is one of the countries with the highest growth rates in insurance premiums, accounting for 12 percent. Tailwinds for the industry arise from diverse developments. First is the regulatory framework. The Brazilian regulatory agency SUSEP has created a framework of stability for the industry, which

> **"The Brazilian regulatory agency SUSEP has created a framework of stability for the industry...."**
> **— Beatrice Rangel**

allowed the entity to seek and obtain temporary Solvency II treatment by the European Commission along with the United States, Mexico and Australia. This status, which began in January, has facilitated and enticed European investment in Brazil. The foundations over which this successful development rests are the guidelines to manage risk and guarantee wise governance created by SUSEP and enacted in November 2015. These guidelines entail a governance structure and a risk management process that presents the deployment of an ERM structure as a primary goal. The risk management process comprises four basic steps: identification, assessment and measurement, treatment and control, and monitoring. This

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the Dominican Republic, Ecuador, Haiti and Paraguay implemented the measures, which include SWIFT's know-your-customer registry and sanctions screening. "As a result of this regional effort, the number of institutions adopting SWIFT's financial crime compliance tools in the region has nearly doubled in less than 12 months," SWIFT said in a statement.

POLITICAL NEWS

Venezuelan High Court Bars Lawmakers From Trying Maduro

Venezuela's highest court, the Supreme Tribunal of Justice, on Nov. 15 effectively barred the country's opposition-controlled National Assembly from putting President Nicolás Maduro on trial on charges of violating the Constitution, UPI reported. The trial had been seen as symbolic. Maduro's opponents called for the trial after the National Electoral Council, which like the high court is accused of loyalty to Maduro, halted an effort to hold a national referendum to recall Maduro. The high court barred the National Assembly from holding the trial by approving an injunction filed by Venezuelan Attorney General Reinaldo Muñoz. The injunction bars lawmakers from carrying out a "political judgment" against Maduro or any other act deemed to be "unconstitutional." Despite the ruling, legislators vowed to proceed with the trial. The National Assembly's president blasted the decision by the high

Muñoz // File Photo: Venezuelan Government.

ADVISOR Q&A

What Can Latin America Expect of President Trump?

Q Following a long and bruising campaign, Donald Trump on Nov. 8 defied polls and surprised the world to win election as the 45th president of the United States. Trump's campaign was marked by an inward-looking foreign policy and vows that alarmed U.S. allies in Latin America, such as that of building a massive wall on the southern U.S. border while forcing Mexico to pay for it, and pledges to renegotiate major trade pacts with the region. What does Trump's victory mean for the economies of Mexico and the rest of Latin America, and how are political relations with the United States likely to change? Will the Trump administration and Republican-led Congress be able to make major alterations to trade deals involving Latin America? Will the now-dominant Republicans move to roll back the Obama administration's efforts to end the U.S. embargo with Cuba and address immigration reform?

A Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States: "Considering the dramatic outcome of the presidential election, there should be widespread agreement that liberal democracy across the Americas is in a difficult state, and that inter-American relations might also be challenged by the outcome. Beyond Mexico—and even in this particular case, there might be a wide berth between what has been rhetoric and what will become policy—there's a lack of certainty regarding what Trump's foreign and economic policies would look like, and, more importantly, who will be designing and implementing policy toward the Americas, given that most Republican foreign policy and national security hands declined to support the then-GOP candidate. But beyond the 'fog of war,' three pillars could determine the fate of hemispheric relations in the months and years ahead. Fist, immigration reform, at least in the terms and shape of what the debate has looked like since 2006, will certainly be recast, with potentially dislocating impacts both in terms of remittances and border flows and security. Second, and given that Mexico-U.S. trade undoubtedly boosts jobs in North America (the Peterson Institute found that between 1990 and 2009, a 10 percent increase in employment at U.S. firms' Mexican operations was associated with a 1.3 percent increase in their U.S. workforce), the potential renegotiation of NAFTA might not only create severe trade shocks, but also lead to an own goal in terms of an important impact on jobs in and exports from the United States. The effects of this would extend well beyond NAFTA countries, and some South American nations like Colombia might be particularly vulnerable to a trade and financing shock. Moreover, with TPP most likely now off the books, the construction of a coalition of the free-trade willing in the Americas (Canada, the United States, Mexico, Peru and Chile) will suffer a setback. And third, normalization of ties with Cuba, one the most relevant foreign policy and public diplomacy legacies of the Obama administration in the Americas, could—particularly given Trump's strategic win in Florida—be ratcheted back."

EDITOR'S NOTE: More commentary on this topic appears in the Nov. 10 issue of the daily Latin America Advisor.

NEWS BRIEFS

Cuban Government Pardons 787 Prisoners in Response to Pope

Cuba has pardoned 787 prisoners in response to Pope Francis' Holy Year of Mercy call to heads of state for acts of clemency, state newspaper Granma reported Nov. 15. The government pardoned women, youths, people who are ill and "other categories," according to state-run newspaper Granma, though a list of names of the freed prisoners has not been made available to the public. Cuba has denied that it has any political prisoners, and said those convicted of murder, rape, child abuse and drug trafficking would be excluded from the pardons.

Floods Displace 20,000 in Dominican Republic

Floods in the Dominican Republic have displaced more than 20,000 people, officials say, BBC News reported Nov. 15. More than 4,000 homes have been flooded, and at least 50 completely destroyed, following heavy rainfall that caused rivers to overflow their banks. President Danilo Medina has extended the state of emergency to eight provinces. More rains are expected for the Caribbean country this weekend. The extreme weather comes less than two months after Hurricane Matthew pounded the island of Hispaniola

S&P Cuts Belize's Credit Rating Further Into Junk Territory

Standard & Poor's has cut Belize's credit rating, reducing it further into junk territory and highlighting the country's potential for "further deterioration," in the Central American country's ability to service its debt, the Financial Times reported Nov. 14. The rating was lowered from B- to CCC+, and the ratings service has maintained a negative outlook for Belize's economy.

court's Constitutional Hall, mocking the body as "Unconstitutional Hall." "Absolutely null the new decision by the 'TSJ Unconstitutional Hall' declaring cautious favor for Maduro promoted by the cheap attorney general of the republic," said Ramos, UPI reported. "TSJ Unconstitutional Hall, fraudulent, designed to violate the Constitution, may give instructions to its gangs of minions but not to the National Assembly elected by the people." Also on Tuesday, three legislators who had been at the center of a dispute between the National Assembly and the high court stepped down as part of an agreement aimed at defusing tension between Maduro's government and the opposition, Reuters reported. The lawmakers, Julio Ygarza, Nirma Guarulla and Romel Guzamana, were key to the opposition's super majority following the December 2015 legislative elections. But the following month, a supreme court order barred them from taking their seats, citing allegations of fraud. In July, the National Assembly defied the high court's order and seated the three legislators anyway, a move that led the court to declare the National Assembly's actions illegitimate. Following the start of Vatican-sponsored dialogue last weekend between Maduro's government and the opposition, the three lawmakers agreed to step down in order to trigger new elections for their seats. "This is a vote of confidence in the dialogue," said opposition lawmaker Ángel Alvarado. "Now [the government] has to call elections."

Colombia Peace Accord Final: Gov't

A renegotiated peace agreement between Colombian President Juan Manuel Santos' government and the Revolutionary Armed Forces of Colombia, or FARC, rebels is final and will not be changed, the government's lead negotiator said Nov. 15, Reuters reported. "This is the final accord; it's the definitive accord," Humberto de la Calle told reporters in Bogotá. The two sides returned to the negotiating table and agreed on a new accord six weeks after Colombian voters rejected the original deal in an Oct. 2 plebiscite. Santos is not required by law to again seek voters' approval for the deal, which might be put to Congress for ratification. In related news, Santos announced Tuesday that he will undergo medical tests this week in the United States due to a possible return of his prostate cancer, Reuters reported. His doctors in Colombia detected heightened levels of prostate-specific antigen during a routine exam and recommended he undergo further tests at Johns Hopkins Hospital in Baltimore. Tonight, he is to be honored in Washington with an award from the Inter-American Dialogue.

ECONOMIC NEWS

Brazil's Economy Close to Turnaround, Tough Recovery: IMF

The International Monetary Fund's executive board on Tuesday said Brazil's economy may be close to beginning its recovery from its worst recession in eight decades, Reuters reported Nov. 15. The IMF added that the South American country would be facing a long and grueling recovery, and that its success hinges on the passage of unpopular reforms. In the IMF staff's annual report on Brazil, they said that despite the Brazilian government's efforts to avoid a fiscal crisis, they expect the recovery to be gradual. "Directors strongly emphasized the need for fiscal consolidation to ensure macroeconomic stability," the IMF said in a statement. Lackluster industrial output and consumption data have led some Brazilian government officials to scale back their growth projections for next year from 2 percent down to 1 percent. The IMF has an even more pessimistic forecast of 0.5 percent growth for next year after two years of contractions. A sharp decline in the value of the real last week tied to concerns over U.S. President-elect Donald Trump's economic policies has led increased concerns about Brazil's recovery. An International Monetary Fund official said in a briefing that it is too early to measure Trump's impact on Brazil's economic growth, but added the country's reserves and free-floating foreign exchange regime may offer some protection.

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process brings transparency and accountability while facilitating external monitoring. Then you need to add Brazil's fundamentals. Current macroeconomic corrections devised by the Temer administration will bring even more stability to the country's economic performance while increasing the value of current assets."

A **Marcello Vieira de Mello, partner, and Karel Suarez, associate attorney, at Diaz, Reus & Targ, LLP:** "There are a couple factors that are driving deals like the ones mentioned above in the insurance sector in Brazil. First, major foreign players are positioning themselves to dominate the fraction of the market geared toward corporate clients. It is important to note that in 2014, Itaú Unibanco sold its large-risk insurance operations to ACE Group. In 2015, SulAmérica, one of Brazil's most traditional insurance companies, transferred its large-risk business to AXA. Brazilian banks are willing to give away their corporate insurance sector to foreign entities. Second, Brazilian banks want to focus in the retail market and get rid of their large-risk insurance business and their corporate insurance business. They want to use their broad structure of branches to be spread all over Brazil to sell insurance to individuals and families. The astonishing growth and financial development of the Brazilian economy since the year 2000 is what brought the interest of the international players to the corporate insurance business. Prior to that, foreign insurance in the Brazilian market was basically non-existent. Currently, the country is going through a severe economic downfall, and the insurance sector is suffering as well. However, in this time of economic turmoil, individuals tend to acquire insurance to protect their assets, due to the increase of violence in the city. Even though no legislation has been proposed since President Temer took office, there has been talk of a broad public pension reform. The fact is that the public pension system is nearly out of money, and there is a need to lower benefits and raise the age of retirement. Therefore, a large part of the population will be prompted to buy private pension plans, as well as health and life insurance. The government will probably push legislation to increase the percentages of insurance coverage in the public funded infrastructure projects from the current 5 percent to, probably, 30 percent of the total value of the project."

> **"Major foreign players are positioning themselves to dominate the fraction of the market geared toward corporate clients."**
>
> **— Marcello Vieira de Mello & Karel Suarez**

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

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