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## FEATURED Q&amp;A

# Would Fighting Lotto Scams Lower Banks' De-Risking?



The U.S. ambassador to Jamaica, Luis Moreno, said recently that the perpetrators of lotto scams use loopholes in the financial services system to carry out their schemes. // File Photo: U.S. Government.

**Q** The U.S. ambassador to Jamaica in October said the de-risking trend facing Jamaican banks, whereby international banks have severed correspondent banking relationships with financial services firms on the island, could be linked to the explosion of lotto scams in the Caribbean nation, the Jamaica Gleaner reported. Speaking at a conference, Luis Moreno said more needs to be done to close loopholes in banks that allow scammers to launder illicit funds. Would dismantling Jamaica's lotto scam criminal gangs improve the Caribbean nation's correspondent banking problem? How well have tough banking regulations and due diligence requirements on customers proven effective in countering corrupt activities elsewhere? Looking ahead to 2017 and beyond, have Caribbean banks identified strategies to counter the de-risking trend?

**A** Melissa Diaz and Karel Suarez, associate attorneys at Diaz Reus & Targ, LLP: "Jamaica's third largest foreign exchange earner over recent years comes from income related to a prospering lottery gang criminal enterprise. These lotto gangs use international correspondent banks to funnel money that they receive from victims abroad in the United States. Finally, apparently tired of penalties and the negative publicity that stems from 'dirty money' flowing through their institutions, some banks are doing something about it. At least seven international correspondent banks that do business in the region have begun 'de-risking' by either ceasing to offer their services in Jamaica or restricting the types of services offered there. This concern and action has been prompted, in part, because Jamaica is considered

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## TOP NEWS

## BANKING

## Itaú Unibanco Reports 9.3% Drop in Q3 Profit

Despite the year-on-year decline in profit, Itaú's earnings beat estimates, pushing its shares to an all-time high. The bank said its profits amounted to 5.4 billion reais in the third quarter.

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## REMITTANCES

## Remittances to Mexico Grow 7.7% for Year Through September

A weaker peso and low inflation in Mexico should boost remittances' real purchasing power, said Alberto Ramos of Goldman Sachs.

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## BANKING

## Brazil Boosts Profits of Spain's Santander

A better performance in Brazil helped drive Banco Santander's profits in the third quarter. Santander's chairman and executive director, Ana Botín, said the bank is on track to meet its goals for the year.

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Botín // File Photo: Banco Santander.

## BANKING NEWS

## Brazil Boosts Profits of Spain's Santander

A better performance in Brazil helped drive third-quarter profits of Spain's Banco Santander, which on Oct. 28 beat estimates, Reuters reported. The bank said it had a 1 percent rise in net profit to 1.7 billion euros (\$1.9 billion). That compared to an average estimate of 1.5 billion euros in profit in a Reuters poll. In Brazil, the lender posted increases in profit and net interest income as compared to the second quarter and to last year. In a statement accompanying the earnings release, Santander's chairman and executive director, Ana Botín, said the bank is on track to meet its goals for this year. "We expect to finish 2016 with profit growing against the year before, which will allow us to increase the dividend per share and profit per share," said Botín. The bank's net interest income and net profit in Brazil rose for the second consecutive quarter following a drop last year in that market, because of the South American country's deep recession. Santander's performance in Mexico, like Brazil, outperformed a consensus estimate by analysts at Jefferies, Reuters reported. Last month, Santander cut its goal for group profitability, in addition to its targets for Spain and Britain, citing low interest rates and the British vote to leave the European Union.

## Judge Allows Ecuadorean Bank's Suit Against Wells Fargo to Proceed

A lawsuit by Ecuadorean bank Banco del Austro alleging that Wells Fargo is liable for authorizing the transfer of \$12 million that was stolen electronically in 2015 can go forward, a U.S. judge ruled Oct. 18, Reuters reported. The decision from U.S. District Judge for the Southern District of New York Lewis Kaplan was in response to Wells Fargo's motion to

dismiss Banco del Austro's suit. The lawsuit alleged that Wells Fargo failed to stop the transfers made via the SWIFT network. The suit is seen as a test to see whether correspondent banks should be held responsible for authorizing authenticated SWIFT transfer messages. Though Kaplan dismissed breach of contract and negligence claims against Wells Fargo,

**The lawsuit accuses Wells Fargo of failing to stop the transfers by hackers who stole \$12 million.**

he denied the U.S. bank's attempt to dismiss allegations that it violated the New York Uniform Commercial Code. The code governs whether fund transfer security procedures are "commercially reasonable." Kaplan said the court could not "rule as a matter of law that use of the SWIFT system, with nothing more, constituted a commercially reasonable security procedure in the context of this particular customer-bank relationship." Wells Fargo could not be immediately reached for comment, but in the past it has maintained that it properly processed the wire instructions via authenticated SWIFT messages. Banco del Austro could also not be reached for comment.

## Itaú Unibanco Reports 9.3% Drop in Q3 Net Profit

Itaú Unibanco Holding on Oct. 31 reported a 9.3 percent decline in net profit for the third quarter amid Brazil's deep recession, which crimped demand for new loans, The Wall Street Journal reported. The bank's performance was better than analysts had expected, however. The profit of Brazil's second-largest bank by assets amounted to 5.4 billion reais (\$1.7 billion), as compared to 5.95 billion reais in the third quarter of last year. In reporting earnings, Itaú also said it took on a higher level of provisions for nonperforming loans. At the end of the

## NEWS BRIEFS

## JNBS Meets With Members Ahead of Proposed Conversion

Officials of the Jamaica National Building Society have been meeting with members in Jamaica, Canada and the United States in order to update them on the society's proposal to reorganize as a commercial bank, the Jamaica Gleaner reported Oct. 31. A special meeting is planned for Nov. 14 during which members will decide on the proposal. During the meetings earlier in October, members submitted their decisions via special proxy forms, the newspaper reported. JNBS officials also plan to meet with members in Britain during meetings in London and Birmingham as well as additional U.S.-based members in Florida and Jamaica-based members in Kingston.

## Brazil's Caixa to Cut Rates on Mortgages

Brazilian bank Caixa Econômica Federal said it plans to cut interest rates on mortgage loans and raise the maximum amount that homebuyers can borrow, in a bid to jumpstart demand for credit, a person with direct knowledge of the plan said Oct. 27, Reuters reported. The program entails a reduction in rates for mortgages financed with savings accounts via the SBPE system.

## Costa Rica's Vehicle Insurance Rates to Rise in November

Vehicle insurance rates in Costa Rica are set to rise beginning Nov. 1, the Tico Times reported. The country's National Insurance Institute said the cost of automobile insurance policies, which represent a fifth of the cost of the "marchamos" insurance permits, will rise 6.8 percent to about \$39, while motorcycle owners will have to pay 5.2 percent more, or about \$109.

third quarter, the bank had a credit portfolio of 605.7 billion reais, an 11 percent decline from 680.1 billion reais at the same time last year. The bank attributed the fall to lower demand from companies. Itaú's corporate loan portfolio fell almost 17 percent while its individual loan portfolio declined 1.9 percent. Itaú's earnings



Setúbal // File Photo: Harvard Business School.

were better than expected, however, driving the bank's stock to an all-time high, Reuters reported. The bank's interest income returned to its highest level in a year amid robust loan repricing and trading gains that countered weak disbursements, the wire service reported. Fee income also rose to nearly a record level. Itaú said its recurring net income amounted to 5.6 billion reais (\$1.75 billion) for the third quarter, higher than an average estimate of 4.99 billion reais, according to analysts surveyed by Thompson Reuters. The bank's profit increased from the second quarter. Itaú, led by CEO Roberto Setúbal, said its return on equity declined slightly in the third quarter as compared to the second quarter, to 19.9 percent. That figure still was above analysts' consensus forecast of 18 percent.

## REMITTANCES NEWS

# Remittances to Mexico Grow 7.7% Through September

Remittances to Mexico grew 7.7 percent year-on-year for the first nine months of the year, the country's central bank said Nov. 1. On a quarterly basis, remittances grew 5.3 percent year-on-year in the third quarter, a decline from

## FEATURED Q&A / Continued from page 1

a high-risk region. If Jamaica intends on stopping the bleeding, then it needs to stop these lotto gangs. Dismantling Jamaica's lotto gangs would lower the region's overall risk level, thereby making the area more appealing to correspondent banks. The tightening of security and banking regulations domestically would also be appealing to correspondent banks worried about the more lax banking regulations and due diligence requirements in the area. Indeed, toughening of banking regulations and due diligence requirements on customers has proven a very effective measure to stop criminal activity. For example, in the United States, the government was able to take on the Cali and Medellín drug cartels by tracking the criminal organization through

“If Jamaica intends on stopping the bleeding, then it needs to stop these lotto gangs.”

— Melissa Diaz & Karel Suarez

the banking system and other formal transactions. Tighter regulations and monitoring could help dismantle the Jamaican lotto gangs in a similar fashion. Stemming the tide of de-risking is a hot topic in the region. In a meeting of heads of government in July 2016, the Caribbean Community's Committee of Finance Ministers proposed the establishment of a global forum in the region to bring interested parties (that is, banks and policymakers) together to work on a solution, and embraced the Financial Stability Board's proposed four-point plan for addressing the growing issue of de-risking: a further examination of de-risking, clarification of regulatory expectations, capacity building in jurisdictions where respondent

banks are affected and the strengthening of tools for correspondent banks to perform due diligence checks.”

**A** **Sally Yearwood, executive director of Caribbean-Central American Action:** “While the Jamaica lottery scam may well be an example of parties exploiting the banking system for illegal purposes, the challenges to the banking and financial services sector in Jamaica and the Caribbean are significantly more complex. The perception and management of risk is a central theme, along with the size of regional markets, and the costs and benefits of doing business for large multinational banking entities. Specific to Jamaica, it is important to highlight the fact that Jamaica's Anti-Lottery Scam Task Force is adopting an aggressive position vis-à-vis the scammers, sending the signal that the political will exists to enforce and prosecute financial crimes. Increased enforcement in conjunction with efforts to strengthen compliance are positive steps. That being said, Jamaica and the region cannot solve the de-risking problem without international cooperation and support. This includes the ability and willingness to collect and share information, and embracing technology and data tracking solutions, including FinTech, to provide more security, more transparency and more efficiency—an important tool for small jurisdictions where costs of tracking and managing risk are high. The region also needs to advance consolidation within the industry to ensure that its market size makes it a viable space for large multinationals to do business. The reality is that the world of banking is changing faster today than at any other point in history, and fortunately in Jamaica and the Caribbean, there are leaders who understand the changing landscape. I expect us to see significant regional progress in 2017, especially if we see support for the efforts from the region's principal trading partners.”

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9.4 percent in the second quarter and 8.4 percent in this year's first quarter, Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs, said in a note, citing central bank data. "We expect workers' remittances to perform well going forward, with growth in dollar terms stabilizing at around 3 percent to 5 percent [year-on-year]," said Ramos. "A weaker [peso] and low domestic inflation should continue to boost the local currency real purchasing power of the remittance flows."

## POLITICAL NEWS

# Venezuela's Opposition Cancels Protest March

Opponents of Venezuelan President Nicolás Maduro on Nov. 1 canceled a planned protest march, saying they were heeding a call from the Vatican to lower tensions in the South American country, The Wall Street Journal reported. The opposition called off the march, which had been planned for Nov. 3, after Thom-



Maduro // File Photo: Venezuelan Government

as Shannon, the U.S. undersecretary of state for political affairs, met with both Maduro and opposition leaders. The announcement also came two days after Maduro and opposition members began Vatican-sponsored talks in an effort to ease the country's political crisis. "We've sat at the negotiation table in search of a peaceful solution because up until now, with the clashing and confrontation, we have achieved nothing," said Henry Ramos, the president of the opposition-controlled National

## ADVISOR Q&A

### Is the Opposition Out of Options in Venezuela?

**Q** Venezuela's opposition suffered a pair of setbacks in October when the National Electoral Council cited fraud in suspending a presidential recall effort and delayed the country's gubernatorial elections from December to the middle of next year. Does the opposition have any options left for ending President Nicolás Maduro's term? Would a recovery in oil prices over the coming months help steady the economy, or are Venezuela's economic problems too severe even for higher oil prices to solve? Will public opinion increasingly turn against Maduro?

**A** Roger Noriega, managing director of Vision Americas LLC, visiting fellow at the American Enterprise Institute and former U.S. assistant secretary of state for Western Hemisphere affairs: "Venezuela teeters on the brink of political and economic collapse. It remains to be seen whether the inter-American community—particularly the United States—will move decisively to head off a bloody confrontation, a humanitarian disaster or the consolidation of a corrupt dictatorship. The legally questionable measures imposed by President Nicolás Maduro to defy the National Assembly and to block a constitutional, electoral solution to the grave crisis make clear that the current Chavista leadership will not tolerate accountability, share power or submit to a democratic transition. A critical factor driving the political crackdown is that key leaders of the regime are so personally and deeply in-

involved in the illicit drug trade that they must hold on to power to evade justice. Indeed, impending U.S. public trial of members of Maduro's own family and several imminent U.S. indictments of other senior officials will undermine the regime's legitimacy and sustainability. But U.S. and other regional democracies have done next to nothing to propose solutions, beyond pushing a farcical dialogue between the regime and its victims. Maduro and his co-conspirators—counseled by political handlers in Havana—are wagering that the Obama administration will maintain its passivity in its final 10 weeks in office. Without U.S. backing, OAS efforts will fall short of what's needed. Although Venezuela may descend into bloody chaos in the next several months, it may require a new U.S. president to energize multilateral efforts supporting peaceful and democratic change. The U.S. Treasury and criminal justice system should expose and punish regime leaders who are involved in serious and systematic violations of U.S. law. Venezuela's career military and other security forces should be warned not to use deadly force against peaceful protesters, with violators bound for the International Criminal Court. And, the OAS should ask Cuba to refrain from intervening in Venezuela's internal affairs and to offer political asylum to Maduro and other leaders."

**EDITOR'S NOTE:** More commentary on this topic appears in the Oct. 28 issue of the Latin America Advisor.

Assembly. "The people will perceive it as much more responsible." Also on Nov. 1, opposition legislators decided to delay a planned trial, which would be mainly symbolic, against Mad-

uro. Tensions have intensified in recent weeks after Venezuela's electoral council halted the opposition's effort to hold a referendum to recall Maduro.

## NEWS BRIEFS

## Colombia Wants Closer Trade Ties With Britain: Santos

Colombia wants to have closer trade ties with Britain following its decision to exit the European Union, Colombian President Juan Manuel Santos told members of Parliament Nov. 1 during a visit to London, Reuters reported. During the visit, he said British investment in Colombia would be able to grow once a peace deal with the FARC rebel group comes into effect. Santos also met Tuesday with Queen Elizabeth II.

## Authorities Search Businesses Linked to El Salvador's Saca

Prosecutors' agents have searched the businesses linked to former Salvadoran President Tony Saca in search of evidence linking him to a corruption case involving the alleged embezzlement of approximately \$246 million during his time as president from 2004-2009, the Associated Press reported Nov. 1. The head prosecutor's financial investigations office alleges that \$116 million in government funds were transferred to accounts held by employees of the president's office, and were later transferred to private firms, while some of the money allegedly went to Saca's businesses.

## Higher Debt Levels Could Harm Ecuador's Credit: Fitch Ratings

A recent decree by Ecuadorean President Rafael Correa that allows the government to run large deficits could harm the South American country's credit ratings, Fitch Ratings said Oct. 31. The decree allows for the government's debt ceiling to be measured against the consolidated public-sector debt that nets out inter-governmental debt, Fitch said in a statement. The previous debt-ceiling calculation used the total public sector debt.

## Argentina's Fernández Testifies in Corruption Case

Former Argentine President Cristina Fernández de Kirchner appeared in court Oct. 31 in connection with corruption allegations, Reuters reported. Fernández has said she is a victim of political persecution and has denied accusations that she abused her power while in office. Thousands of Fernández supporters cheered for the former president outside the courthouse when she went inside for closed-door questioning. Federal Judge Julián Ercolini called on Fernández to testify in court as part of an investigation into allegations that millionaire businessman and a former minister in Fernández's government, Lázaro Báez, engaged in money laundering. Fernández's administration has been accused of steering government contracts to Báez, BBC News reported. Fernández has asked Ercolini to annul the case, saying that the current government is using the scandal to cover up its own failures. She also accused President Mauricio Macri of plotting against her, calling his government a "terrorist organization." Fernández has presented the court with the national budget documents as part of her evidence, showing that the accounts were approved by legislative bodies and the Argentine auditor general at the time.

## Mainstream Parties Clobbered in Brazil's Second-Round Vote

Brazilian voters on Oct. 30 ousted mainstream politicians in favor of conservative and fringe candidates in a second round runoff election, The Wall Street Journal reported. In one of the most closely watched races, Marcelo Crivella, a senator and evangelical bishop, took 59 percent of the vote to win in Rio de Janeiro. Crivella painted his rival, Marcelo Freixo, as a socialist radical aligned with impeached Workers' Party President Dilma Rousseff. Evangelical candidates had made significant

gains in the first round of voting earlier this year, and Crivella, with his Brazilian Republican Party, or PRB, were among those to benefit from a new electoral dynamic. The other major contest was in Belo Horizonte, capital of the second-most-populous state, Minas Gerais, where soccer club manager Alexandre Kalil



Crivella // File Photo: Crivella Campaign.

of the little-known Humanist Solidarity Party defeated a candidate with the conservative Brazilian Social Democracy Party. The center-right Brazilian Democratic Movement Party of President Michel Temer failed to gain ground in the elections, poll results show.

## ECONOMIC NEWS

## Brazil Tax Amnesty Brings in \$15.8 Billion

The Brazilian government collected 50.9 billion reais, or approximately \$15.8 billion, in taxes and fines through an amnesty program for individuals and corporations who had undeclared funds overseas, the Finance Ministry said Nov. 1, The Wall Street Journal reported. The program's deadline was set for Oct. 31, and 25,114 individuals and firms agreed to pay a 15 percent income tax and a fine equal to taxes paid, in exchange for immunity from potential prosecution for tax evasion, the ministry said. The tax and fines paid were lower than what the individuals and companies would have paid without the program, and taxpayers could also avoid paying interest on overdue taxes through the program. The revenue is expected to help President Michel Temer's government meet its fiscal target amid a growing budget gap and debt load.

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**A** **Yuri Seedial, analyst at First Citizens Investment Services in Port of Spain, Trinidad and Tobago:** “The ‘de-risking’ movement has hit the Caribbean islands, threatening to cut these smaller economies off from access to global financing. While many U.S. correspondent banks have cited enhanced scrutiny from their regulators as the main reason for terminating the relationship with Caribbean banks, a disconcerting notion is that these correspondent banks are more concerned with terminating risk than managing it. However, while banks in the Caribbean are heavily regulated in terms of customer protection and the prevention of systemic sector collapse, the oversight falls somewhat short on AML and CFT legislation and enforcement. Dismantling Jamaica’s lotto scam criminal gangs, while only one contributing factor to the nation’s correspondent banking issue, should help the situation. Identifying the members of any criminal gang/organization, collecting evidence that in most cases traverses international borders, and initiating criminal proceedings against these individuals would be extremely difficult. The more practical approach, as has been pushed by the United States, would be to totally expunge the ability of these individuals to benefit from the proceeds of their crimes, and this has to be done through the stringent implementation of AML/CFT regulations by the Jamaican banks. When looking for empirical evidence illustrating the success of regulations in countering

corrupt activities, the developed economies of the world are the most prevalent examples. Corrupt activities can’t be stopped by tough banking regulations and due diligence requirements alone. There has to be a concerted effort by the banks to enforce these regulations as well as the investigative and prosecuting bodies assisting in doing their

“**A disconcerting notion is that these correspondent banks are more concerned with terminating risk than managing it.**”

— Yuri Seedial

part when suspicious activity is highlighted. Currently, the numbers of criminal prosecutions, due to banking regulations such as AML and CFT legislations, are targeting the banks itself. Major entities such as HSBC, Commerzbank and Standard Bank PLC have all faced prosecution regarding the failings in the implementation of their AML policies. The strategic targeting of banks could be viewed as the first step in a more elaborate playbook designed by regulators to combat money laundering and terrorist financing.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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