INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ FINANCIAL SERVICES

FEATURED Q&A

Are Caribbean Offshore Tax Havens Losing Their Appeal?

Q Cayman Island-based insurer ACE Ltd. will leave the Caribbean region to become a Swiss company, a move to a more "stable" regulatory climate and in the face of "reputational" issues in its Caribbean home. Are Caribbean offshore tax havens losing their appeal for financial services companies? What's the outlook for financial service companies' operations in the Caribbean, and what does the departure of ACE or others mean for the local economy?

A Guest Comment: Bruce Zagaris: "The proposed redomiciliation by ACE Limited from the Cayman Islands to Switzerland does not adversely impact the outlook for financial service companies' operations in the Caribbean. ACE's move is a logical outcome of its evolution from a monoline excess insurance company providing coverage to its shareholders to a major global insurer. The move enhances its corporate structure and should lead to further growth and expansion due to Switzerland's solid legal and regulatory environment. Most importantly, Switzerland affords ACE the security of a network of tax treaties. The move indicates that attracting financial services in the Caribbean and worldwide depends on the business environment. The latter requires a strong tax treaty network. While ACE goes from a tax-free jurisdiction in the Cayman to a taxable jurisdiction in Switzerland, it will benefit from the Swiss 'participation exemption,' which generally eliminates tax at the holding company level on income earned by non-Swiss operating subsidiaries, as well as dividends paid to the holding company by non-Swiss operating subsidiaries. ACE will avoid many of the highest costs incurred by businesses from withholding taxes, reducing them from a statutory 30-40 percent to 5-10 percent or even zero under a tax treaty. For example, Barbados' tax treaty network and even

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Uribe Calls for Referendum on Repeat of Presidential Vote

Colombian President Alvaro Uribe on June 25 called for a referendum on whether the 2006 presidential election should be repeated, after the Supreme Court ruled it was marred by corruption. See story on page 4

Photo: SNE.

Inside This Issue

BRIEFS

Scotiabank Acquires 47.5 Percent Stake in Peruvian Pension Fund

Scotiabank announced June 19 that it has invested $33 million to acquire a 47.5 percent stake in private Peruvian pension fund **Profuturo**. A group of Profuturo's existing local shareholders, which include **Cervesur** and **Transacciones Especiales**, will jointly manage the company with the Canadian bank, Scotiabank said in a press release. Profuturo is the fourth-largest private pension fund in Peru, with 23 percent of the market's pension fund customers and a 17 percent share of the system's revenues.

Banorte Issues 2.75 Billion Pesos in 10-Year Bonds

Banorte, Mexico's fifth-largest bank and biggest locally owned financial institution, said Monday it issued 2.75 billion pesos ($US 267 million) in 10-year bonds on the local market. The issuance of the bonds is part of a broader plan to use debt markets to finance the bank's expansion. The debt issue was the third in a series that began in March and now totals 7.75 billion pesos.

UBS Appoints New Head of Brazilian, Latin American Units

UBS announced June 18 it appointed Rodrigo Xavier chairman and CEO of the Swiss bank's Brazilian unit, **UBS Pactual**. In a press release, UBS said Xavier replaced Andres Esteves, who left the bank to pursue an "independent venture." Less than two years ago, Esteves negotiated the sale of Brazilian investment bank **Banco Pactual** to UBS for $2.5 billion. UBS AG also announced it appointed Juerg Haller chairman and CEO of **UBS Latin America**.

Financial Services News

Citigroup Acquires Brazilian Independent Brokerage Intra

US financial giant **Citigroup** announced June 19 it was acquiring Brazilian independent brokerage firm **Intra S.A. Corretora de Cambio e Valores**. In a press release, Citigroup said the acquisition of Intra would position it "as a leading personal financial services provider in Brazil and is consistent with the company's strategy to invest and expand in core emerging markets." Financial terms of the transaction, which is subject to approval by regulators in Brazil and the United States, were not disclosed. "This acquisition will benefit Citi and Intra clients by combining Citi's existing banking and advisory services with Intra's high-quality brokerage network and online trading technology. Customers will further benefit from access to new equity issues underwritten by Citi in Brazil," Gustavo Marin, the CEO of Citigroup's Brazilian unit, was quoted as saying in the press release. Intra, one of Brazil's top ten independent brokerage firms, has some 1.2 billion reais ($US 745 million) in client assets and more than 15,000 active client accounts, Citigroup said. The New York-based bank has more than 120 consumer banking branches in Brazil, more than 400,000 client accounts, and some 7,000 employees, according to the release.

Citigroup said the acquisition of Intra would position it "as a leading personal financial services provider in Brazil and is consistent with the company's strategy to invest and expand in core emerging markets."

Marin.

Photo: Citigroup.

Merrill Lynch Acquires Chilean Equity Brokerage Firm

Merrill Lynch & Co. on June 24 announced an agreement to acquire Chilean equity brokerage firm **Ureta y Bianchi Corredores de Bolsa**. In a press release, Merrill Lynch said the acquisition is part of a larger plan to build a broad, wholly owned "global markets and investment banking platform" in Chile. "The acquisition of Ureta y Bianchi is consistent with our long-term strategy of pursuing a broad Latin American business platform that spans multiple countries, asset classes, industry sectors and clients," James Quigley, president of Latin America and Canada at Merrill Lynch, said in the press release. "We view the Santiago presence as a necessary addition to the portfolio of capabilities we have developed in major Latin American countries in the past few years." Quigley told reporters that Merrill Lynch, the US' third-largest securities firm, aims to double its sales in Latin America within three years, raising the region's portion of global sales to about 8 percent from 6 percent as high commodity prices increase wealth in the region, Bloomberg News reported. Latin America had the highest pretax profit margins last year for Merrill. Financial terms of the deal in Chile were not disclosed.

Central Bank: Mexican Bank Lending Rose in May

Bank lending to individuals and companies in Mexico grew 18.5 percent in May from the same month of 2007, the central bank said June 30, according to Reuters. Banco de Mexico said bank mortgage lending rose 18.1 percent in May, while bank loans to businesses increased 27.3 percent. Credit from non-bank lenders surged 115.1 percent, reflecting the spin-off by **Banamex**—a unit of the US' **Citigroup** and one of Mexico's largest banks—of its credit card operations into a specialized lending company, Tarjetas Banamex. A 9 percent drop in banks' consumer credit in May was due in large part to the Banamex spin-off. The average credit card interest rate in May was 34.24 percent, about the same as in April, Banco de Mexico said. Healthy lending is seen as key to sustaining economic growth in Mexico, especially amid an economic slowdown in the US, which buys 80 percent of the county's exports. Besides Banamex, other major banks in Mexico include **Bancomer**, **Santander**, and **Banorte**.

HSBC Sees Big Growth in Brazil Business in 2008

HSBC Holdings PLC expects its private banking operations in Brazil to increase assets under management by more than 50 percent this year as more foreigners seek opportunities to invest in the South American nation, the head of investment banking for the company's Brazilian unit said June 17, according to Bloomberg News. "There are more global investors willing to buy Brazilian assets," Helena McDonnell was quoted as saying. "Brazil has never been in the sights of investors like it is now." Brazil's credit ratings upgrade to investment grade earlier this year by **Standard & Poor's** and **Fitch Ratings**, and the improved solvency of Brazilian companies, are the main factors driving investment, McDonnell said. More investors from the Middle East, Germany, and Japan are looking for opportunities in Brazil "either in the financial markets or in direct investment," she said. HSBC's private bank business has $498 billion in assets under management globally, according to Bloomberg News.

> "Brazil has never been in the sights of investors like it is now."
>
> *— Helena McDonnell*

Trinidad & Tobago to Open International Financial Center by September

Trinidad and Tobago plans to open an international financial center by September to compete with Miami and Panama, Finance Minister Karen Nunez-Tesheira said June 23, according to Reuters.

The new center is being marketed to hedge funds and banks for activities such as transportation finance, capital markets, and credit card transactions, and could include a commodities exchange, Nunez-Tesheira said.

Nunez-Tesheira

Photo: Government of Trinidad & Tobago.

The finance minister said a commodities market could trade liquid natural gas, methanol, ammonia, and other products exported by the Caribbean nation.

Trinidad and Tobago, which is rich in natural gas and is the world's top methanol producer, is seeking to diversify its economy away from energy and into financial services.

In the next couple of weeks, officials from Dubai will visit Trinidad & Tobago to explore using it as a "hub for monies coming out of the Middle East," Nunez-Tesheira said, according to Reuters. The country's location just off Venezuela's coast make it a potential gateway for the rest of Latin America, she said.

The list of banks weighing opening offices in the new financial center, which will have two 26-story buildings, includes **JPMorgan Chase**, **Lehman Brothers**, and **Credit Suisse**, the finance minister stated.

Chilean Banking Sector Posted $853 Million Profit for January-May

Chile's banking sector profit totaled $853 million for the first five months of this year, the Banking and Financial Institutions Superintendency said June 30, according to Reuters. Banco Santander Chile, the country's largest bank, posted a net profit of 128.85 billion pesos ($US 268.3 million) in the January-May period, while number-two bank Banco de Chile earned 104.66 billion pesos the superintendency said. It did not provide comparable figures from last year. In a report published earlier this month, Chile's Central Bank said the country's solid banking system would help it weather financial turbulence unleashed by the current global credit crunch, Reuters reported.

Insurance News

Moody's Upgrades Ratings for Colombian Unit of Chubb

Moody's Investors Service announced June 24 it upgraded its rating for the Colombian unit of US insurance company **Chubb**, in line with its upgrade just days earlier of the country of Colombia to one notch below investment grade status. In a press release, Moody's said it raised its global foreign currency insurance financial strength rating for **Chubb de Colombia Compania de Seguros Generales** to "Baa3" from "Ba1," with a "stable" outlook. Chubb de Colombia reported total assets of 186.4 billion pesos ($US 97.4 million) and shareholders' equity of 83.4 billion pesos as of December 31, 2007. For the 2007 fiscal year, it posted a 6.1 billion-peso profit and gross premiums written of 122 billion pesos. Its US parent, based in Warren, New Jersey, is one of the largest property casualty insurers in the United States and is engaged through its subsidiaries in both commercial and personal lines of property casualty insurance. Last year, Chubb reported consolidated net premiums written of $11.9 billion and net income of $2.8 billion.

Political News

Uribe Calls for Referendum on Repeat of 2006 Presidential Election

Colombian President Alvaro Uribe on June 26 called for a popular referendum on whether the 2006 presidential election should be repeated, after the Supreme Court ruled it was marred by corruption. "The right path must be democratic rule," Uribe said in a televised address. "I will convoke Congress to draft with the greatest haste a referendum bill calling on the people to approve the immediate repetition of the 2006 presidential election." Uribe, who won the 2006 election by a landslide, blasted the Supreme Court for questioning the vote's legality after it found a former congresswoman, Yidis Medina, guilty of accepting bribes from his administration in exchange for supporting a congressional measure allowing him to stand for re-election. In his speech, Uribe accused the Court of "abuse of power," "selective justice," and ignoring evidence clearing his government of wrongdoing. In April, Medina made public a 2004 videotaped interview in which she told a journalist that administration officials promised her the chance to appoint members of three local commissions in her home province if she supported the legislation allowing Uribe to run for another term, but subsequently did not deliver on the promise. Uribe denies the bribery charges, and accuses Medina of attempting to extort his government for favors. The Colombian prosecutor's office has opened a preliminary investigation into a former cabinet member who Medina accused of convincing her to change her vote, the Associated Press reported. The ex-minister has denied the charges. [Editor's note: look for related Q&A in an upcoming issue of the daily *Latin America Advisor*.]

Head of Ecuador's Constituent Assembly Steps Down

The head of the assembly rewriting Ecuador's Constitution resigned June 23 amid pressure to finish drafting the charter, Reuters reported. Alberto Acosta said he was stepping down because Ecuadorean President Rafael Correa would not extend an end-of-July deadline to finish the draft Constitution, which is scheduled be submitted to a popular referendum in September. "I do not think we should sacrifice ... the quality of the text for the sake of speed," Acosta told reporters. "We must produce a Constitution of quality." Allies of Correa, led by Acosta, control the assembly, but the body has come under fire in recent months for moving too slowly. Since taking office in January of last year, Correa has made drafting a new Constitution a priority. The new charter would allow him to run for re-election and would increase state control over the economy, particularly Ecuador's oil industry and nascent mining sector. Acosta has split with Correa over controls for the mining sector, with Acosta seeking more controls and Correa less. Acosta, a hard-line leftist who often supports environmental groups against foreign companies, has said he would like to limit the work of mining firms such as **Aurelian Resources**, **Corriente Resources**, and **Iamgold**, while Correa says their investments are vital to an industry that could spur economic growth, according to Reuters. The assembly's governing majority chose the body's vice president, Fernando Cordero, to succeed Costa. [Editor's note: see related Q&A in an upcoming issue of the daily *Latin America Advisor*.]

Acosta resigned June 23 as the president of Ecuador's Constituent Assembly.

Photo: Constituent Assembly.

Legal Brief

Former Baninter Executive Loses Racketeering Appeal

Miami-based **Tew Cardenas** announced in June that its client won affirmation of a $176 million judgment in a US federal civil racketeering case against Luis Alvarez Renta, a prominent financier from the Dominican Republic. Matias Dorta and Bryan West, partners at Tew Cardenas, represented the Liquidation Commission of **Banco Intercontinental** (Baninter), the plaintiff in the case. In October 2005, Renta was found liable by a Miami federal jury based on civil claims under federal racketeering laws and Florida fraudulent transfer laws. The case involved a conspiracy to loot Baninter, which at the time was the third-largest bank in the Dominican Republic. Renta subsequently raised 10 arguments on appeal, all of which were rejected in the latest appellate court ruling.

Torrijos Popularity Falls to Three-Year Low of 34 Percent

Despite strong economic growth, Panamanian President Martin Torrijos' popularity has fallen to its lowest level since 2005, amid soaring fuel and food prices in the import-dependent nation, Reuters reported, citing a poll published June 25 in Panama's *La Prensa* newspaper. According to the survey, conducted by private pollster **Unimer**, 34 percent of respondents said Torrijos was doing a good or excellent job, while 61 percent said he was doing a bad or very bad job. The decline in Torrijos' popularity comes despite rapid economic growth in the Central American nation. Officials said last month that Panama's economy expanded 9.48 percent in April over a year ago. At the same time, however, inflation has sped up, with consumer prices rising 8.8 percent in the twelve months to May. Retail fuel prices increased 24.3 percent. The rise in fuel prices prompted Torrijos to announce last week that his government would spend at least $40 million over the next six months to subsidize gasoline and electricity costs. In an attempt to ease the impact of food price increases, Torrijos has promised to subsidize rice prices, according to Reuters.

Economic News

Brazil, Mexico Raise Inflation Forecasts as Food, Fuel Prices Soar

Brazil and Mexico, Latin America's two largest economies, raised their inflation forecasts on June 25, as soaring fuel and food costs continue to drive up consumer prices, Reuters reported. Brazil's Central Bank said it raised its inflation forecast for this year to 6.0 percent, a big jump from a 4.6 percent estimate made in March and near the top of its target range. It also hiked its forecast for 2009 inflation to 4.7 percent from a previous estimate of 4.4 percent. Inflation in Brazil rose to 5.89 percent in the 12 months to mid-June, up from 5.25 percent in the year to mid-May, although it remained within the Central Bank's 2.5-6.5 percent target range. Central Bank head Henrique Meirelles said the Bank was prepared to take steps to ensure price stability. In its last two monetary policy meetings, the Bank has raised its benchmark Selic interest rate by a total of 200 basis points to 12.25 percent, and additional increases are expected in the coming months. Meanwhile, in Mexico Finance Minister Agustin Carstens said his government was revising its inflation forecast upward after inflation rose to 5.28 percent in the 12 months through early June, a more than three-year high, and above the 5.0 percent level the central bank had forecast for the next few months. On June 20, Banco de Mexico raised its key interest rate by 25 basis points to 7.75 percent, its first hike in eight months, warning that inflation could exceed its forecast in the coming months, according to Reuters.

Latin America Should Think Twice About Price Controls, Subsidies

Latin American countries should think carefully before funding subsidies and imposing price controls to control inflation, a World Bank official said June 20, according to Reuters. "We're not against subsidies, but subsidies need to be targeted and effective, efficient and affordable," Pamela Cox, the World Bank's vice president for Latin America and the Caribbean, told reporters in Canada. "It's very hard to do that with generalized price controls in any economy." Cox's comments come as more countries in the region look at price controls to contain rising food costs. earlier in June, the Mexican government announced it had reached an agreement with Mexican foodmakers to freeze prices on 150 goods [see related brief, adjacent]. In Colombia, President Alvaro Uribe said June 21 he would seek a deal with business groups and labor unions to control food prices, according to Reuters. In addition, Brazil, Mexico, and Venezuela fund fuel subsidies, a policy that—at least in Mexico's case—is putting extraordinary pressure on government budgets at a time of skyrocketing oil prices worldwide. Panama joined that group on Friday when President Martin Torrijos announced his government would spend at least $40 million over the next six months to subsidize gasoline and electricity costs. Cox said such subsidies can become difficult to abandon, even when the inflation subsides, and divert resources away from much-needed investments like infrastructure. "If countries are making a trade-off between short-term consumption subsidies now versus the longer-term investment that you need, we would be concerned that, if subsidies remain and if they eat up large amounts of the budget, it could have a larger-term impact on growth in the region," she said. Cox called for greater reliance on government programs that give cash to the poorest segments of the population, rather than blanket price subsidies.

Cox
Photo: World Bank.

POLITICAL & ECONOMIC BRIEFS

New Bank of the South to Start With $10 Billion Capital Fund

The Bank of the South, the new regional development bank created by South American governments, on June 27 announced it would have an initial capital fund of $10 billion, with the possibility of growing to as much as $20 billion, the Associated Press reported. Seven member nations are in the final phase of establishing the Bank, and will meet again sometime in July, the report stated.

Mexican Foodmakers Freeze Prices on Over 150 Products

Food manufacturers have agreed to freeze prices on more than 150 products to help families cope with rising costs, Mexican President Felipe Calderon announced June 18, according to the Associated Press. Calderon said prices for goods, which include beans, canned tuna, and other products, will remain fixed until the end of the year. "This reflects the commitment of Mexican businessmen to the country and to price stability," Calderon stated. [Editor's note: see related Q&A in an upcoming issue of the daily *Latin America Advisor*.]

Panamanian Economic Activity Expanded 9.48 Percent in April

Panama's comptroller general said June 24 that economic activity rose 9.48 percent in April over a year ago, Reuters reported. Growth in the construction, mining, hotel, and restaurant sectors helped the Central American nation rebound from a near five-year low recorded in March. The March growth figure was revised upward Tuesday, to 2.2 percent from 1.9 percent reported last month.

Featured Q&A
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Bermuda's mini-tax treaty with the US have helped them attract insurance businesses. The proposed move also shows that businesses and regulators must constantly re-evaluate the mix of regulation and business environment. Caribbean jurisdictions with a strong business environment and treaty network will be competitive in attracting financial services."

A **Guest Comment: Bobita Rambrich:** "The increased emphasis on compliance and regulatory requirements is causing the Caribbean to lose its appeal as a tax haven for financial services companies. I think, given the perception that once a transaction is not open for scrutiny it is deemed to be suspicious, companies will continue to encounter increasing difficulties in accessing financial services and support in regions outside of the Caribbean. Financial services companies will find themselves having to invest significantly in anti-money laundering systems, and of course having to divulge information on clients and transactions that would have previously not been required. It is my view that this approach will continue to create uncertainty in the minds of their clients and will ultimately lead to the contraction of the industry. The whole process of satisfying know-your-customer requirements becomes rather difficult when there is a diversion of interest ... the customer wants to protect his interest, and the financial institution wants to fulfill regulatory requirements. If this industry is to survive, creative techniques will need to be developed to satisfy both the needs of the customer and the financial institution, and be acceptable to regulators."

A **Board Comment: Thomas Morante & Yani Contreras:** "Redomestication of ACE Limited (the holding company of the ACE group of companies worldwide) from the Cayman Islands to Switzerland, once approved at ACE's annual general meeting, should have minimal impact on the attractiveness of Caribbean offshore jurisdictions—which should continue to appeal to financial services companies. The redomestication appears to be driven by the need to accommodate expansion and specific regulatory concerns rather than a lack of appeal of, or concern relative to, offshore jurisdictions ... The outlook for financial services companies operating in the Caribbean remains positive and quite favorable. In fact, ACE Limited has not expressed a desire to diminish its presence or discontinue its operations in Bermuda, or to relocate its Bermuda subsidiary, but rather is simply changing its incorporation from the Cayman Islands to Zurich. However, the redomestication of ACE Limited could serve as an additional 'wake up' call for Caribbean jurisdictions relative to the need to foster an even more transparent regulatory environment, thus ensuring regulatory certainty and enhanced reputational benefits. This transparency may prove to be as important as the benefits traditionally associated with offshore jurisdictions. Thus, while there might be future corporate redomestications for particular businesses, it is likely that Caribbean jurisdictions will continue to play an increasingly important role in financial [services]."

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