



SPECIAL REPORT

# What is the colour of Panama's reputation? Managing an intangible that influences more than just the country's image

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## 1. INTRODUCTION

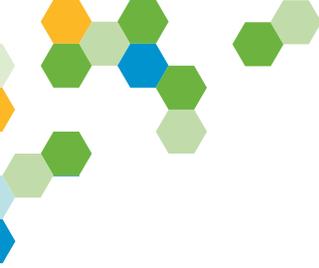
In June 2014, The Financial Action Task Force (FATF) included Panama for the first time in the so-called "grey list". This list shows the countries' weakness detecting and strengthening the prevention of money laundering in several services beyond banking.

At this moment all the attention is focused on Panama; unlawful activities are damaging financial systems and this risk can also affect the country. What is more, the Financial Intelligence Unit of the U.S. Treasury Department warned its financial system about the risks of doing business with Panamanian companies and obliges its entities to have extended proceedings when transactions come from this Central American country. Moreover, Panama was positioned as the country with the highest risk of money laundering in Central America by the Basel Anti-Money Laundering (AML) Index of 2014.

In order to meet the requirements of the international organism, the government of President Juan Carlos Varela passed a bill to fight money laundering, terrorism financing and also financing the proliferation of mass destruction weapons. This bill includes a better monitoring and control of new services such as the Colon Free Trade Zone and other free-trade zones, the National Lottery, casinos and betting and gambling establishments, real estate promoters and brokerages, insurance and reinsurance companies and reinsurance brokers, among other sectors.

The proposal traveled to the National Assembly of Deputies and must go through three different debates. Then it will go back to the Executive for the approval of the President and to become a law of the Republic. Once these steps are completed the implementation stage starts. All these steps must be followed in order to have the changes ready for a new revision of the FATF.

The thought of the Panamanian reputation being grey has a lot of reputational risks that could have a direct impact in the economy and the country's growth. For this reason, both the Government and the main actors of the economic sector have started this battling against time to take Panama out of this list and forget the "grey reputation" of the country.



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## 2. PANAMA IN POSITIVE FACTS

At the beginning of the past century, when the International Bank Corporation was established and the former *Banco Hipotecario y Prendario* –current National Bank of Panama– was funded, Panama started to be an international banking center.

Important international Banks were attracted by the country's characteristics such as the dollarization, the security and reliability of the system, the regulations stability, confidentiality, the free flow of capitals and the growth of assets. They started operating in Panama and have established the banking center as one of the main pillars of the country's economy growth.

Consolidating its reputation as a reference banking center was not an easy task. The process lasted years but the outcome was evident when the sector overcame the American military invasion in December 1989 and the recent financial crisis which affected the main American and European banks. The local and international confidence allowed Panama to avoid the effects of the crisis that attacked the strongest ones.

Nowadays, Panama stands out as one of the economies with a higher growth in Latin America. In 2014 it finished with a total growth of 6.3% and this year it is expected to grow in the same

levels. This data come after the Panamanian economy had a double-digit growth during the past five years.

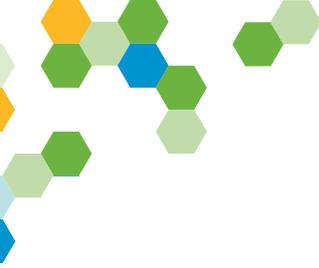
Thanks to this positive performance and other actions related to budget management, debt and a fiscal discipline, Panama made history in March 2010 when it entered for the first time the exclusive group of Latin American countries with an investment grade given by the three main risk rating agencies.

The good grade obtained by the country opened the doors to lower cost financing for the Government and private companies, it attracted investors and tourists and it strengthened the banking sector. This good grade boosted positively the country's reputation.

The investment level improved the country's reputation, but now the risk is that the effects of the “grey list” could damage more than just the country's image: the “grey” effects on the main economic sectors will start if the FATF recommendations are not implemented soon and it will directly or indirectly affect the society as a whole.

## 3. THE GREY CHALLENGES

Several analyses on the national and international repercussion of being in the grey last have been carried out since the FATF announcement last June. In general terms, the main



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risks can be classified in three different categories:

- **Financial costs:** the access to financing for public and private entities is more expensive. In the first place it affects the banking sector and later all citizens, small and big companies who need banking services in Panama. For example, it affects correspondent banks when doing international transactions. Correspondent banks are those banks that act as intermediaries between the Panamanian bank and a foreign bank. If a company or a citizen needs to make a transfer and its local bank does not have a correspondent bank, the process cannot be done. The effect is even worse if we take into account that the National Bank of Panama, which is in charge of managing the external-debt payments and other governmental issues, also requires correspondent banks to meet these international commitments.
- **Loss of business:** investors reduce their activities in those countries that appear in this kind of lists. The country is considered a higher risk jurisdiction and that deters new investments or expanding plans of the companies based in the country. Moreover, in further evaluations, risk-assessment companies could change the country's

stable outlook regarding the BBB investment grade of Panama, a collateral damage that would affect all the productive sectors.

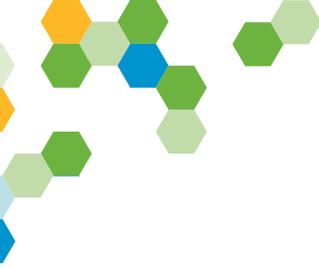
- **Reputational risks:** there are no doubts about the importance of reputation as a competitive asset that generates value for people, companies and nations. Regarding countries, it is a tool that attracts investment, talent, tourists and strategic partnerships. If the country's reputation was affected among the main stakeholders due to this situation, all current perceptions, references, opinions and appreciations could change.

#### 4. REPUTATION MANAGEMENT

Those times when reputation was seen as an exclusive issue of marketing and was controlled by the person, the company or the country itself are long gone.

The way we see, measure, interpret and manage reputation (an intangible asset that affects more than just the image), has changed thanks to our new society based on the free information exchange and the collaboration in the social networks without an intermediary.

Social networks have provided citizens with the power to participate and demand from



**“In order to recover reputation, a country needs more time than companies. Especially because we demand more from authorities and government”**

their leaders, companies, entities and countries, what they consider important according to their perspectives and critical awareness resulting from the exchange of information and knowledge in the social networks.

If the perception, confidence, admiration and esteem of stakeholders about our business or country is not positive, our reputation is negatively affected and that brings disrepute, a bad image and an uncontrollable loss of business.

In order to recover reputation, a country needs more time than companies. Especially because we demand more from authorities and government and, in the process, politics, the environments where economics index are valued, the development level and the citizens' life quality also affect the whole situation.

For example, according to the 2014 evaluation carried out by the Reputation Institute in Latin America, Panama's reputation is 53.6 (a little bit below the global average which is 55.0). The economic, security, ethical and transparency environment strengthen this positive evaluation of the country.

How can these positive characteristics be affected if Panama remains in this grey list for a long time? The challenge for the country is huge, and we should work form all possible areas to maintain

these positive characteristics so they keep on generating value for the country.

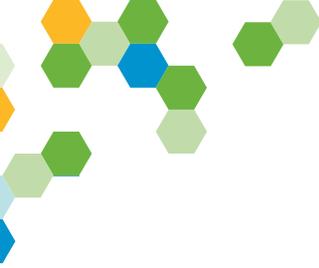
#### **CAN WE CHANGE THIS PERCEPTION?**

The perception of a county's main public such as investors, businessmen, tourists and regulating entities cannot be controlled. That belongs to them, but their perception can be influenced. We must bear in mind that a country's reputation is found in the mid-way between the country's or company reality and its public perception.

At the end, reputation is a means to strengthen the relationship and commitment with our stakeholders, not an end. Reputation is that source of confidence, credibility and transparency we use in crises periods.

The first step is to group and organize that heterogeneous group of publics that are key for a country. Then, we need to create a strategy to be applied to the interests of each group. In this way, we can manage to involve and create more groups that are allies and also neutral groups. Once this step is fulfilled we have to control/ defend those groups less favorable but still influential.

We must also take into account that when facing reputational risks we need to work with concrete actions in order to avoid contradictions between what is projected and the real



“Managing the stakeholders’ expectation is essential in order to influence their perception”

actions. These two areas are essential and there is no doubt they boost reputation.

### 5. KEY POINTS TO MANAGE THE NEW SCENARIO

Leaders need to accept, understand and manage the fact that the reputational risk also affects their countries.

Having a reputation as a country also means having reputational risks such as the ones Panama is facing now. This risk can be mitigated or turned into an opportunity when managing an appropriate strategy with an impact in the country's stakeholders.

This task can start with 4 simple questions:

- **Is a crisis and opportunity?:** Yes. Even in the worse crisis creativity takes the control and we need to search for the key points to turn a negative situation into an opportunity. The challenge is to turn the exit of Panama from the grey list of the FATF list into a regional “best practice” case.
- **Who has to receive this message?:** Those who have a direct or indirect influence on what is said and decided about the country. Managing the stakeholders’ expectation is essential in order to influence their perception.

- **Do we have allies?:** A country's reputation is the result of several actors and factors which should now walk together to achieve a national goal. We also have the need to build a relationship among different actors like the Superintendence of Banks, the Financial Analysis Unit (FAU), the Superintendence of Insurance and Reinsurance and the new actors (non-banking actors) who will be monitored in more detail.
- **Do we put value on what we are doing?:** There are no doubts communication has a relation and participation in the process of reputational management. In this specific case, a good management can become a great opportunity for communication.

We still have three trimesters to finish the year and the rhythm cannot fall. A fast application of the new regulations and making evident the changes is our best cover letter to change the grey colour of our reputation.

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