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## PANAMA AS A FINANCIAL HUB

### A DECADE OF PROGRESS: EVOLUTION INTO A TRANSPARENT HUB

Over the past ten years, Panama's financial landscape has undergone a remarkable transformation, transitioning from a jurisdiction known for its secrecy to one characterized by transparency laws and international cooperation to appeal to a reputable clientele. This shift has been driven by both external pressures and a strategic vision and desire to maintain Panama's regional significance. Panama's inherent advantages - strategic location, dollarized economy, robust infrastructure, and favorable business climate - solidify its position as a key player in Latin American finance.

#### EMBRACING TRANSPARENCY

Panama's journey towards transparency began with the recognition of the need to address concerns surrounding money laundering and tax evasion. In response, the country has designed and implemented a series of reforms, including joining the Financial Action Task Force (FATF) and establishing automatic exchange of information agreements with numerous jurisdictions or countries. These measures have significantly enhanced transparency within Panama's financial system and fostered greater collaboration and cooperation on the global stage.

#### SHIFTING FOCUS

The evolution of Panama's financial sector has been accompanied by a shift in focus. While private banking and wealth management were once dominant, the emphasis has now expanded to encompass a broader range of services aimed at attracting reputable international clients. These include wealth management for high net-worth individuals, trade finance to support Panama's robust logistics sector, and the establishment of regional headquarters for multinational corporations.

Despite some high-profile departures, Panama remains a pivotal financial centre in the LATAM region for several reasons. Its strategic location as a gateway between North and South America, coupled with the Panama Canal, continues to facilitate international trade and financial transactions. Moreover, Panama's dollarized economy, stable political climate, and strong trade ties further bolster its appeal as a business destination for companies looking to expand into Latin America.

The Panamanian Banking Center boasts strong capital adequacy and liquidity and thrives with ratios exceeding regulatory requirements. The global capital adequacy ratio sits at a robust 15.9%, nearly double the minimum of 8%. Liquidity is equally impressive, reaching 59.6%, almost twice the legal requirement. (1)

Panama's domestic credit market exhibits a high concentration, with just 10 banks controlling a combined 83.2% share. Banco General, S.A. leads the pack with a commanding 17.52% portion, followed closely by Banistmo, S.A. (13.15%), Global Bank Corporation (10.13%), Banco Nacional de Panama (10.11%), and BAC International Bank Inc. (6.9%). Notably, these top five banks hold nearly 60% of the domestic credit portfolio. When it comes to their primary focus, mortgage lending reigns supreme, followed by activities in commerce and services. (2)

### Graphic: Number of operating Banks in Panama



Source: Superintendencia de Bancos Panama. Centro Bancario Internacional Bancos Operativos, March 2024

### MAINTAINING SIGNIFICANCE AS A REGIONAL HUB

Amidst these transformations, Panama remains a cornerstone of financial activity in Latin America. Here's why:

- **Strategic Location:** Panama's geographical advantage as a crossroads between North and South America, bolstered by the Panama Canal, streamlines international trade and financial interactions.
- **Robust Infrastructure:** Panama stands out for its advanced infrastructure, encompassing cutting-edge communication technologies and a refined banking system. This infrastructure facilitates seamless movement of both capital and information.
- **Favourable Business Climate:** Panama offers a business-friendly environment with competitive tax structures and efficient company registration processes. Business-Friendly Environment: Panama fosters a welcoming business climate, characterized by competitive tax frameworks and efficient company registration procedures, attracting entrepreneurs and investor alike.

### LOOKING AHEAD/ OPORTUNITES

The landscape of Panama's financial sector continues to evolve, presenting opportunities for new entrants, particularly in wealth management, financial consulting, fintech, and insurance sectors catering to an international reputable client base. Traditionally, large banks were a major presence, offering private banking services. In October 2023, Panama was removed from the FATF greylist. Panama's commitment to transparency, coupled with its growing tech-savvy population, positions it as an attractive environment for innovative companies seeking to establish a presence in the region.

Panama is rapidly emerging as a hub for financial innovation in Latin America. This presents a wealth of opportunities for companies offering Business Technology Solutions (BTS) specifically tailored to the needs of financial institutions (FIs) in the region. Panama boasts a burgeoning fintech industry fueled by high internet and mobile phone penetration. This creates a strong demand for innovative tech solutions that can streamline financial services and reach the underbanked population.

A new study by the Inter-American Development Bank (IDB) highlights a lack of financial inclusion in Panama. Traditional banks aren't reaching all Panamanians, as evidenced by low bank account ownership (46%) compared to the region (55%). Businesses also face limitations, with only 69% using basic accounts. (3, 4) This, combined with

Panama's established financial center, creates an opportunity for the country's growing fintech sector to fill the gap and achieve "good prospects" for future growth.

Initiatives to modernize payment systems and establish regulatory sandboxes could create a supportive environment for fintech businesses to grow. A new bill proposing to regulate crypto assets and promote blockchain adoption could attract investment and talent in this growing technological space.

Panama's fintech scene is already seeing strong growth in the cryptocurrency and blockchain sector. Companies offer a variety of services in this space, including peer-to-peer (P2P) payments, like Aeon, facilitating direct money transfers between individuals or crypto wallet solutions, allowing secure storage and management of digital assets. Other segments include business financing, business payments, consumer lending, digital payments and digital wallets, and insurtech.

Digital payment transactions in Panama have increased rapidly over the last two years, fueled by the rapid growth of digital wallets and mobilebanking applications and enhanced interconnectivity between financial institutions. Over the past two years average growth in the number of transactions has been 29%. Among the prominent players competing for market dominance are Yappy by Banco General, Nequi by Banistmo, Zinli supported by Banco Mercantil, along with some newer entrants. These platforms have not only facilitated transactions but have also revolutionized the way Panamanians manage their finances. (5)

Together, these factors position Panama as a strong contender to become a leading fintech hub in the region.

## **CONCLUSION**

Panama's transformation into a transparent and reputable financial hub reflects its commitment to adapt to the changing global landscape. By embracing transparency and attracting reputable clients, Panama is poised for continued success as a vital financial hub in the Americas, attracting innovative players in the areas of high net-worth wealth management, financial consulting, as well as fintech, microlending, and insurance companies.

## **HOW S-GE CAN SUPPORT**

If you have a groundbreaking financial product, service, or fintech solution, we can help you navigate your expansion into Panama and the region. Our network connects you with the right business partners to launch your vision, giving you a valuable first-mover advantage.

Our Swiss team, partnered with the Swiss-Panama Chamber of Commerce and the Swiss Embassy responsible for Panama, Costa Rica, El Salvador, and Nicaragua, provides you with the latest intelligence and local expertise. We offer tailored support for your Panamanian expansion and the region, from comprehensive workshops and market analysis to navigating legal hurdles. Choose the level of support you need, from full-service launch to targeted legal assistance.

We look forward to hearing from you!

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## GET IN TOUCH



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