Latin America & the Caribbean • Peru

Mibanco: Specialized Banking Products and Services for Micro and Small-Scale Entrepreneurs

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Sector • Financial Services
Enterprise Class • Large National Company
Summary

Mibanco is a Peruvian microfinance institution with 74 offices nationwide. It was the first commercial bank in Peru, and second in Latin America, to focus on providing financial services to lower income households and their micro and small enterprises. Since assuming operations in 1998, Mibanco has loaned over US$1,630 million in amounts ranging from US$100 to US$1,500. Starting from a base in Lima, Mibanco spread operations nationwide, including rural areas. This case examines the challenges Mibanco experienced in offering credit to people who had never had access to the formal banking system in Peru and its innovations contributing to its success. This case also describes Mibanco’s latest adaptations in response to growing competition in the lower income market.

Creation and Growth of Mibanco

In 1998, Mibanco was launched as a private company, specializing in financial services for the MSE sector. It was transformed from a nonprofit organization, ACP Investment and Development, after the government challenged Peru’s financial sector to develop a commercial, regulated bank for the poor. Mibanco was the first bank in Peru to focus in this area, backed by ACP (60 percent equity stake), Profund (19.68 percent), ACCION International (seven percent), Banco de Crédito del Peru (6.66 percent) and Bank Wiese Sudameris (6.66 percent). The shareholder breakdown as of the end of 2005 is shown in Figure 1. Mibanco also had the tacit backing of the government, which was supportive of its pioneering efforts to rise to the challenge of serving the low-income population, including MSEs. The mix of financial institutions in the ownership group included the experience of the traditional commercial banks as well as the new microfinance institutions.1

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ACP’s entire portfolio (more than US$12 million) was transferred to Mibanco. Mibanco paid US$1 million to ACP for access to its client base and took over administration for all ACP client loans. Most ACP loans were repaid within five months because of their short terms. All new loans were approved under Mibanco as the new microfinance institution.

Since 2001, the Peruvian economy has shown one of the highest growth ratios in Latin America. At the same time, Mibanco grew steadily. In 2005 it was elevated to an “A” risk assessment rating (the highest attainable) by Pacific Credit Rating, signaling its strong financial structure and capability to measure and control financial risks. Mibanco’s investment risk level decreased further in 2006 based on its financial performance, increased market share and joint venture with Visa to issue a credit card (granting them access to the ATM system), among other variables. Mibanco saw an opportunity to expand beyond Lima and increase their client base. Between 1998 and 2006, it grew from 30,000 clients to 300,000 clients, maintaining a profitable return on equity. Table 1 shows the net income and profitability of Mibanco from 1999 to 2003.

Table 1: Net Income and Profitability of Mibanco (1999 to 2003)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income after tax ($’000)</th>
<th>Return on equity (%)</th>
<th>Return on assets (%)</th>
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<td>1999</td>
<td>223.00</td>
<td>1.53</td>
<td>0.75</td>
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<td>–</td>
</tr>
<tr>
<td>2003</td>
<td>1,364</td>
<td>–</td>
<td>–</td>
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</tbody>
</table>

Source: Fernando (2003)

Mibanco Client Profile

Mibanco was founded on a commitment to serving MSEs, building on the work of ACP. This commitment is reflected in its mission, vision and values (see Appendix A), as well as in the decentralized organizational structure and in the company’s products and services. In Peru, the MSE sector represented 98 percent of the total number of businesses and almost 88 percent of jobs in the private sector. It also produced 35 percent of GDP. Clearly the MSE sector was a key player in the domestic economy, creating jobs and opportunities for the working class.

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3 In legal terms, micro- and small business is defined as having sales up to US$145,000 and US$824,500 per year, respectively. Source: “Situación de la Micro y Pequeña Empresa en el Perú”- PROMPYME, September 2005.

Half of Mibanco’s clients were below the poverty level; most were women (54 percent) and in the commerce sector (59 percent) or service sector (25 percent). The vast majority were micro- or small-scale entrepreneurs (74 percent and 21 percent respectively). Most of Mibanco’s clients had no prior access to the traditional banking system. As first time borrowers, these clients had little knowledge of the process or requirements. Figure 2 shows the distribution of client demographics. Appendix B provides an income distribution of Mibanco clients and additional client data.

Figure 2: Mibanco Client Profile

Source: 2005 Annual Report

Mibanco Products and Services

Mibanco devised a variety of products and services to meet the diverse needs and cultures of the population in Peru. There were products for housing, agricultural purposes, working capital and other necessities. Each product was based on a model that would ensure the loan would be repaid on time and also aimed to improve the lives of the poor. The process for all of the products was the same, and the business advisors stayed close to the clients to ensure the money was used for the intended purpose; for example, Mi Casa was used for home improvement or Mi Local used for business improvement. Through its exceptional service, Mibanco aimed to generate loyalty amongst its clients. As clients improved their businesses and economic livelihoods, the company hoped to grow along with them. A complete list of products and services is included in Appendix C.

Mibanco charged higher interest rates on loans compared to the market average in Peru. It demanded higher rates because of the higher risk of the MSE market compared to the traditional banking system. Mibanco’s creditors demanded higher rates on the money lent to the company, which in turn were passed on to Mibanco’s clients. Despite this perceived risk,

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Mibanco had a lower bad debt ratio than the market average. The company attributed this to the strength of relationship between the business advisors and the clients. However, the time and effort expended by the business advisor team was expensive, and Mibanco had higher fixed costs than other traditional banks.

Mibanco pursued clients not only to do business but to improve their quality of life, as well. Of the 1,988 employees, Mibanco employed 765 business advisors\(^8\) that went to the field daily to identify and work with potential clients. Their role was to understand the potential clients’ needs and adjust specific products to those needs. They typically had university or college level educations and extensive training from the company. They were trained not only to advise MSEs but also to listen to and understand clients’ specific needs. The client consultation included a basic financial analysis of the micro- or small business. After the advisor reviewed the cash flow, they ensured the client understood the loan terms and repayment process. In this way, Mibanco aimed to offer the best loan according to the entrepreneur’s financial situation, while minimizing risk of default on the loans.

Business advisors also encouraged clients to attend training programs designed to improve their business skills and operations. These training programs were free for any Mibanco client. They were offered, with the support of the Institute of the Micro Business, in major regions throughout Peru. The training was tailor-made for MSE clients and taught in a friendly and simple way.

Mibanco did not require assets to guarantee loans. To qualify for credit, potential clients had to prove a permanent address and show a cash flow that would be sufficient to make the loan payments on top of other household living expenses. Businesses had to be in operation for more than six months, and clients also had to show official identification. The vast majority of loans were approved by business advisors; a small percentage was also reviewed by the principal manager. This process of analysing each application led Mibanco to reject 30 percent of the requested loans of new clients.

Over the period from 1998 to April 2006, Mibanco approved 1,339,934 loans. It was the number two Peruvian bank, in terms of the total number of loans dispersed in 2006. In that year, Mibanco approved 1,395,248,149 soles (approximately US$436 million) worth of loans to MSEs; this represented almost 70 percent of the bank’s portfolio.\(^9\) Banco de Crédito del Perú (BCP), the largest bank in Peru, was first in this ranking with a loan portfolio in the MSE sector of US$240 million. According to Rafael Llosa, CEO of Mibanco, BCP was focused on the top end of the MSE market, and its average loan amount was higher than the market average. This indicated that BCP catered to the high (income) end of the MSE market, especially those that were well-established, with fixed assets as a financial guarantee. Regarding the total soles of loans approved, BCP was the leader; however, it had less than 50

\(^8\) Annual Report 2005.
\(^9\) The difference in MSE contribution to Mibanco portfolio from 2005 was due to a growth in consumer credit in 2006.
percent of the number of clients compared to Mibanco. Appendix D shows Mibanco’s loan size distribution, with the majority of loans dispersed in amounts totaling less than US$1,000.

Key Challenges & Innovations

The key challenges Mibanco experienced in working with the MSE target market are listed below:

- Low level of education
- Lack of experience dealing with the formal banking system
- Dispersed population beyond Lima
- Competition

Mibanco’s strategy addressed these constraints as part of its service. Its focus was to capture and retain its target market of low-income people without access to commercial banks. The key innovations that have contributed to the sustained growth include the following:

ACCESSIBILITY TO THE TARGET MARKET

From the inception of Mibanco, it catered to MSEs. Mibanco realized that this market had needs that the commercial banks did not meet. The financial service offered by Mibanco was different from the services offered by the traditional banking system. The traditional banks had a more formal atmosphere. Mibanco adjusted its offices to try to make them less intimidating and also visited clients in the field– at their place of business– sometimes traveling long distances to remote locations.

Mibanco’s target market was low-income households without access to transportation. Striving for growth, Mibanco designed an expansion plan to be accessible to new potential clients, including outside of Lima. In 2004, Mibanco had 26 agencies, and 23 of these were located in Lima. By 2006, Mibanco had 74 agencies, with 44 located in Lima.

BUSINESS ADVISORS

Mibanco business advisors were trained to explain product characteristics and offer business advice to potential clients. They were also sensitive to the lack of education and lack of familiarity with banking systems of the potential clients. Advisors communicated in plain language, they dressed and ate food that fit in with the local culture and ultimately built Mibanco’s client relationships and trust.

DECENTRALIZED DECISION MAKING

In order to compete with the nonprofit MFIs, Mibanco emulated the decentralized structure of the NGOs, skipping long processes that could delay loan approvals. Rafael Llosa, CEO of Mibanco, estimated that he reviewed less than one percent of the number of loans approved. Loans were assessed by the business advisors with a quick turnaround of a few days.
LEADERSHIP
Mibanco had leadership that challenged traditional banking approaches and saw the opportunity in serving a huge market that was forgotten by other private banks. The senior executives of Mibanco actively sought innovative approaches to working with the MSE and lower income market.

BUSINESS SKILLS TRAINING
Mibanco organized conferences and workshops to help MSE owners improve and grow their business, resulting in increased profits. This was a virtuous circle: not only because clients had access to credit based on advising and training to improve their business and increase profitability, but because Mibanco also lowers risk.

DIFFERENTIATION FROM RURAL COMPETITORS
In the early years, Mibanco was concentrated in Lima, where the only competitors for the MSE and lower income market were NGOs. The main competitors outside of Lima were “las cajas municipales.” Mibanco differentiated itself from las cajas competitors first by the fact that Mibanco was a bank, a bigger and more developed organization. Mibanco also, in contrast to las cajas, offered added value advisory services to clients. The business advisors were more than a nexus between Mibanco and its clients; they became partners and friends, in the same way that clients were accustomed to doing business. Mibanco discovered how to work with this population (low incomes, low education levels, no experience in financial organizations, etc.) and add these clients to the formal financial sector. Neither NGOs nor las cajas reached this confidence level with clients.

Staying Competitive
By 2006, Mibanco had more than 300,000 clients with a portfolio of over US$1,630. In 1998 Mibanco was created, and there were no major commercial competitors for banking services in the MSE market. Traditional banks were reluctant to work with lower income clients; the lower income market was perceived to be risky and costly, with little profit.

The traditional banks kept close watch on Mibanco, and as it showed signs of success, new competitors entered the market. In 2004, the market’s conditions drastically changed as other private sector institutions began to encroach on Mibanco’s market. Mibanco took stock of its new competitive environment. It surveyed customers to gauge client satisfaction and potential areas for improvement. It also designed new strategies to gain and retain clients, increase its market share, and enhance its public image. It launched new marketing campaigns and developed two new products aimed at lower income clients that were underserved by the banking sector.

10 A commercial business organization oriented to serve MSEs in rural areas.
CLIENT SATISFACTION SURVEY

In November 2006, the Cuore Institute conducted a client satisfaction survey for Mibanco in over 70 agencies throughout the country in order to evaluate the level of satisfaction of Mibanco’s clients regarding service quality. One of the findings was that speed in serving clients was considered the most important characteristic for a bank, coming before the quality of staff assistance and the quality of the information provided. The survey also showed that the level of satisfaction had increased between June and November 2006 among Mibanco clients; 93 percent of whom indicated that they were satisfied with Mibanco services. In particular, 91 percent were satisfied with the geographical proximity of Mibanco agencies, although 33 percent would call for a higher coverage. The survey also revealed a lack of awareness about the current network of Mibanco agencies. When asked about Mibanco, the clients sample associated it with the words “good service,” “speed” and “assistance.” Although the findings of the survey proved to be satisfactory, there were still opportunities for Mibanco to improve its services in order to meet the standards of other financial institutions, in particular by increasing the number of its counters and agencies.

MARKETING STRATEGY

Prior to 2004, Mibanco did not have a formal marketing strategy to promote its services and attract clients. Reflecting on its need to remain competitive, CEO Rafael Llosa created a marketing department to help Mibanco communicate its message to the target market. The marketing strategy used multiple and unconventional methods of communication. Some examples of Mibanco marketing strategy include the following:

- Micro-marketing: advertising with posters and flyers in the neighborhoods where offices were located
- Awards: prizes (2,000 soles) and public recognition were awarded to clients making payments on time
- Food coupons: Mibanco gave food coupons to new clients after their first loan was approved
- Banners: Each office displayed a Mibanco banner so transient clients could easily identify the bank
- Merchandising: Mibanco business advisors had identification cards, as well as Mibanco t-shirts and pens; clients also received t-shirts and pens
- Business modules: Mibanco installed business modules, or small offices, located in the halls of the commercial centers where potential clients could get information on Mibanco’s services and products

NEW PRODUCTS TARGETING EVEN LOWER INCOME CLIENTS

Two important new products were launched in 2005: the Roadrunner (El Chasqui) and Rural Credit. They were both designed to capture low-income clients in rural markets, seen as a significantly under-served market.

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11 Source: Cuore, Estudio de satisfacción de clientes – Telefónico, Mibanco, November 2006.
The Roadrunner (El Chasqui) loan ranged from S/. 300 to S/. 1,000 (approximately US$90 to $320). It was the smallest product available, directed at rural poor MSEs. The name (El Chasqui) refers to a legendary figure in Incan history for the geographical target audience, thus named for marketing appeal. This new product attracted many new clients and contributed to the market segment growth of 300,000 clients by 2006. Similar to the other products, the Roadrunner loan targeted owners of a MSE for a period of time longer than six months. The location of the business could be, for example, in an open market, mobile stand or in the owner’s home. Preference was given to applicants belonging to an MSE association. Ninety-eight percent of Roadrunner clients were accessing credit for the first time.\(^\text{12}\) Figure 3 shows the growth in this product from 1,100 loans in August 2005 to more than 7,500 in December 2006.

The Rural Credit product was also designed for MSEs working in rural areas, but it was marketed in a different way. It also started from 300 soles; the amount could increase as clients built a credit history. The product could be disbursed either as individual credit or group credit. Individual credit could be requested by any person who owned property. The group credit could be requested by a group of ten or more people that were organized in a specific business activity. The business activity could be related to agriculture, services or commerce. Seventy percent of Rural Credit clients were accessing credit for the first time.\(^\text{13}\) Similar to the Roadrunner, Rural Credit has also grown rapidly, from 267 clients in January 2005 to 3,700 in April 2006 (see Figure 4).

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\(^{12}\) 2005 Annual Report  
\(^{13}\) 2005 Annual Report
These two products did not have much competition, since most other banks were not willing to work with smaller loans to low-income, rural clients. They saw the market as too risky to be worthwhile. Meanwhile, Mibanco has seen rapid growth and solid repayment of loans.

Despite growing competition in the MSE market overall, Mibanco was retaining its stake. It captured 26 percent of the total market of clients that accessed the formal financial system for the first time, in the first trimester of 2006. Appendix E shows the breakdown of market shares in this market segment amongst all financial institutions in Peru.

## Future Outlook

For future prospects, Mibanco was preparing to add more new services and products to be offered to its clients in 2007. It was also looking at opportunities to add to its value chain by partnering with clients’ suppliers. For example, the company was talking to construction material suppliers to offer better prices to clients making improvements to their homes.

Mibanco also see many opportunities to grow, especially expansion within Latin America. They were looking at strategic partnerships with other Latin American banks in the same sector as the mostly likely mode of expansion to new markets.

## Conclusion

Mibanco proved that a financial institution can grow from an NGO to one of the leading banks devoted to attending to the needs of micro- and small enterprises. The wide range of products and personalized services were key success factors for growth. With improved access to formal credit, MSEs and other clients are finding more opportunities to enjoy a better quality of life. The future looks bright for Mibanco, but it will certainly see different challenges than experienced in the past due to increasing competition for the MSE and low income market. The competition is healthy for the industry and should spur further innovation, ultimately benefitting the clients.
References


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National Institute of Statistics. Available at www.inei.gob.pe

Peruvian Ministry of Finance and Economics. Available at www.mef.gob.pe


Interviews


Llosa, Rafael. CEO, Mibanco. 9 January 2007.


All photographs courtesy of Mibanco and Acción International
Appendix A: Mibanco Mission, Vision and Values

**Mission**
We are a team primarily devoted to the development of the entrepreneurs of the micro- and small business sector, as well as the lower income populations with no access to the formal financial sector. We offer quality service above the clients’ expectations in an innovative, efficient, respectful and honest framework. We contribute to the growth of Peru.

**Vision**
To be the financial service organization leader with high quality standards focused on the micro- and small business sector and the lower income population with no access to the traditional bank.

**Values**
Innovation, respect, compromise, honesty and efficiency

Source: Mibanco
Appendix B: Client Data

Figure B1: Household Annual Income, Per Capita, Mibanco (2000-2001)

Source: Horn-Welch and Devaney (2003)

Notes for Figure B1:
Absolute poverty levels of Mibanco clients were assessed by comparing consumption (income and expenditure) to several fixed poverty lines: the national Peruvian poverty line, the Lima metropolitan poverty line and the US$1/day and $2/day international poverty lines. The Lima poverty line is equal to S/3,601 or $1,029 in 2000 annual income per capita terms. The national poverty line is equal to S/2,642 or $755 in 2000 annual income per capita terms. Both use an exchange rate of S/3.5 per USD. ACCION also used the international US$1/day and $2/day poverty lines, which represent the purchasing power of US$1 and $2 per person per day across countries.

The Figure above shows that Peru’s national population has the highest level of poverty and that the Lima and Mibanco populations have similar poverty profiles. The individual curves illustrate the percentages of each population sample (Mibanco, national and Lima) that had incomes below a given level indicated on the horizontal axis.

The four poverty lines were imposed as vertical lines corresponding to the appropriate annual per capita income levels. A higher distribution curve illustrates a higher number of households in poverty. Therefore, the national population’s cumulative distribution function (CDF) line, which is continuously higher than the Mibanco and Lima CDFs, illustrates the higher percentage of national households living below each of the four poverty lines. The intersection of the Mibanco and Lima CDFs demonstrates that a higher percentage of Lima households than Mibanco households have incomes below the $1 and $2/day poverty lines, but a greater percentage of Mibanco client households have incomes below the national and Lima poverty lines.
Poverty levels 1 through 5 were defined by Horn-Welch and Devaney as follows:
Level 1 includes all households with per capita income levels of 0-50 percent of the Lima poverty line; Level 2 includes households with income equal to 50-75 percent of the poverty line; Level 3, 75-100 percent; Level 4, 100-120 percent, and Level 5, over 120 percent. Therefore, levels 1-3 represent all households below the Lima poverty line and levels 4 and 5 include near poor and non-poor households.
Appendix C: List of Products and Services

**CREDIT PRODUCTS**
- **Micapital**: Working capital for buying goods, inputs or raw materials with payback periods of up to 24 months
- **Miequipo**: To equip or renew workshop or business equipment with payback periods of up to 36 months
- **Mifacilidad**: Personal loans for any type of need
- **Milocal**: To buy, improve or modify business premises
- **Mivivienda**: To buy or build houses with resources from Mivivienda Funding (Peruvian Government Fund), payback period of up to 20 years
- **Micasa**: To improve, remodel or modify a house. Loans without real estate guarantees
- **Mihipoteca**: To purchase a house
- **Mimercado**: To buy a commercial entity
- **Chasqui Efectivo**: Directed to micro- and small businessmen with no or very little credit experience; loans range between S/. 300 and S/. 1,000
- **Tarjeta de Crédito MIBANCO – VISA**: To buy in millions of stores and to withdraw cash from VISA automatic teller machines in Perú and abroad
- **Proyectos Especiales**: To finance the development of a market, gallery or shopping center

**SAVINGS PRODUCTS**
- **Miahorro**: Has interest accrual from the very first sol, no maintenance cost and free of charge
  - Visa Electron debit card
- **Depósito a Plazo Fijo**: On credit deposits with the best interest rates
- **Cuenta Corriente**: Current account with many benefits
- **CTS**: Severance Payment Service with the best interest rates

**SERVICES**
- **ATM’s network**: 24 hours a day nationwide, free of charge for our customers and affiliated to Visa Electron
- **Letter Bail**: Operation that permits our clients to guarantee interbank operations set against a tender
- **Mibanco Visa Electrón debit card**: The safest way to carry money without having cash, free of charge maintenance
- **Foreign Exchange**: The best, safest and most reliable foreign exchange rate in S/. and USD
- **Foreign Transfers**: In order to make transfers or payments to the foreigner, with total comfort and the lowest cost
- **Remittances**: To send money from Chile and Spain and to withdraw it in our network of agencies to national level
  - **www.mibanco.com.pe**: The new banking system via internet for micro and small company businessmen

Source: 2005 Annual Report
Appendix D: Mibanco Loan Size Distribution

Source: Horn-Welch and Devaney (2003)
Appendix E: Breakdown of Market Share for Clients Without Previous Access to Formal Credit

New clients- First trimester- Year 2006

- MIBANCO: 26.3%
- EDPYME Edyficar: 9.9%
- CMAC Arequipa: 6.7%
- CMAC Piura: 6.6%
- Banco del Trabajo: 5.8%
- CMAC Trujillo: 5.7%
- CMAC Huancayo: 3.3%
- EDPYME Confinanza: 3.0%
- EDPYME Alternativa: 2.3%
- CMAC Cuzco: 2.0%
- CMAC Sullana: 19%
- EDPYME Créditos Arequipa: 18%
- Otros: 24.7%

**Source:** Mibanco
Appendix F: Size of the Portfolio by Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount Loaned (soles)</th>
<th>Amount Loaned (dollars)</th>
<th>Exchange Rate</th>
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<td>2006</td>
<td>S/. 1,395,248,000.00</td>
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Source: Mibanco