

Itaú Unibanco: Banking the unbanked in Brazil



Done well, microfinance is an effective tool for economic and social inclusion of under-privileged portions of the population. Expanding this model as part of our commitment to the Business Call to Action will contribute to Brazil's economy and social development.

Eduardo Ferreira
Head of Inclusive Business at Itaú

Initiative Description

Itaú Unibanco joined the Business Call to Action in 2012 with the Itaú Microcrédito initiative, offering microfinancing and increasing the financial literacy of low-income people in Brazil.

Itaú Unibanco's objectives for its Itaú Microcrédito initiative include:

- Reaching 100,000 active clients with microcredit products in Brazil by 2016 with a loan portfolio of R\$350 million;
- Offering microinsurance products to small entrepreneurs in order to protect their businesses from instability – either in addition to microfinance or independently; and
- Creating social impact indicators by 2015.

Business Model

Brazil's lack of access to the formal financial market is staggering: although 85 percent of Brazilians live in cities,¹ 40 percent are still excluded from formal banking systems.² There are an estimated 10.3 million informal micro-enterprises in Brazil. In fact, the informal economy represented 16.3 percent of Brazilian GDP in 2014.³

Itaú Unibanco is the largest private bank in Brazil and one of the largest in Latin America. In 2011, it announced a microfinance operation aimed at micro-entrepreneurs in the metropolitan regions of Sao Paulo, Rio de Janeiro, and Porto Alegre. Its main goal is to address the needs of urban communities that lack access to formal banking with microfinance and microinsurance products. A few years ago, the Brazilian Government launched a simplified tax

system specifically for micro-entrepreneurs called Simples Nacional, which encouraged informal small businesses to become formal. However, many micro-entrepreneurs' mindsets remain similar to those of informal entrepreneurs; such businesses are therefore known as 'semi-formal' enterprises.

Through a partnership with the International Finance Corporation (IFC), the financial arm of the World Bank and the Inter-American Development Bank (IDB), Itaú not only provides informal micro-entrepreneurs with financing, but also delivers financial guidance on managing money and achieving success in business. The initiative has helped the bank to better understand this market segment, gain a foothold in a significant market and eventually graduate microfinance recipients to other financial products offered by the bank.

1 Population estimates for Brazilian municipalities 01.07.2011 (Estimativas populacionais para os municípios brasileiros em 01.07.2011.) Instituto Brasileiro de Geografia e Estatística (IBGE) 2011. <http://www.ibge.gov.br/home/estatistica/populacao/estimativa2011/>

2 Brazil in Development 2010: State, Planning and Public Policy (Brasil em Desenvolvimento 2010: Estado, Planejamento, e Políticas Públicas.) Instituto de Pesquisa Econômica Aplicada (IPEA) 2010. http://www.ipea.gov.br/bd/pdf/Livro_BD_vol1.pdf

3 Underground Economy Index. Brazilian Institute for Ethical Competition, 2014

How it works

Making loans available to small entrepreneurs

Itaú Microcrédito makes loans available to micro-entrepreneurs located in and around São Paulo, Rio de Janeiro and Porto Alegre. In these urban areas, which are home to 18 percent of Brazil's population or 35.5 million people, Itaú has established a team of 130 employees, including a field team of 100 people offering micro-loans ranging from R\$400 (US\$150) to R\$14,200 (US\$7,500); most are working capital loans. Itaú Microcrédito also facilitates micro-entrepreneurs' access to financial products and services by reducing the bureaucracy involved in obtaining them.

Concerned about client vulnerability and invested in keeping defaults to a minimum, Itaú Microcrédito partnered with Itaú Seguros to launch loan-protection microinsurance in December 2011. This product guarantees the payment of the balance due on each loan in the event of accidental death or permanent disability.

Evaluating creditworthiness through loan officers: The 5 Cs

Itaú Microcrédito does not have traditional branches. Instead, loan officers hired by the bank work inside communities and rely on mobile technologies such as smartphones and tablets to connect them with Itaú's headquarters in São Paulo.

One of Itaú's key innovations was the introduction of the loan officer into the microcredit process. Loan officers gather information on repayment capacity and screen for risks and potential benefits that would not be evaluated in the traditional banking system. Given that most of Itaú's borrowers have limited or no credit history, loan officers make a business valuation before granting credit, taking into account the five Cs: character, capacity for payment, capital, conditions and (assets pledged as) collateral.

Branchless banking: Reaching communities and saving costs

In order to make the most of each loan officer's time and reach as many people as possible, Itaú has invested in innovative technologies to increase operational efficiency. They include a workflow system, a geo-referencing tool that maps micro-entrepreneurs' locations and a hybrid credit-analysis model that combines score filters with the in-person evaluations performed by loan officers to produce a comprehensive credit score. Loan officers access these and other tools with smartphones and tablets. In 2014, Itaú Microcrédito was recognized with one of the most prestigious financial awards in Brazil for the simplicity and efficiency of its mobile services in this initiative.

The entire operation is paperless, which is both environmentally sound and facilitates information access and document security.

Investment in financial literacy

In order to improve the financial literacy of its clients, Itaú's loan officers disseminate information and effectively become mentors on the most effective use of money. Loan officers encourage clients to learn more about personal and professional financial decision making: learning materials distributed by loan officers include *The Microentrepreneur's Notebook*, which contains basic tools

and instructions on how to manage personal and business finances.

One way of contributing to development is to understand people's needs in order to offer knowledge products and financial solutions that enable them to have a healthier relationship with their money. Itaú has been working to share its knowledge with clients and their communities. This behavioral approach is of fundamental importance: Itaú can increase people's interest in the subject of finance and bring it closer to their everyday lives.

In 2009, Itaú also launched a financial education program for its employees. By surveying its staff about pension plans, savings and investments, Itaú confirmed that the programme's e-learning and other initiatives have led to positive changes in employees' finances. From May 2010 to May 2012, there was a significant increase in the volume of employees own funds allocated to savings, retirement plans and other investments.

Serving microfinance institutions

In addition to providing microcredit directly, Itaú also partners with second-tier microfinance institutions in order to increase its microfinance footprint across Brazil. Itaú also offers these organizations funding and technical assistance while promoting microfinance best practices.



Results Achieved

Itaú is currently serving 100,000 microentrepreneurs and has an active loan portfolio in this market segment of R\$ 350 million (about USD 175 million).

Business Impact

Itaú Microcrédito is a financially self-sustainable microfinance initiative that generates knowledge about clients at the base of the economic pyramid; this knowledge feeds into the development of new, tailored products. As microcredit clients move up the economic ladder, they can graduate out of microfinance and access Itaú's standard product portfolio.

Development Impact

The capital provided by Itaú Microcrédito has helped Brazil's micro-entrepreneurs to grow their businesses and earn more income.

This initiative has most impacted Itaú's women clients, who make up 60 percent of all microcredit recipients. Many women entrepreneurs in Brazil work in the informal economy, often from home. Itaú Microcrédito has given these women the chance to grow their businesses, which include selling clothes, producing and selling cosmetics, managing mini-markets and running beauty parlors.

In order to support women entrepreneurs throughout the lifecycle of their businesses, Itaú launched the program Itaú Women Entrepreneurs, which provides a range of solutions to empower women-led small and medium enterprises.

Itaú Microcrédito also employs 130 people in the urban areas surrounding São Paulo, Rio de Janeiro and Porto Alegre, including 100 loan officers and supervisors. The initiative seeks to hire interns who are residents of the communities being served, and has implemented an attraction and retention program to encourage these interns to become loan officers.



Because loan officers live in similar environments to customers, they are able to develop close and trusting relationships with them. Loan officers' training includes both practical and theoretical classes in subjects such as credit analysis, collection and sales techniques, financial management, ethics and accounting. Itaú also encourages loan officers to invest in their education and offers financial aid to make this possible; 20 percent of its staff currently enrolled in education programs have obtained grants from Itaú.

Key Success Factors

Making credit assessment possible for those without a credit history

Many of Itaú's clients have no credit history, which means that banks have no way to determine their credit worthiness. Therefore, Itaú developed a hybrid credit-analysis model that promotes more inclusive credit provision. The model combines

mathematical and in-person analysis to assess each client's repayment capacity, analysing the entrepreneur's assets, revenues and both household and business expenses

Collaboration with partners

To make this inclusive business initiative work, Itaú has partnered with IDB, IFC, the World Bank, the Global Banking Alliance for Women and other institutions. It has also partnered with Brazilian and international universities in order to develop research and study programmes.

Building a motivated team with support from top management

The Microcrédito team is a small business within Itaú Unibanco, but it is made up of individuals with considerable experience in banks and financial institutions and microfinance institutions. Top management has lent its support to the initiative with the aim of developing small businesses and exploring the future growth potential of this segment.

Next Steps and Spin Off Effects

Mapping the effects of microcredit on clients' lives

Itaú aims to conduct research on how increasing incomes and greater interest in bank products such as insurance and savings accounts affect clients' lives. By 2015, the bank aims to create social impact indicators to measure its role in alleviating poverty and enhancing the performance of micro-entrepreneurs' businesses.

Scalability

After developing an efficient and profitable model, Itaú Microcrédito is now ready to grow. Itaú not only aims to provide financial access for informal and unbanked entrepreneurs, but to provide better products and services for micro-

entrepreneurs that are already clients of the bank.

Additional services and products to promote social and financial inclusion

The bank is also committed to developing new products, such as its Youtube channel, in order to expand financial literacy. To establish a more permanent presence, Itaú Unibanco continually invests in developing new technologies such as online platforms and mobile apps.

Microfinance portfolio

Itaú Microcredito is planning to roll out additional microinsurance products designed to protect micro-entrepreneurs from risks that can destabilize their lives and ability

to work. These insurance products will be offered independently of microloans through Itaú Seguros, but distributed by Itaú Microcrédito. A property microinsurance product will be launched in the first semester.

In addition, Brazil has a very strong credit card market, with an average of 3.7 credit cards per capita in the country. Itaú sees offering Point-of-Sale (POS) systems in stores as possibly having a positive impact on the economy in these regions. POS systems allow for processing of credit cards at a store, restaurant, or bar till for instances in which customers do not have cash on them, making payment by credit card as easy as using any other form of payment.

Innovations

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Contact the Business Call to Action

E: secretariat@businesscalltoaction.org

T: +1 212 906 5695

www.BusinessCalltoAction.org



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Written by Juliane Schmidt, Endeva
Reviewed by Anna Peters, Endeva and
Tatiana Bessarabova, Business Call to Action