CASE STUDY

Banco Santander: Extending financial services to low-income communities in Brazil

Initiative Description

In September 2013, Santander Microcrédito joined the Business Call to Action with a commitment to serve 124,799 low-income consumers with microfinance services and to disburse up to US$490 million in microcredit loans by 2015.

The goals of Santander Microcrédito are to:

- Disburse R$540 million (US$230 million) in microcredit operations by the end of 2014; and R$600 million (US$260 million) in 2015; and
- Attain 126,000 active microcredit clients by the end of 2014 and 131,000 additional clients in 2015.

Business Model

In Brazil, 52 million people and approximately 25 million informal entrepreneurs lack access to the formal banking system. Santander Brasil Microcredit, a company affiliated with Banco Santander Brasil, was founded in 2002 to offer microcredit operations to support business entrepreneurs that could not access formal banking services. To this end, Santander Brasil Microcredit offers loans that contribute to employment and income generation for low-income people. The average monthly income in Brazil is US$680¹ and 21 percent of the population live below the poverty line².

Santander Microcredit is an example of how Banco Santander Brasil contributes to reducing social inequalities in the country. When we started thinking about how to launch the microcredit programme, we decided that it should be a model in which all involved parties could benefit.

Currently, Santander Microcredit operates in more than 600 municipalities (in 10 Brazilian states), and has 25 branch offices. Of these, 20 percent

1 https://www.worldcrunch.com/business-finance/in-booming-brazil-census-shows-income-gap-persists/c2s4115/#.VGNgoltHTA0
Interest rates of 2 percent to 3.95 percent. Loan terms and conditions include the most efficient way to use the microcredit. Through this personalized and tailored assistance, the credit agents built a close relationship with clients, thereby enhancing client retention at the bank.

Risk management
Another core component of Santander’s microcredit programme is its thorough risk-management system, which mitigates clients social risks related to indebtedness and business failure. Risk management entails measures aimed at improving prevention and recovery among Santander’s clients.

To prevent its clients from becoming indebted, the company offers financial guidance on credit management. In addition, Santander requires its clients to become members of a ‘solidarity group’. These group comprise five to six members – usually entrepreneurs from the same community – who function as guarantors of each other’s loans. Santander grants microcredit to these solidarity groups, which then decide how to use the money and when to repay it.

In addition, Santander supports the financial recovery of clients if their ventures fail. In this case, Santander offers supplementary financial guidance or, if needed, additional credit support.

Applying this risk management approach contributes to the success of Santander’s microcredit programme. In 2012 for example, Santander Microcredit achieved a default rate of 3 percent, while in the Brazilian financial system, the rate was 3.7 percent.

How It Works
By including credit agents and local organizations in the provision of credit, the company contributes to the social welfare of the communities where its clients live and work. Santander also provides small entrepreneurs with:

- working capital;
- fixed investment loans to buy equipment and adapt technologies to become more eco-efficient; and
- financial guidance through classroom training.

Currently, Santander Microcredit provides loans ranging from R$500 ($US244) to R$15,000 ($US7,320). Loan terms and conditions include interest rates of 2 percent to 3.95 percent per month for a duration of 4 to 24 months.

The provision of microcredit services is based on two core components:

Credit agents
Credit agents are the core actors in Santander’s microcredit programme. They serve in more than 600 Brazilian cities and support customers in managing their microcredit. Santander selects and hires credit agents from local communities. The agents are then trained to provide Santander’s clients with financial advice and share knowledge on business management and sustainability, including energy efficiency, recycling, residue management and water consumption.

In addition, credit agents help to assess the context and potential clients’ project or business plans, and identify the most efficient way to use the microcredit. Through this personalized and tailored assistance, the credit agents built a close relationship with clients, thereby enhancing client retention at the bank.

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Business Impact
Santander Microcrédito is the leader among private sector banks operating microcredit in Brazil. It holds a market share of 16 percent and thus represents the second largest Brazilian company in this segment. Since 2002 Santander disbursed credit to 182,000 clients for a total of US$1.6 billion throughout Brazil. Currently, the microcredit team is formed by 277 employees, of whom 206 are microcredit agents operating in the communities where Santander has offices.

While these figures are impressive, the bank also encountered a number of challenges associated with working at the bottom of the pyramid.

Despite these challenges, microcredit is an important part of Santander’s long-term competitive strategy. The microcredit program improves the reputation of Santander and shows its social responsibility. Furthermore it helps to grow their customer base.

Development Impact
Santander promotes banking inclusion via the granting of loans. The microcredit program provides productive and focused microcredit to small entrepreneurs with no access to traditional bank products and services. In this way, Santander helps small entrepreneurs to leave the informal sector and to formalize and scale up their businesses. Consequently, Santander contributes to increased employment and income generation at the bottom of the pyramid.

Since 2002, Santander has disbursed credit to 182,000 clients for a total of US$1.6 billion throughout Brazil. Women constitute 70 percent of the credit holders. According to research conducted by Fundação Getulio Vargas, approximately two thirds of the income growth generated by the program remains in the community while boosting trade and other local activities, thereby reinforcing the social impact. Furthermore Santander directly creates employment opportunities by hiring their credit agents from local communities. There are now 206 credit agents whose lives have improved and who now contribute to further development in their own communities. Santander constantly strives to improve their skills by offering credit and financial guidance, and encourages them to share their knowledge with their communities.

In addition to generating income and employment, Santander also promotes education, health and sustainability initiatives in order to further improve the quality of life of clients and their families. For example, Santander organizes events to raise local communities’ awareness about cancer prevention and mosquito-borne diseases. Furthermore, Santander offers the web series “Colcha de Sonhos”, which targets microcredit clients and their families with know-how on financial education, income generation, eco-efficiency and citizenship.

Key Success Factors
Close customer relation
In comparison to other banks, Santander’s microcredit program does not offer over-the-counter transactions in which clients walk into a branch to apply for a loan. Instead, Santander goes into communities and hires and trains local credit agents. Thus Santander is close to its clients, their daily activities and businesses. As a result, its credit agents
offer personalized, tailored services and advice, and can pinpoint risks early on. This close relationship with clients allows the agents to jointly assess the context and the potential for each venture, and decide how the money is best used. In turn, Santander benefits from high customer retention rates.

New technology
Another aspect of the microcredit program’s success is the use of new technology by credit agents, which makes the execution of loans more agile and straightforward. The use of computers reduces the average time to obtain the loan from five days in 2011 to two days today.

Training on sustainability
In addition to financial services and guidance, Santander also provides advice to clients on basic sustainability issues. Knowledge is conveyed in a clear, direct manner to show that meeting sustainability goals (i.e. more efficient usage of water and energy) does not necessitate additional hurdles, but offers direct benefits such as cost reduction and risk management, which in turn also improve the quality of the Bank’s portfolio.

Innovation that improve lives

Next Steps and Spin Off effects
Based on the success of its microcredit program, Santander wants to continue to grow the program and serve more clients.