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High Performance

# ITAÚ UNIBANCO: Tapping into local knowledge to finance Brazil's suburban entrepreneurs

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Case Study



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**Low-income markets are often a double-edged sword for companies. They offer huge opportunities that are equaled by poorly understood and often unforeseen pitfalls. One way to mitigate the risks of navigating these uncharted markets is by tapping into local knowledge. In Brazil, ITAÚ Unibanco has shown how this can be done. Its microcredit initiative demonstrates that new technologies, when combined with access to the right local knowledge, can lead to fresh and low-risk models for low-income markets.**

### Impact of the inclusive business initiative

Itaú Microcrédito serves micro-entrepreneurs in poor neighborhoods and slums around the cities of São Paulo, Rio de Janeiro and Porto Alegre. These three urban areas jointly house 35.5 million people, more than 18 percent of Brazil's population. Instead of targeting rural areas like many of its competitors, Itaú was one of the first large lenders in Brazil to focus almost exclusively on the densely populated surrounding areas of major cities.

Itaú Microcrédito ended 2011 with a team of 120 employees, including a locally recruited field team of 70 loan officers and supervisors. The loan officers visit potential customers in targeted low-income communities, and after analyzing their businesses, offer micro-loans with an upper limit of R\$ 15,000 (US\$ 7,500).

Itaú Microcrédito has provided more than 35,000 micro-loans, equivalent to R\$ 110 million (US\$ 55 million). In 2011 alone, around 6,000 contracts were signed, equivalent to R\$ 20 million (US\$ 10 million). This represents a growth of 41 percent in operations and 35 percent in value, compared to figures from 2010.

### Barriers to scale

**Prohibitive operational costs:** The initiative needed to keep its operating costs low. The key was to maximize the number of microcredit clients a loan officer could visit and assess each day. The application of smart-phone based technology accomplished two goals. First, it significantly reduced the time needed to disburse loans; and second, it substantially increased loan officers' productivity (allowing them to manage more clients) and consequently, their loan portfolio.

**Information gaps:** Most of Itaú Microcrédito's clients had no previous credit history. A high rate of default among borrowers was thus a major potential risk. In order to meet this challenge, the company's loan officers use their local knowledge to assess risk. Trust is the key. Loan officers have a similar socio-economic profile to their clients and are often residents of the community they serve. Their knowledge helps the company make more accurate credit assessments of potential borrowers and clearly communicate repayment expectations to them.

### Strategies for success

**Building a team of motivated experts committed to inclusive growth:** Itaú Microcrédito's team is composed of individuals with considerable experience in reputable banks and microfinance institutions. A passion for inclusive business models, financial education and innovation are also common characteristics among the team. Even though the operation is significantly smaller than many businesses within the bank, top management lent its immediate support, given the prospect of developing small entrepreneurs and the future growth potential of the segment.

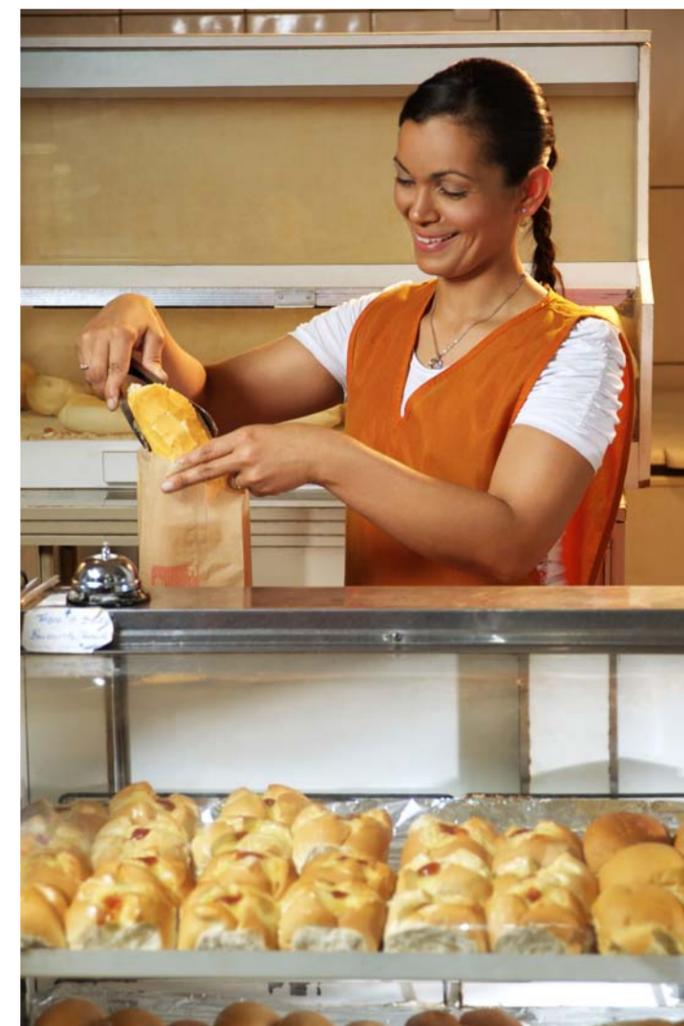
**Customizing credit assessment for low-income markets:** Itaú Microcrédito's loan officers analyze a client's business and create a questionnaire that generates loan viability indicators. Since most of the borrowers have a limited (or no) credit history, the bank provides the loan officers with flexibility to determine their credit worthiness. Loan officers make assessments based on the prospective client's local reputation, his or her inventory, and an interview.

**Identifying opportunities for collaboration with NGOs and entrepreneurs across the value chain:** Itaú partnered with recognized international institutions such as the Inter-American Development Bank, the Endeavor Institute, and the Consultative Group to Assist the Poor, a research group linked to World Bank. Leading universities such as the Getúlio Vargas Foundation, Massachusetts Institute of Technology, University of California at Los Angeles and Harvard University continue to show interest in the development of Itaú's technological systems.

**Adopting a life-cycle approach:** Itaú's engagement with low-income customers does not end when a loan is disbursed. Instead, the company provides guidance throughout the life of the micro-loan. By reviewing best practices from previous micro-entrepreneurs with potential borrowers, Itaú educates clients and maximizes the financial productivity of the loan, limiting defaults. The loan officers' proximity to their clients encourages customer growth and fidelity. Creating such a lock-in has helped Itaú sell other products to low-income customers during their journey up the income ladder.

**"Itaú Unibanco, a bank committed to the transformation of society and the sustainable growth of the markets where it operates, breaks down barriers to entry through microfinance products and services designed to meet the needs of informal entrepreneurs, who represented 17 percent of the Brazilian GDP in 2011."**

**–Fernando Chacon, executive director of Itaú Unibanco**



## Company information

In 2008, Itaú and Unibanco, two of the largest banks in Brazil, merged to create Latin America's largest bank, with over 104,000 employees and operations in 19 countries throughout the Americas, Asia and Europe. Itaú Unibanco recorded revenues of US\$40 billion in 2011, achieving close to US\$9 billion in net profits in that year.

## About the authors

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