

Peer to Peer Visit Report

Adie and microStart visited Microbank / La Caixa on 6th and 7th October 2016

Background of the meeting and the visiting delegation: (max. 1 page)

MicroStart has been developing a new strategic plan which will run until 2020. The organisation will enter into a scale-up phase and wants to develop its collaboration with banks. MicroBank represents a good reference to study, thanks to its organisation model with La Caixa.

Moreover, microStart wants to become more effective in customers' scoring process and MicroBank developed a powerful and interesting process, which attracted the attention of microStart's top management.

Adie recently started to implement a three-year strategic plan. This plan foresees a big increase in production, which implies efficiently prospecting new potential clients and channelling them to Adie's network. Adie thus wants to understand Microbank's model based upon a tight relation between the latter and its founding member, namely La Caixa Bank, and identify its main areas of success and see if some of them are applicable to the context in France.

MicroBank was set up in 2007 as a social bank to channel the microcredit activity carried out so far by "la Caixa". After 9 years of experience, MicroBank is now the leading microfinance institution in Spain and is willing to share its unique business model with microStart and Adie. The business model is based on three pillars:

- A broad network of more than 5,200 Caixa Bank branches that commercialises its products,
- The collaboration of European Institutions (EIF, EIB, CEB)
- The support of a network of more than 500 social entities that provide Business Development Services to entrepreneurs.

Lessons learnt during the visit: (max. 1 page)

- One of the key successes of the "marriage" between La Caixa and Microbank lies in the DNA of La Caixa, which has a strong tradition of social commitment, well diffused among the staff, at all levels.
- The collaboration between La Caixa and MicroBank works well because there is a strong commitment from operational staff to top management.
- The motivation of La Caixa branch staff is fostered through a set of different levers such as training, regular on-site visits from microbank staff, internal and external communications (success stories of clients, promotion of agent's best practices

among staff, inclusion of microcredit commercial goals (KPIs) for credit officers and branch managers.

- La Caixa made developments to its Information System in order to better and systematically screen prospects belonging to microbank's target population according to clear and simple indicators such as a client's annual income, the amount requested, the loan purpose, the guarantee, the industry of business, etc.
- Microbank's excellent financial results (an operating margin of €35.7M and €23.5 pre-tax profit) are due to
 - o A lightweight structure, which enables the institution to scale-up thanks to the support of La Caixa network of branches
 - o The weight of personal and family microcredits within Microbank's portfolio, which present a lower risk pattern than the business microcredits
- A large majority of business loans is attributed to self-employed (65%) as opposed to unemployed (15%)
- The risk on loans disbursed to a client with or without a guarantor is similar. A large majority of clients do not have a guarantor.
- Microbank does not provide BDS but relies instead on a network of almost 600 social partners (Chamber of Commerce, local governments, Foundations, etc.) to provide support and follow-up and direct prospects to microbank.
- Microbank provisioning policy is extremely conservative: 25% of principal due of NPL (PAR90) is provisioned quarterly.
- Microbank is currently testing a behavioural scoring tool (online questionnaire) in order to measure the creditworthiness of applicants.
- Microbank's offer is fully integrated into portfolio branch
- For social microcredit (business loans) <€15K, microbank set up a delegation of decision, which enables branches to locally approve or deny applications.
- An agreement between La Caixa and Microbank defines in detail the billing policy of La Caixa to MicroBank for all the services it provides to microbank:
 - o €60 per microloan appraised and disbursed by La Caixa
 - o €80 /year per active client account at La Caixa
 - o Debt recovery
 - o Marketing
 - o Etc.

**The visiting organisation's plans to adapt some key lessons to its own organisation:
(max. 1 page)**

Adie international started a microcredit programme in Greece and due to legal restrictions, the greenfield MFI can only operate through banking partners. Following our visit to MicroBank, the following four points will nurture our discussion and negotiation with our partner banks:

- Internal communication about best cases and success stories in order to motivate bank staff;
- Incorporation of microcredits into the set of key performance indicators and commercial goals of credit officers and branch managers of partner banks;
- Integration of microcredit portfolio into the portfolio of banking partners' branches;
- Development of banking partners MIS in order to systematically screen prospects belonging to our target population, in order to dope the flow of applicant and enable scale-up of operations.

Adie has a long tradition of partnering with French banks, which provide credit lines to the association. The two following points were particularly inspiring for Adie in light of its planned enlarged collaboration with its partner banks:

- The developments brought to the La Caixa CRM system in order to systematically screen prospects belonging to MicroBank's target population, which naturally boost the flow of applicants and enables the scale-up of operations.
- The way MicroBank communicates clients' best cases and success stories to La Caixa Bank in order to increase prescription and a sense of pride.

MicroStart has just finished its "start-up period". During which, the development of the activities was almost only based upon the "labour power" of its own staff located in its own network of agencies. A strategic way for microStart to succeed in the "scale-up period" is to find others channels to distribute its products and services. Enlarging its collaboration with BNP Paribas Fortis, its historic bank partner, but also with Partena Professional, a more recent partner is key. Some lessons learnt during the visit are:

- The importance of digital tools (including a scoring tool) and well integrating them in the partners' CRM systems;
- Strong commitment from operational staff to top management is essential;
- Management of the collaboration with "commercial" KPIs must be easy to follow.

Concerning risk management, the use of personal microcredits to mitigate the risk of the portfolio could also be a source of inspiration for the future of microStart.