

Credicorp: from little things, big things grow



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Credicorp is a leading financial holding company in Peru. Its subsidiaries include Banco de Credito del Peru (BCP), the country's largest bank by loans and deposits, and MiBanco, which specialises in microfinance

SDG alignment



SDG target 1.3: By 2030, ensure that all men and women – in particular the poor and the vulnerable – have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance



SDG target 9.3: Increase the access of small-scale industrial and other enterprises – particularly in developing countries – to financial services, including affordable credit, and their integration into value chains and markets.

Engagement objectives:

- Broaden financial inclusion
- Expand access to credit among micro and small- and medium-sized enterprises (SME) to support economic growth
- Support female empowerment and reduce inequalities and poverty

Peru: banking the unbanked

For 10 consecutive years, Global Microscope¹ has awarded Peru the top spot in the overall ranking of enabling environments for financial inclusion.²

The reality, though, is different: only four in every 10 Peruvians have a bank account, according to the 2018 Global Findex, a personal-finance database.³ With limited access to formal financial institutions to build up savings, breaking the cycle of poverty is difficult for many Peruvians: about 8.2% of adults (aged 15 years or more) have saved at a financial institution during the past year, compared to 12.2% in Latin America; and credit penetration is also low, with less than 20% of Peruvians receiving credit in the past year.⁴

The government has begun to take action in order to accelerate progress towards universal financial access and inclusion nationwide: the country's National Financial Inclusion Strategy, launched in 2015, commits the government to ensuring that at least 75% of adults have access to a bank account by 2021.⁵ In addition, the government aims to increase the number of SMEs with access to loans either from banks or regional and municipal savings and loans cooperatives to 60% – up from the current level of 35% – to help them raise working capital and expand their businesses. This can create a positive impact: SMEs comprise 99% of total enterprises and provide 61% of total employment and 41% of GDP in Peru.⁶ However, according to research by SME Finance Forum, 45% of micro and SMEs in the country are financially constrained.⁷

Broadening financial inclusion

Credicorp can play a pivotal role in supporting inclusive and sustainable economic development: BCP has the largest share (by loans) in Peru, while MiBanco dominates the microfinance space.

¹ Global Microscope, as compiled by the Economist Intelligence Unit, analyses the overall regulatory and institutional environment for financial inclusion in more than 50 countries.

² "Global Microscope 2016: the enabling environment for financial inclusion," published by The Economist Intelligence Unit in 2016.

³ "Peru – Global Findex," published by the World Bank in 2018.

⁴ "Peru – Global Findex," published by the World Bank in 2018.

⁵ "Peru launches National Financial Inclusion Strategy to expand financial inclusion," published by The World Bank in August 2018.

⁶ "SMEs, Competition Law and Economic Growth", Asia-Pacific Economic Cooperation (APEC), 2015

⁷ "MSME Finance Gap," published by the SME Finance Forum in 2017.

There is growing evidence that appropriate financial services have substantial benefits for consumers, especially women and poor adults:⁸

- Financial inclusion can help reduce poverty and inequality by helping people invest in the future, smooth their consumption patterns and manage financial risks
- By providing ways to manage income shocks like unemployment or the loss of a breadwinner, financial inclusion can also prevent people from falling into poverty in the first place.

We are engaging with Credicorp primarily on SDGs one and nine. To align its corporate practices more closely with these SDGs, we are encouraging the company to further its efforts to broaden financial inclusion and expand access to credit, thereby supporting growth and reducing inequalities and poverty. The engagement will be long-term in nature and is in its nascent stages.

Theory of change: BCP

To achieve the objectives of our engagement with BCP, and generate positive changes aligned with SDGs one and eight, we aim to apply the following steps:

- 1 Meet with BCP's senior management teams – particularly the group and subsidiary CEOs – and persuade them of the benefits to all stakeholders of our engagement objectives, while also brainstorming for ideas about further potential impacts;
- 2 Sharing insights about robust policies and practices obtained through Hermes' interactions with other microfinance businesses;
- 3 Sharing knowledge of best practices implemented by banks and social innovators across the world;
- 4 In the spirit of what gets measured, gets managed, request more detailed reporting by the company about its social and economic impacts in order to catalyse more positive change

■ Practice of change: BCP

Given its economic importance as the country's largest bank, we have questioned the environmental and social risk-management undertaken as part of BCP's commercial lending. By establishing a robust ESG due-diligence framework for its core lending operations, we believe the bank can improve corporate environmental and social practices across the country. To deliver a greater impact, BCP could develop outreach

campaigns and product solutions to expand people's access to current and savings accounts, reduce the growing gender gap among bank-account holders in Peru and thereby improve the balance of power in financial decisions within households.

In our view, too many of Peru's growth companies are credit constrained yet BCP has only a 12% share of the growing SME credit market. Expanding this share could potentially benefit BCP's business, the economy and, of course, further combat poverty by creating new employment opportunities. It is also notable that no clients of MiBanco have transitioned to BCP. There could arguably be a smoother continuum between the Credicorp's microfinance and mainstream banks to help small businesses expand at a greater rate.

BCP's range of products is supported by Switzerland's State Secretariat for Economic Affairs, whose strategy for helping to develop Peru's economy is to encourage and enable SMEs to invest in capital equipment and machinery in order to improve their energy efficiency. We consider this to be an ideal example of a private-public partnership that can be used as a model to focus on other aspects of sustainability.

■ Practice of change: Mibanco

With a 23% market share, Mibanco is the undisputed leader in lending to micro and SMEs in Peru. Unbanked people – particularly those in rural areas – are generally the poorest in Peru, and MiBanco has the largest network of offices in the Peruvian micro-lending market, with 70% of them in rural areas. The lender has been adding more than 10,000 unbanked entrepreneurs every month.⁹ As such, alongside its parent, it has a critical role in providing wider access to finance.

In our engagement, we are encouraging it to invest in technology to further expand this access among rural populations, grow its business in a responsible manner and, importantly, ensure that lending terms are fair. The company has acknowledged its use of technology should improve. BCP has offered apps to customers for some years, but MiBanco has some way to go – despite evidence beginning to suggest that mobile-phone banking users are more likely to absorb negative income shocks.¹⁰

By scaling up its efforts to improve financial inclusion in Peru and access to credit for micro and SMEs, Credicorp can significantly help to alleviate poverty and enable entrepreneurial businesses to thrive. In turn, these positive impacts will underpin economic growth and reduce inequality.

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This document does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

⁸ "Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence," Demigruç-Kunt et al, Policy Research Working Paper, World Bank Group, 2017

⁹ All statistics about Mibanco in this section are attributable to the company's Q3 2018 investor relations presentation.

¹⁰ "From 'Touchpoints' to Inclusive Growth: An Evidence-Based Theory of Change for the National Strategy for Financial Inclusion," a BSP-UP Professorial Chair Lecture delivered by lecture by Monsod, T.C. in November 2017.

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