

## Banca Comunitaria Banesco: the bank goes to the “*barrio*”

By December 2016, Hector Albarrán, Vice-president of Banca Comunitaria Banesco (BCB), was getting ready for a routine visit to a BCB office located in “El Cementerio”, one of the popular *barrios* (low-income neighborhood) in Caracas where they operated. To Albarrán, though, going to the *barrio* was more than simple routine, it was a combination of keeping a rapport with his front-line collaborators and base-of-the-pyramid (BoP) clientele, and going back to his own roots of which he would always be proud. After 15 years of experience in microfinance institutions, in 2014 he was called to lead BCB the microfinance business unit of Banesco Banca Universal (BBU), the largest private bank in Venezuela and the second largest in the market, after state-owned Banco de Venezuela.

BCB started operations in 2006 aimed at the BoP segment, which represented about 80 percent of Venezuelan population. From the very beginning, Juan Carlos Escotet, BBU’s founder and president, evidenced the strategic importance of BCB, keeping a close involvement and giving all his support to the initiative. However, BBU internationalization strategy, had called for his attention in other markets in Latin America and Europe, where the Banesco Group growth opportunities seemed more realistic.

By 2016, BCB was the leading microcredit institution in Venezuela, serving more than 350 thousand people in more than 8 thousand low-income neighborhoods throughout the country (Exhibit 1), with 51 percent market share. BCB ten years operations’ results were encouraging, with more than 45 thousand microcredits granted on a yearly basis, 48 thousand microentrepreneurs trained, and 93% of BCB customers affirming that access to credit had improved their quality of life. However, in the midst of Venezuela’s worst economic crisis, BCB performance was becoming a concern, as Albarrán pondered:

We have tried to give a lot of financial sustainability to BCB, we have generated a greater detail of our customers’ profile and of where and when we serve them. BCB has had excellent results for 8 years but the country context has forced us to be more focused and efficient.

While his visit to the microentrepreneurs and merchants in the *barrio* proceeded, he was getting a more somber picture. BCB customers and allies (merchants that offered financial services in their stores) were complaining on the fall of purchasing power, government controls and scarcity of basic goods (either food, personal or house care products). These factors combined had a devastating impact on their businesses, affecting prices, inventory levels and sales potential. The uncontrolled inflation made microcredit amounts insufficient, and the raise of credit risks made it hard for BCB to match customers’ requests.

Adding to all that, he was convinced that the moment had come to review BCB original model, based on an inclusive distribution channel in low-income neighborhoods. In addition to containing the effects of the crisis, it was important to think in the medium term. The need to be more cost-efficient moved hand in hand with the evaluation of new service models, which combined technological and human factors, to broaden BCB's reach and customer satisfaction, as well as social impact.

Upon returning to his office he called for a meeting with his closer collaborators. The pressure was mounting to present a new business model to the board, that Juan Carlos Escotet was expected to attend in less than two months. Some questions were still unanswered: would they be able to keep BCB's reach and service level, while increasing efficiency and financial performance? Should they keep on scaling and replicating the model or look for innovation opportunities?

To add to the challenge, he knew that BCB was central to Banesco Group's social purpose and reputation, and that Escotet would expect a viable balance between economic and social performance.

## **1. The Banesco Group**

Banesco financial group grew over three decades and went through three different stages: birth and positioning in the Venezuelan market (1986-1996); acquisitions and mergers (1997-2002); and consolidation and internationalization (2003-2016).

In 1986, Juan Carlos Escotet and a group of partners founded Banesco Casa de Bolsa, an investment firm that in 1992 became Banesco Commercial Bank, focused on serving the corporate sector and high and middle-income individuals. In 1997, after a major financial crisis forced some large banks out of business and other to downsize, Escotet fetched the opportunity posed by a change in saving and loans (S&L) regulations. He acquired five regional S&L and created Caja Familia, later merged with Banco Unión (with a nationwide office network) to form Unibanca.

In 2002, a final merger of Unibanca and Banesco resulted in Banesco Banco Universal (BBU), under the executive chairmanship of Escotet. In less than five years, S&L institutions, with their fair market share of medium-low income clientele, and some medium size banks, had been absorbed into a large financial institution, aimed at mass consumer market. By 2006, BBU ranked first in assets, client portfolio and offices in the Venezuelan financial system.

In that same year, BBU began its internationalization process, opening operations in the state of Florida (United States), receiving a license to operate in Panama (2006), merging Banesco Internacional Puerto Rico with BBU Bank (2010), opening in the Dominican Republic (2011), and inaugurating a representative office in Colombia (2013). But the boldest move in the internationalization process was the purchase in Spain of Nova Galicia Bank (2011) and of 70% share in Banco Etcheverría (2012) and their subsequent merger in ABANCA (2014). Juan Carlos Escotet, moved his main operations to Spain and held the presidency of Banesco International Group, while remaining Chairman of the Board at BBU in Venezuela.

By the end of 2016, BBU recorded positive results (Exhibit 2), ranking first among private banks in Venezuela, with a market share of 16.45% in total assets, 16.88% in deposits and 16.11% in loan portfolio. Banesco had a network of 417 offices throughout the country, with about 75,708 points of sale and 1,434 ATMs, to serve more than 6 million customers (Banesco, 2016).

## 2. From social responsibility to Banca Comunitaria Banesco

Since the 1990s, Banesco had allocated resources to corporate social responsibility initiatives, especially in the areas of health, education, and assistance to children and people with special needs. This policy consolidated in 2002 when BBU established strategic alliances with "social partners", like NGOs and civil associations dedicated to health and education such as the Venezuelan Red Cross, Fe y Alegría ([www.feyalegria.org](http://www.feyalegria.org)) school network, Universidad Católica Andrés Bello ([www.ucab.edu.ve](http://www.ucab.edu.ve)) and IESA management school ([www.iesa.edu.ve](http://www.iesa.edu.ve)).

Cuncurrently, Escotet and Banesco's directors focused their interest in the microfinance business aimed to the BoP market. As Escotet explained, Banca Comunitaria Banesco initiative resulted from the decision "to align our corporate social responsibility policy with the business strategy and the overhang project to offer innovative, quality products, services and channels to traditionally excluded clients<sup>1</sup>.

The first BCB initiative leader was William Lecuona (VP of Customer Care and Service), an economist by profession, who commented on his designation:

By 2002 there was an international boom around business with the BOP, and the microcredit Grameen Bank ([www.grameen.com](http://www.grameen.com)) experience in Bangladesh. Banesco's executives entrusted me to combine microentrepreneurs development with bankarization of low-income customers, even if my experience was more in customer service than in microfinance. It took us three years of research and design to get BCB project approved in 2005.

Moving the BCB project into its next step required a dedicated champion, a visible head to face the challenges that the microfinance business. After months of search, in February 2006, Claudia Valladares, a system engineer with an MBA at Loyola University (Chicago), was appointed as BCB first VP, responsible for the business unit launch and operation.

By that time, Valladares was a Citibank executive in New York, after working in Venezuela as a manager at the National Housing Institute. She also had a relevant microfinance and social cooperation experience thanks to her collaboration with Gente Nueva, an NGO that offered training courses and carried out food and health programs for low-income people in Mexico and Bolivia. Commenting on her appointment, Valladares said:

After meeting Escotet I was thrilled by the opportunity, but I was very aware of the difficulties. Microfinance was my passion, but I had to quit my own project due to the lack of investors and public support. After six months of conversations, I finally decided to return to Caracas to launch Banca Comunitaria. I had to start from scratch: choosing where we were going to operate, what the team was, how to design the organizational structure, everything.

Banca Comunitaria Banesco (BCB) operations started in 2006, with 71 employees and 5 offices. Its stated objective was to support small businesses and microentrepreneurs, by developing inclusive products and services and training, as well as "to provide an opportunity for those sectors of the population that have not acceded to the advantages of the financial system"<sup>2</sup>. BCB's general purposes were:

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<sup>1</sup> Banesco Social Responsibility Report (2006)

<sup>2</sup> Ibidem

To contribute to reducing poverty through economic development and social transformation; promote sustainable development through empowerment of entrepreneurs; dignify human beings and communities, and generate opportunities and trust, all in harmony with the government's regulatory frameworks and public policies”<sup>3</sup>.

At the same time, BCB was expected to support Banesco’s mission (Exhibit 3), explore business opportunities in hitherto neglected segments and help strengthen the bank's brand and reputation in a national context that was becoming increasingly hostile to the private sector.

In 2007, Escotet invited Muhammad Yunus, Nobel Peace Prize Laureate and Grameen Bank founder, as a key speaker of "Words for Venezuela”, an international forum to give more impetus and visibility to the development of BCB. Escotet highlighted the influence of Yunus and the Grameen Bank:

Listening at Yunus’ biographical journey, and the microcredit experience as a tool to overcome poverty, sufficed to ask how far away Bangladesh was from our social and economic complexity. This system, which was conceived and designed to attend to a specific reality, has served as inspiration not only for Banesco in Venezuela, but also for many other organizations specializing in finance in Latin America and in other areas of the world.

Regarding the birth of BCB, Claudia Valladares commented:

Escotet was inspired by pure and hard social commitment, but he also understood the opportunities in the popular sectors. He was very demanding with numbers and results. He had the investor’s patience to understand that this was a business. Not the big business of private banking, but he understood that millions of small customers could equal a traditional bank.

As part of its social concern, in 2009, BBU subscribed to the United Nations Global Compact (UNGC).

### **3. Building BCB’s business model**

Throughout its first 5 years of operations BCB's business model was a work in progress. First, BCB had to understand the market needs of the unbanked segment and quantify the size of that market, estimated at around 60 to 70 percent of the Venezuelan population. By 2006, BCB calculated that only between 40 and 30 percent of the population had access to bank credits. Most of the popular segment had to resort to informal lenders, who charged usury interest rates and established very short payment terms.

Serving BoP customers posed problems in terms of risk assessment and the use of BBU banking operative platform. BCB potential customers were often microentrepreneurs engaged in informal activities, who could not provide the references that were usually required to open an account or receive a loan in the traditional banking business. Hence, heterodox methods had to be developed to identify clients and evaluate the growth potential of their businesses. As for technological aspects, BCB shared Banesco's general platform but had to integrate it with operational programs, specially designed for the microfinance business.

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<sup>3</sup> Ibidem

BCB's distribution channel should achieve the greatest coverage in popular areas, without incurring the costs of a wide network of traditional agencies and facing new operational and security difficulties. BCB's channel showed a multiple structure, with a "business model to serve the massive segments under an omni-channel strategy, with a simple, economic, dynamic and scalable architecture"<sup>4</sup>. It combined a network of community agencies, attention bars, community promoters, non-bank correspondents and community advisors (Exhibit 4), and was designed with the purpose of taking the bank to popular neighborhoods where no other institutions had offices. Its structure resulted from the adaptation of microfinance experiences in other countries. As Claudia Valladares reminded:

At the beginning we had a lot of doubts because we did not know which business model would work and we had to adapt to Venezuelan legislation, which did not allow the development of proven models in countries with more experience in microfinance like Brazil.

Indeed, Venezuelan law required that bank operations (like opening accounts, credit applications and payments), could only be carried out by bank officials and not by third parties. This obliged BCB to create a combination of owned channels (served by their employees) and allies to extend its coverage into low-income areas.

The initial investment in the project was 1.17 million dollars, which generated a huge commitment to business development and profitability. According to Valladares: "the times of return on investment required more patience, since it was a business with a social impact. It took us 6 years to achieve that goal."

#### **4. Changing culture and challenging structure**

BCB moved away from the conventional banking criteria and differentiated from Banesco's organizational culture. The selection and training of BCB personnel focused on new skills and profiles that were not common in BBU. It was necessary to create front office teams willing to operate inside the *barrio*. BCB employees often came themselves from popular households and were accustomed to interact with people problems. They acted and dressed differently from traditional BBU employees. These differences caused tension between the BCB and the other units of BBU. As Valladares commented:

We had a hard time starting a business with a different philosophy, to understand that we were not only to generate money and obviously to be profitable, but also to create a positive impact... The cultural differences were sometime very subtle, while BCB personnel strolled around in their colorful casual uniforms, BBU employees had to follow the bank's traditional dress code... that was enough to create ills and comments.

To permeate the principles of BCB in the Banesco culture, a full immersion visit (the "Community Tour") of BBU's directors, vice-presidents and managers to the community agencies and attention bars, allowed them to meet with customers, allies and BCB staff. As Valladares recalled: "The tours sensitized Banesco's management very much. It was a very hard, but there came a time when the bank felt proud of having Community Banking and of what it did for our society, for Venezuela".

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<sup>4</sup> Channel VP Presentation, 2016.

After testing the business model, BCB structure, reporting line and branding started to become an issue. Valladares's vision was to create a fully independent microcredit bank, as she recalled:

We had shown that we could be profitable, and we worked as an independent bank, managing our finances. We had the BCB brand under the umbrella of Banesco, but we had our own organizational culture, separate agencies, service bars, and our very own distribution network. We were different in all concerns.

On the other hand, Lecuona commented:

We thought of BCB's customers as a segment as important to Banesco as any other. We identified the need for people to be served by a bank, not something other than a bank or something less than a bank. That is why we did not think about creating a foundation or placing microcredit as a part of social responsibility activities.

Recalling the discussion on this topic, Mariela Colmenares, VP of Communications and CSR at BBU, said:

Escotet acknowledged the risks of putting the bank's brand on a microcredit unit, but he always repeated that he believed in this project and that he would give it all the support of the brand. Being under the same umbrella, Community Banking permeated the Banesco culture, transformed it and made it less elitesque and influenced our communication processes.

Despite the support that Escotet and the board had demonstrated to the initiative, BCB remained a business unit. However, its reporting line within BBU remained unstable moving from the channel director, to sales, finance, and finally to the agency network director. As Valladares recalled:

As Banesco grew, Escotet, who was very close to the BCB at first, went away. The decisions remained in the hands of the director to whom I reported. In one year. I reported to 4 different directors, which made internal management very complex.

In parallel, BCB gained national visibility and its social impact was recognized by the NGOs Venezuela without Limits and the Schwab Foundation, that rewarded Claudia Valladares with the Social Entrepreneur prize in 2010, giving her the opportunity to present BCB's initiative to different audiences in Venezuela and abroad. The motivation for the award was:

Mrs. Valladares is the main representative of this program whose focus is the popular sector communities that have not yet entered the banking system. Through this initiative, they have succeeded in impacting the quality of life of these communities, boosting the popular economy and offering them financial products and services tailored to their needs.

In 2013, the growing tensions in the reporting lines pushed Valladares to quit, leaving BCB without the "founder" leader. As one BCB's employee commented:

When Claudia left we became orphans, she was always present and managed to motivate us to grow and understand our customers in the *barrio*. Her social sensitivity was real and so she transmitted it.

In 2014, Hector Albarrán, a professional with more than 15 years of experience in the field of microfinance, moved from Bangente (one of BCB's main competitors) to become BCB new VP. Again,

BCB reporting line moved, this time under Banesco's commercial director. The aim was to insert BCB more clearly inside Banesco's market segmentation, considering it as the entry level for popular segment customers, that will eventually move on to the mass segment served by Banesco's conventional agencies. When Albarrán took office, after a year transition under another VP, BCB employed over 480 people, with 26 community agencies, 95 service bars and over 300 non-bank correspondents.

## 5. The *barrios* environment in the Bolivarian Venezuela

The *barrios* in Venezuela were urban spontaneous settlements mostly built on hills surrounding the main cities with precarious public services, irregular roads -alleys, passages and long stairways- and, in general, areas of difficult access and control. As in other Latin American countries, these neighborhoods were often extremely dangerous, dominated by gangs of criminals and with minimal police presence.

However, the *barrios* were also a lively economic environment, where a universe of microentrepreneurs proliferated in grocery shops, liquor stores, bakeries and workshops. All kinds of informal commerce took also place in homes, where food, handicrafts and clothes were produced and sold, or services like child care or hairdressers were provided. A good part of the *barrios'* population lived their lives in this quite limited environment, as a young mother in the *barrio* "Manicomio" in Caracas remarked:

I leave the neighborhood very rarely... here I have everything I need, here I work, here I have my family and friends, and here I do my shopping... we go down to the city only on special occasions, only because the children ask us.

Since 1999, President Hugo Chávez' political project appealed to the popular segments, declaring his intention of putting a state-led economy at the service of the impoverished majorities. Thanks to the enormous resources of the oil boom, the government developed a system of direct subsidies (called Missions), which included education, literacy, health, and subsidized loans for housing and productive activities promotion. Concurrently, public food distribution channels known as Mercal and PDVAL, allowed access to basic food needs with an intensive presence in low-income neighborhoods and a subsidized price. Until 2013, social and public expenditure policy had an immediate impact on improving the economic conditions of the popular classes, which saw their income and consumption opportunities increased.

Chavez's economic model (called XXI Century Socialism) implied centralized controls on the economy, with fixed prices and interest rates, as well as a restricted foreign exchange market. The growing confrontation with private business sector lead to the nationalization or expropriation of three million hectares of agricultural land and more than a thousand large companies, mostly manufactured goods and food producers, negatively impacting production capabilities. High oil revenues allowed to compensate the shortage of domestic products with huge imports, accelerating public spending and fiscal deficit. Since 2013, under Nicolás Maduro government, the oil price started to fall, showing the system's fissures, forcing him to declare an economic emergency. Increased liquidity, surging fiscal deficit, shrinking imports and uncontrolled inflation were some of the results of the anticrisis measure. With two thirds of the industrial park destroyed and hundreds

of thousands of unproductive agricultural hectares, the result was a tragic shortage of all types of consumer goods, raw materials and goods of capital.

In BCB's 10 years of operation, the Venezuelan economy had shifted from growth to recession, achieving by 2016 the worst economic performance in the region, with the highest inflation in the world (Exhibit 5).

## 6. BCB's business environment and competitors

Since 2001, when a microfinance law<sup>5</sup> was enacted, establishing the obligation for all bank to allocate 3 percent of their portfolio to microcredit, the segment grew from 0.05 percent of GDP in 2002 to 1.25 in 2012, with an average annual growth of 95.9 percent. Despite this growth, by 2011, Venezuela ranked 52<sup>th</sup> in terms of its microfinance environment quality,

At the end of 2016, the Banking Superintendency (Sudeban) registered four microcredits banks: Bangente ([www.bangente.com.ve](http://www.bangente.com.ve)); Bancrecer ([www.bancrecer.com.ve](http://www.bancrecer.com.ve)); Bancamiga (2007) and MiBanca (2009). Bangente, the first player in the market, was founded in 1998 by Banco del Caribe (a medium-sized Venezuelan bank operating since 1954), along with three Venezuelan NGOs with experience in financing BoP economic activities, the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF) and the international microfinance investment funds ProFund International y Accion Gateway Fund<sup>6</sup>.

As a business unit of BBU, BCB was not considered in this ranking although like the rest of the universal banks, Banesco reported to Sudeban the data from its microcredit portfolio. By 2016, the microcredit portfolio of all banks was 3.82 percent of the total credit portfolio of the system. Considering only the microcredit portfolio of the banking system, Bancrecer had the largest share (27.61%), followed by Banco de Venezuela (14.76%) and Banesco (10.12%) (Exhibit 6).

As Claudia Valladares commented: "Our main competitor for many years was Bangente, but they never could or wanted to invest as much in setting up a distribution network as we had". At the end of 2016, Bangente had 14 banking agencies, with deposits of USD 72.96 million, while BCB operated with 26 agencies and deposits of USD 52.83 million. With regard to the microcredit portfolio, in 2016, BCB was dominant with USD 190.74 million against USD 61.02 million of Bangente<sup>7</sup>.

The other competitor was the Venezuelan state, that after launching some unsuccessful microcredit institutions, in 2009 nationalized Banco de Venezuela (BV), owned by the Santander Group. With 290 agencies and more than 3 million clients BV was the largest in the country in deposits and credits, and its acquisition was promoted as a way of "strengthening the national public banking system and boosting social and economic development policies". That same year, the Venezuelan Government also created Banco Bicentenario<sup>8</sup>, positioned as a socialist bank, through the merger of

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<sup>5</sup> Creation, Stimulation, Promotion and Development of the Microfinance System Act of 2001.

<sup>6</sup> Bangente: *Informe de responsabilidad social corporativa 2014*, página 3. <http://www.bangente.com.ve/static/pdf/reporte-rse/reporte-rse.pdf>

<sup>7</sup> Sudeban: "Portfolio of credits by destination of credit, according to bank". as of December 31, 2016. [http://sudeban.gob.ve/?page\\_id=145](http://sudeban.gob.ve/?page_id=145)).

<sup>8</sup> In 2014 the bank was renamed as Bicentennial Bank of the People, Working Class, Women and Communes, and in 2016 absorbed the Sovereign Bank of the People

a regional development bank and four small private banks with solvency problems. The merger resulted in a medium-sized bank in terms of deposit and loan portfolio, but with the largest network of agencies (387). By the end of 2016, these two state-owned banks together represented 42 percent of all the agencies of the Venezuelan banking system. The government used these banks as main channels to transfer resources of direct subsidies to the popular sectors. The policy pursued was, on the one hand, the massive opening of bank accounts, in the traditional agencies of the bank, and the granting of debit cards to channel direct transfers of money and, on the other hand, the indiscriminate granting of credits. Commenting on state-owned banks competition, Valladares said:

Public banks have unfortunately done a lot of damage to the microfinance system, not only here but throughout the world. When people know that the government is the one who gives the credit, they automatically believe that they should not pay it. That totally distorts the market. The microfinance ABC says that the government should not give credit. It should regulate and encourage... State banks started to provide microcredit and did not recover one. They did not care about profitability, but what they called 'social profitability'.

## **7. BCB's segments and value proposition**

BCB's value proposition was designed to support BoP people bankization and to promote microentrepreneurs, whose main areas of activity were transportation, small grocery stores, workshops (car and home repairs) and small trade in the barrio. According to a study conducted in 2016 (Exhibit 7), 93% of customers perceived "a significant improvement in their quality of life, both in the family and in their businesses".

Some commented that BCB had: " helped me when other banks have denied me credits; has made me grow as an entrepreneur; made me learn about my business". On the other hand, some microentrepreneurs agreed that the main problem with microcredit lied in an amount that was insufficient for their business or family requirements. One autotransporter commented:

With vehicle and spare parts prices increasing from month to month, BCB credit limits are far from covering our needs. They have nice words, but in fact they are leaving us alone with our problems."

BCB's product portfolio combined products and services (Exhibit 8) that comprised: community accounts, designed as a checking accounts but with a lower entry level requirement; step-by-step savings, a programmed saving product designed on the model of the popular collaborative savings managed by neighbors in the barrio (also known as "sanés"); and microcredits, designed to promote microbusiness growth and formalization, focusing on working capital financing, through a policy of higher amount renewals that incentivized due payment. The collection products were designed as basic banking instruments, and their offer was made directly in the communities. The microcredit product was aimed at microentrepreneurs (small shop owners, merchants, transporters, artisans and providers of personal and home services) in the neighborhood and its granting required a delicate referencing process in the community, as well as an individual assessment of the potential of each business.

The portfolio performance (Exhibit 9) differed among products. While the community accounts showed a sustained growth in both the accumulated balance and the number of customers, step-by-step savings presented a stagnation of affiliations since 2014 and a sharp fall in the accumulated balance, with falling saving capacity and high inflation and devaluation discouraging savings in local currency.

Microcredit products peaked in 2015, with the highest number of loans and annual amount granted, followed by a sharp fall in 2016. This was partly due to the impact of the strong recession and lack of supply of goods and equipment on microentrepreneurs activities. That was the case of the transporters, who traditionally had a strong demand for credits to buy new vehicles, that were no longer available in the Venezuelan market.

On the other hand, as Hector Albarrán recognized: “BCB had to introduce stricter risk analysis policies to contain increases of delinquency rates, that had passed from 0.06% in 2013 to 0.5% in 2015”. Concurrently, a more accurate segmentation of potential BCB customers classified microentrepreneurs in three segments: survival activities (50%), that could only cover the basic living; simple accumulation, that could sustain their business by barely navigating the impact of the economic crisis (30); and enhanced accumulation (20%), that had the potential to grow. Commenting on the impact of the crisis on BCB customers Albarrán remarked:

It is sad, but we cannot serve the ones that fail. In Venezuela many small shops and activities are closing because their suppliers simply disappear, and the consumption capability has decreased. We need to face this reality and select our customer based on a potential survival time of their business of at least two years.

Hand in hand with the development of microcredits, in 2008, BCB started the Microentrepreneurs Training Program which included topics of personal growth, finance, strategy, marketing and technology. In 2012, Banesco announced the program expansion to reach 50,000 entrepreneurs establishing a broad network of collaboration with educational institutions, associations, chambers of commerce and government agencies like Venezuelan Church Vocational Training Institute, Andrés Bello Catholic University, the Metropolitan University, the University of Los Andes, the University Institute of Management and Technology, Fe y Alegría, Microsoft Venezuela, Superatec, Opción Venezuela, SIGO University, Baruta municipality and Miranda state government among other partners. Special programs for people with disabilities, caregivers and relatives, and for the Wayúu indigenous communities in the Orinoco river delta, complemented BCB offer. By the end of 2016, the program had trained more than 48 thousand people (Exhibit 10).

## **8. BCB's distribution channel**

BCB distribution channel, composed by community agencies (CA), service bars (SB), and non-bank correspondents (NBC), reached its maximum coverage in 2015 (Exhibit 11). The key objective of BCB channel strategy was to involve BoP communities, working with social leaders, neighbors, education institutions and social action associations who were essential allies to promote BCB penetration and gain community trust and at the same time producing economic and social value for all those involved. As one BCB customer remembered:

I've never had a bank account before, nor thought of getting a credit to grow my business. I went to a BCB promoters' presentation because one of our community leaders invited us to attend, but I really thought it was not for me. Thanks God, I was wrong. So far, I have received and repaid 6 credits and I became a BCB correspondent.

The channel core operating unit was the community agency, a BCB branded bank office (200 m<sup>2</sup> on average) located in high density popular areas close to barrios entrances. Every agency employed an agency manager, supervisors, area coordinators and analysts serving in the offices, as well as a team of community advisors, often young university students from popular segments, who spent most of their time visiting communities.

Community advisors worked as a sales force for bankization and microcredit products, and their main function was to promote BCB services and identifying and profiling potential microcredit beneficiaries. They were trained on micro-credit methodologies, community analysis and values and ethical principles. On average each advisor managed a portfolio of 350 to 400 microentrepreneurs, identifying and observing new potential beneficiaries, and periodically evaluating customers, guiding them in their business plans and proposing on the amount of credit they could be granted. Their performance was measured on credit granted, recovery and average balance on customers' account. They received a basic wage as BCB employees, but the most important part of their income was variable and depended on performance. Advisers were well reputed in the "*barrio*" and related constantly to neighbors, community leaders and community councils, that allowed them to gather information, identify business opportunities and organize promotional activities called "*operativos*". According to a BCB promoter:

In each "*operativo*" we try to bankarize 40 to 60 people. It all begins with the contact with the community leader. He makes the call and tells us where and when we can meet, so that we are all safe. The hours are usually from 9 am to 2 pm, since before 9 nobody enters the *barrio* and after 2 nobody leaves. In these talks we explain that BCB is a private bank, different from the public communal banks and avoid falling into any political discussions. Our advantage is our experiences and our channels. There we have it won.

Each agency was also responsible for a network of service bars ("*Banesco Aquí*"), a 2x2 meters micro offices located in small shops like pharmacies, clothes and groceries stores in areas of high traffic closer to the communities. Each SB was served by a community promoter working in conventional banking hours. In SB customers could make deposits and withdrawals, open accounts, pay loans and receive information and advice about products. BCB covered SB installation costs as well as the conditioning of the space to match security and branding criteria. The merchants received a monthly rent for the space and benefits from the remodeling of their shops. According to the merchants' testimony, the presence of SB increased customers' traffic with better returns for the business, and diminished cash handling security risks. By 2016 there were 30 service bars, of which 8 were in Caracas. The SB reported directly to an operational coordinator located in the territorially competent BCB agency.

Community promoters (who were technicians or university students) preferably belonged to the same community. They provided their services based on knowledge and reciprocal trust with the customers, having to break down risk perception and communication barriers with people not accustomed to visiting banking agencies or making financial transactions. By the end of 2016, BCB

employed 38 promoters. Throughout its ten years of operation some promoters had the opportunity to grow in the organization, from being analysts or coordinators in the CA to reaching managerial positions in Banesco's head offices. As Keiber González, operational coordinator of a CA, testified:

I started as an apprentice at Banesco, then I was blessed to move to BCB. I was one of the first BCB's promoters. I started from below, but we all knew that everything depended on our performance and loyalty towards BCB. I was trained to become an analyst in the agency and right now I'm on the supervisory side. I worked hard, but my life changed completely. While working I graduated, I bought a car and I just received a mortgage from Banesco for my first home.

By the end of 2016 there were 26 agencies, of which 10 were in Caracas and the remaining 16 in main cities throughout the country. Agencies and SB performance was measured in terms of the number of open accounts, the average amount in the accounts and the number of transactions in the service bars. The number of service bars resulted from the density of population and the intensity of banking operations expected in each area.

The last mile of BCB channel, deep inside the *barrios* were the non-bank correspondents, also known as BCB's allies. NBC were small shops with a point-of-sales unit (POS) and connection, that allowed them to deliver cash and receive deposits charging or crediting BCB customer's account, even in non-office hours and week-ends. NBC received training on basic business and banking transactions, as well as on POS operation. Additionally, 90% of them were also microcredit beneficiaries who had already undergone a selection and accompaniment process and had often been trained in the Microentrepreneurs Training Program. As Hector Albarrán clarified:

The correspondents are the representatives of the bank in the community. Consequently, we need allies with a high level of reliability, chosen from our own customer base. We know them, we have developed them and, well, what more confidence than we have given them credits, knowing their business and turn-over.

BCB channel included 314 non-bank correspondents, who handled about 200 monthly transactions, with an average ticket of 12 USD, and received a fixed commission for their services (an average of USD 20 to 40 per month). A long-standing NBC, complained about the low commissions, that were established by the Sudeban: "From Banesco I have no financial benefit here, because the commission is minimal". However, others pointed out to the benefit of a safer cash handling, of serving their neighbors or gaining reputation in the community, as Lidia Galvis, a stationery owner commented:

To me the BCB point was a commitment to the bank and I assumed it as such. Now I also took it as my commitment to the community, because in Antímano there is no bank, not even an ATM. I can't say how much being a BCB ally has improved my sales, but today my stationery is a point of reference and I am respected.

One negative aspect though also related to the cash flow handled by the NBC, that put them in the sights of criminals. Hector Da Silva, a transport cooperative member, explained his experience:

Our location is quite risky and we are very careful with the kind of people we let in, serving only known people. We asked BCB to remove the signs not to attract criminal attention.

The security issue was getting worse as Deiniel Cárdenas, Banesco Channels VP, remarked:

There are places where we used to enter easily but today we cannot reach them anymore. We had to withdraw points at the request of the same store owners, because gangs of criminals extorted them to allow them to have the CNB and we were charged to enter the communities to give them technical service.

## **9. In search of efficiency**

As the meeting was progressing, Albarrán's team was recapping on BCB results, and on the need to think out of the box in terms of a new business model. Gaining on efficiency was a must, but they were aware that BCB had to deliver in terms of social value. BCB management had placed greater emphasis on the analysis of the profiles and business potential of the BoP customers, as well as the potential for survival of the microenterprise to the crisis.

A process of resizing of the BCB distribution network replacing the more expensive models, could take advantage of the synergies with Banesco network. Albarrán knew that some work had been done in that direction, as he recalled Dainiel Cárdenas words:

We have enhanced our electronic channels, mobile banking, multifunctional ATMs and the call center. We have migrated the community banking correspondents to achieve economies of scale. Even BCB web site is basically our transactional page with another appearance.

Opportunities could also emerge from new banking trends (Exhibit 12). They were aware that connectivity had stimulated digital banking in all segments, customer behavior had changed, and new players were emerging offering cheaper and more efficient solutions on payment, collaborative financing and crowd sourcing. Consumers had started to use digital channels more frequently, gaining empowerment on their financial decisions. But they also recognized that Venezuelan banks had been slow to respond due to the economic crisis, banking regulation, traditional and inflexible bank processes and difficulties to invest in IT.

Solutions like the electronic wallet and mobile payments could enhance BCB reach, but the team was skeptical on the potential. Although BoP segments in Venezuela had a very high mobile phone penetration (over 80%), they had not explored the technical and commercial feasibility of these new service model and products, that were already quite popular in Colombia and other Latin American countries.

The main challenges that Albarrán faced were strongly influenced by Venezuelan crisis but were also related to a most needed efficiency-driven approach to the microfinance business. In his words:

We have done a great job in serving BoP customers in these 10 years, but the country conditions have changed dramatically, jeopardizing BCB sustainability. I still believe that microfinance could have an impact on the quality of life. But not all BoP customers are the same and we can't expect to serve them all.

### Exhibit 1. BCB Customer and barrios served (2006-2015)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Customers	3895	22048	31497	35794	37560	44200	44663	62974	70684	80517
Barrios		1075	1605	1750	2550	4146	4146	8367	8367	8367

Source: Banesco, Social Responsibility reports (2006-20015).

### Exhibit 2. BBU Financial results (2016) (pending translation)

EXPRESADO EN MILLONES DE Bs.					CRECIMIENTO			
	I SEMESTRE 2015	II SEMESTRE 2015	I SEMESTRE 2016	II SEMESTRE 2016	II SEMESTRE 2016 II SEMESTRE 2015	%	II SEMESTRE 2016 I SEMESTRE 2016	%
<b>TOTAL DEL ACTIVO</b>	<b>509.381</b>	<b>789.266</b>	<b>982.065</b>	<b>2.150.046</b>	<b>1.360.780</b>	<b>172,4%</b>	<b>1.167.981</b>	<b>118,9%</b>
Disponibilidades	157.050	209.004	260.161	905.021	696.017	333,0%	644.860	247,9%
Inversiones en Títulos Valores	104.065	152.381	154.581	189.015	36.634	24,0%	34.434	22,3%
Cartera de Créditos Bruta	235.245	386.778	522.615	976.914	590.136	152,6%	454.299	86,9%
<b>CAPTACIONES DEL PÚBLICO</b>	<b>453.842</b>	<b>701.077</b>	<b>859.762</b>	<b>1.918.802</b>	<b>1.217.725</b>	<b>173,7%</b>	<b>1.059.040</b>	<b>123,2%</b>
Depósitos en Cuentas Corrientes	387.279	606.820	752.409	1.723.375	1.117.555	184,5%	970.965	129,0%
Depósitos de Ahorro	59.851	87.884	99.364	182.924	95.040	108,1%	83.560	84,1%
Depósitos a Plazo	732	861	852	1.170	309	35,8%	318	37,3%
Otros	5.980	6.512	7.137	11.334	4.822	74,0%	4.197	58,8%
<b>TOTAL DEL PATRIMONIO</b>	<b>37.920</b>	<b>54.209</b>	<b>65.976</b>	<b>101.999</b>	<b>47.790</b>	<b>88,2%</b>	<b>36.023</b>	<b>54,6%</b>
<b>ACTIVOS DE LOS FIDEICOMISOS</b>	<b>18.774</b>	<b>20.985</b>	<b>28.125</b>	<b>34.701</b>	<b>13.716</b>	<b>65,4%</b>	<b>6.576</b>	<b>23,4%</b>
<b>RÉGIMEN PRESTACIONAL DE VIVIENDA Y HÁBITAT</b>	<b>15.750</b>	<b>19.096</b>	<b>23.105</b>	<b>30.916</b>	<b>11.820</b>	<b>61,9%</b>	<b>7.811</b>	<b>33,8%</b>
Ingresos Financieros	26.821	44.746	62.204	111.577	66.832	149,4%	49.374	79,4%
Gastos Financieros	6.299	8.059	12.141	13.934	5.874	72,9%	1.793	14,8%
Margen Financiero Bruto	20.521	36.686	50.063	97.644	60.958	166,2%	47.581	95,0%
Margen de Intermediación Financiera	21.706	38.873	56.320	108.534	69.660	179,2%	52.214	92,7%
Gastos de Transformación	9.835	16.395	29.941	48.659	32.264	196,8%	18.718	62,5%
Impuesto sobre la Renta	1.244	5.850	8.199	16.373	10.522	179,9%	8.173	99,7%
<b>RESULTADO NETO</b>	<b>9.364</b>	<b>13.935</b>	<b>13.955</b>	<b>35.344</b>	<b>21.409</b>	<b>153,6%</b>	<b>21.389</b>	<b>153,3%</b>
<b>CARTERA AGRÍCOLA ACUMULADA</b>	<b>36.042</b>	<b>55.155</b>	<b>73.335</b>	<b>96.502</b>	<b>41.347</b>	<b>75,0%</b>	<b>23.167</b>	<b>31,6%</b>
<b>CAPTACIONES DE ENTIDADES OFICIALES</b>	<b>21.008</b>	<b>21.459</b>	<b>42.953</b>	<b>49.033</b>	<b>27.574</b>	<b>128,5%</b>	<b>6.080</b>	<b>14,2%</b>
<b>MICROCRÉDITOS</b>	<b>11.918</b>	<b>17.994</b>	<b>19.425</b>	<b>22.810</b>	<b>4.816</b>	<b>26,8%</b>	<b>3.385</b>	<b>17,4%</b>
<b>CRÉDITOS COMERCIALES</b>	<b>97.149</b>	<b>176.914</b>	<b>241.357</b>	<b>538.245</b>	<b>361.330</b>	<b>204,2%</b>	<b>296.888</b>	<b>123,0%</b>
<b>CRÉDITOS AL CONSUMO</b>	<b>44.465</b>	<b>81.372</b>	<b>125.604</b>	<b>212.775</b>	<b>131.403</b>	<b>161,5%</b>	<b>87.172</b>	<b>69,4%</b>
<b>VEHÍCULOS</b>	<b>8.990</b>	<b>12.980</b>	<b>15.155</b>	<b>23.973</b>	<b>10.993</b>	<b>84,7%</b>	<b>8.818</b>	<b>58,2%</b>
<b>TARJETAS DE CRÉDITO</b>	<b>44.465</b>	<b>81.372</b>	<b>125.602</b>	<b>212.775</b>	<b>131.403</b>	<b>161,5%</b>	<b>87.173</b>	<b>69,4%</b>
<b>PRÉSTAMOS HIPOTECARIOS</b>	<b>12.545</b>	<b>16.870</b>	<b>18.923</b>	<b>23.737</b>	<b>6.867</b>	<b>40,7%</b>	<b>4.814</b>	<b>25,4%</b>
<b>RATIOS</b>								
Proc. Cart. de Crédito / Cart. Inmovilizada Bruta	678,80%	2196,79%	1475,34%	1824,74%				
Cartera Inmovilizada / Cart. de Crédito Bruta	0,41%	0,12%	0,17%	0,14%				
Resultado Neto / Activo Promedio	4,29%	4,42%	3,21%	4,21%				
Resultado Neto / Patrimonio Promedio	56,58%	60,40%	46,19%	69,45%				
Liquidez Ampliada	42,52%	39,00%	38,08%	51,58%				

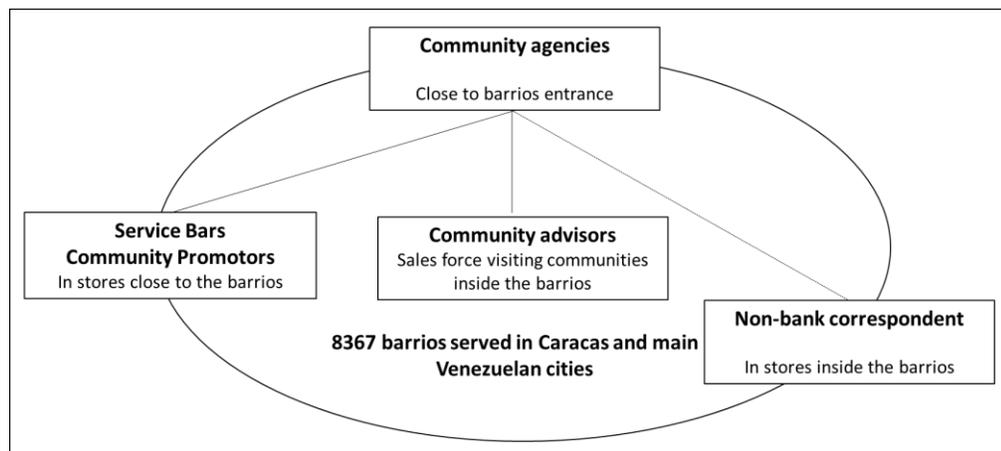
Fuente: Banesco's financial report, 2016.

### Exhibit 3. BBU and BCB Mission, Values and Vision

<b>BBU's mission</b>	<p>We are an organization of comprehensive financial services, dedicated to meet the needs of our customers and satisfy them through relationships based on mutual trust, easy and secure access, and excellence in quality of service.</p> <p>We combine tradition and innovation with the best human talent and advanced technology, we work to offer a superior customer experience.</p> <p>We are committed to the welfare of our community, we develop win-win relationships with our suppliers and employees, and we optimize the profitability for our shareholder</p>
<b>BCB's mission</b>	<p>We are a bank specializing in microfinance, efficient, profitable and sustainable, dedicated to the attention of the popular sectors of the population and especially the unbanked people. We offer products and services financial resources to suit their needs, with accessibility, simplicity and speed in the procedures through innovative channels with state-of-the-art technology. We rely on a group of professionals who provide financial personalized advice to our customers.</p>
<b>BBU's values</b>	<p><b>Responsibility</b> We respond to our tasks with precision and passion. We comply with the given word. We make the best use of time. We give the best to every person.</p> <p><b>Reliability</b> We tell the truth in all circumstances. We respond with sincerity. We recognize our mistakes. We ask for help when necessary.</p> <p><b>Quality</b> We do every task with the greatest care. We intend to be the best. We strive to exceed the expectations of our interlocutors.</p> <p><b>Innovation</b> We are an Organization with a vision of the future. We offer new solutions We look for ideas and technologies that promote change.</p>
<b>BBU's vision</b>	<p><b>Be leaders in customer experience:</b> Offer models of personalized attention and services that are comprehensive, simple, fast and reliable, through the <b>best omnichannel network in the country.</b></p> <p><b>Be pioneers in innovation:</b> Get to know so deeply the needs and habits of our customers so that we can anticipate their requirements with products, services and innovative channels, integrated technologically and that result in a better quality of life.</p> <p><b>Be an example of human sense:</b> Continue preparing the best human talent to boost the balance between profitability and human quality, leaving the highest standards of quality and performance.</p>

Fuentes: <http://www.bancacomunitariabanesco.com/somos-banca-comunitaria>; <http://www.banesco.com/somos-banesco/informacion-corporativa/mision-vision-y-valores>. Accessed May 8, 2017.

#### Exhibit 4. BCB's Distribution channel



Source: Author's interviews and BCB's reports, December 2016.

#### Exhibit 5. Venezuela's Economy (2006-2016)

Variable	2006	2016
Annual Inflation rate (%)	13,7	550
GDP variation (%)	9,9%	-18,6
Fiscal deficit (% GDP)	1,8	22,3
Poverty rate (% of households)	38	82
Oil barrel price (USD)	64,74	34,8

Sources: BCV (2016), UCAB (ENCOVI, 2014), UCV, USB. <http://datos.bancomundial.org/pais/venezuela>. Accessed May 22, 2017.

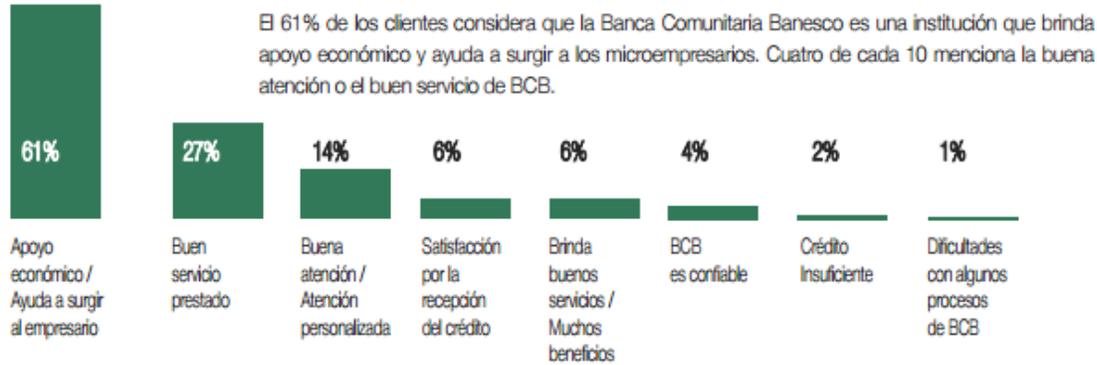
#### Exhibit 6. Microcredits portfolio and market share in Venezuela (2016)

	USD MM**		%
Total Credit portfolio	49.343		100
Microcredtis portfolio	1.884		3,82
Microfinance Banks+BCB*	894		1,81
BCB	190		0,39
<b>Banco</b>	<b>%</b>	<b>Banco</b>	<b>%</b>
Bancrecer	27,61	Bancamiga	3,59
Venezuela	14,76	Tesoro	3,36
Banesco (BCB)	10,12	Bangente	3,24
Mercantil	6,93	Exterior	3,01
Provincial	6,49	Mi Banco	2,87
Bicentenario	4,18	Other	10,08
BOD	3,77		

(\*) banca microfinanciera: Bancrecer, Bancamiga, Bangente y Mi Banco. (\*\*) Calculados con base a PPP

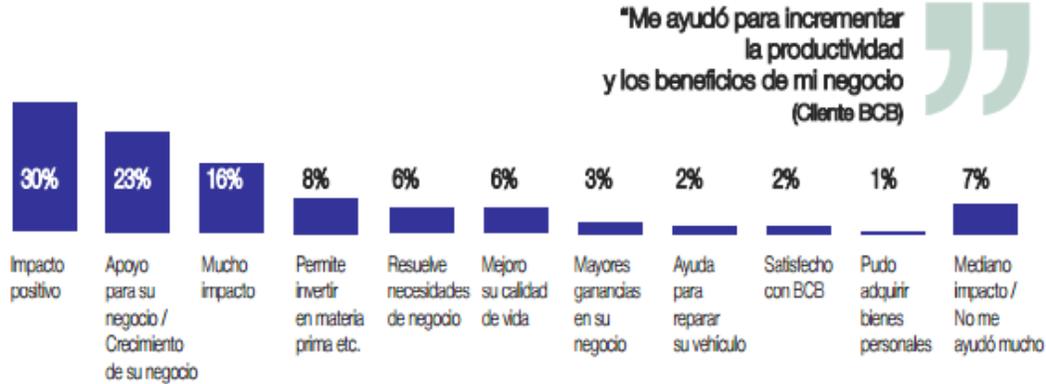
Source: Sudeban: "Cartera de créditos por destino del crédito". December 2016. [http://sudeban.gob.ve/?page\\_id=145](http://sudeban.gob.ve/?page_id=145)

## Exhibit 7. BCB's impact on customers (Pending translation)



El 93% de los clientes expresa que el apoyo de BCB ha tenido mucho o mediano impacto en su calidad de vida. La percepción de impacto entre crédito y re-crédito no presenta diferencias significativas.

### ¿Qué tipo de impacto diría que tuvo la recepción de ese crédito en su calidad de vida?



La mayoría de clientes expresa que la BCB tuvo mucho impacto en sus vidas y que pudieron avanzar en su negocio y vida personal. Los demás expresan que la cantidad del crédito fue insuficiente y que la situación del país no favorece el aprovechamiento del mismo.

Mucho impacto	
Crecimiento del negocio / personal	48%
Ayudó a resolver una necesidad del momento	16%
Permite invertir en inventario / maquinaria / materia prima	14%
Aumento de ingresos / mejora económica	14%
Rapidez en la aprobación del crédito / Buena atención / Asesoría	4%
Por los beneficios que ha obtenido	4%

Source: Banesco, Periódico el Comunitario, <http://banesco.blob.core.windows.net/bcb-prod-2017/wp-content/uploads/El-Comunitario-Diciembre2016.pdf>.

## Exhibit 8. BCB Product Portfolio

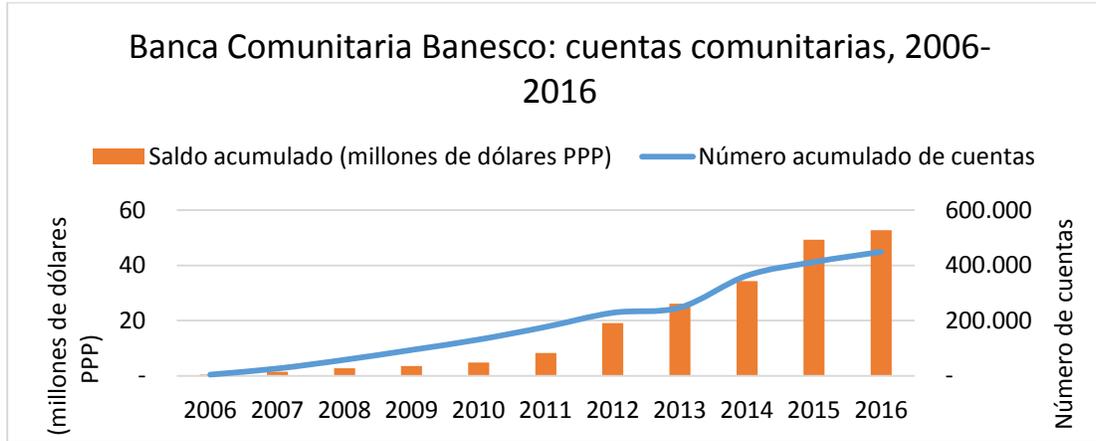
Product	Description
<b>Community account</b>	Electronic account Opening amount: according to the customer's savings capacity The customer receives a debit card to make withdrawals, pay at electronic points and make transactions online through the Banesco online portal ( <a href="http://www.banesco.com">www.banesco.com</a> ) It allows to earn interest with the affiliation to the "Savings step by step" plan
<b>Step-by-step savings</b>	Planned savings plan, designed on the model of informal savings or "sanés" already present in the barrio. The client decides how much to save month by month in order to reach a certain amount at the end of the plan. Minimum time to save: 3 months Frequency to save: weekly, biweekly or monthly Interest rate: from 12.5% to 16% per year
<b>Working credits</b>	Loans aimed at microentrepreneurs in the areas of production, trade or services Amount: up to 7,080,000 bolívares (10,500 USD) Fixed monthly payments, between 3 and 60 months Fixed interest rate of 24% per year No credits are granted for agricultural activities. <b>Main requirements to apply for the loan:</b> <ul style="list-style-type: none"> <li>• Evaluation of the business activity and its growth potential by BCB community advisors</li> <li>• Proof of income</li> <li>• Urban services receipts (electricity, water, telephone)</li> <li>• Invoices of purchased merchandise</li> <li>• Personal references</li> </ul>

Nota: las cifras corresponden a febrero de 2017. Tasa de cambio: 670 Bs/USD.

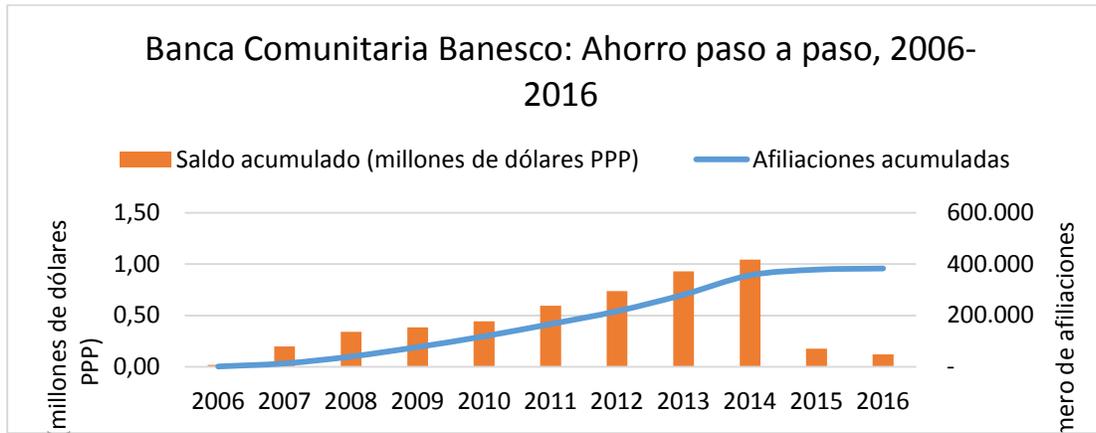
Fuente: adaptado de Banesco (2014a: 88) y de [www.bancacomunitariabanesco.com/productos](http://www.bancacomunitariabanesco.com/productos).

## Exhibit 9. Product Portfolio performance

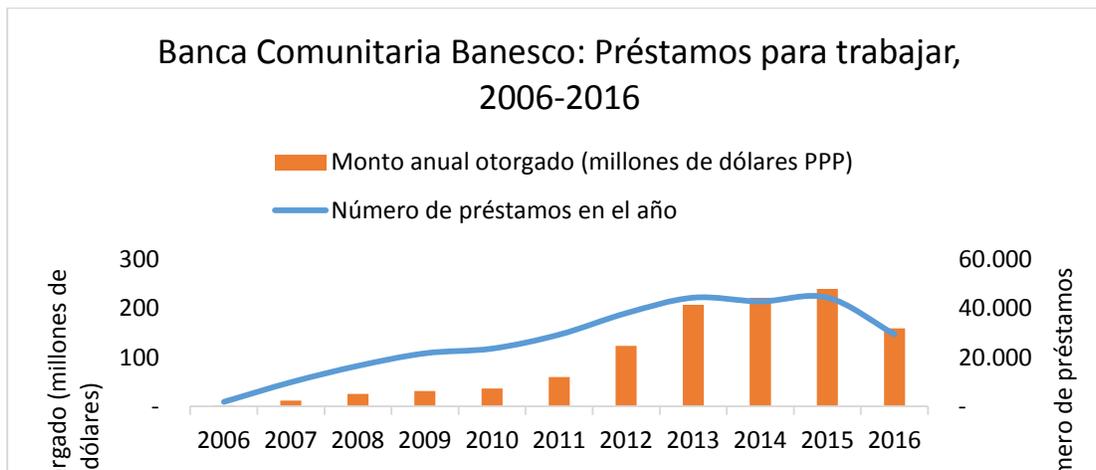
### a. Community accounts



### b. Step-by-Step Savings

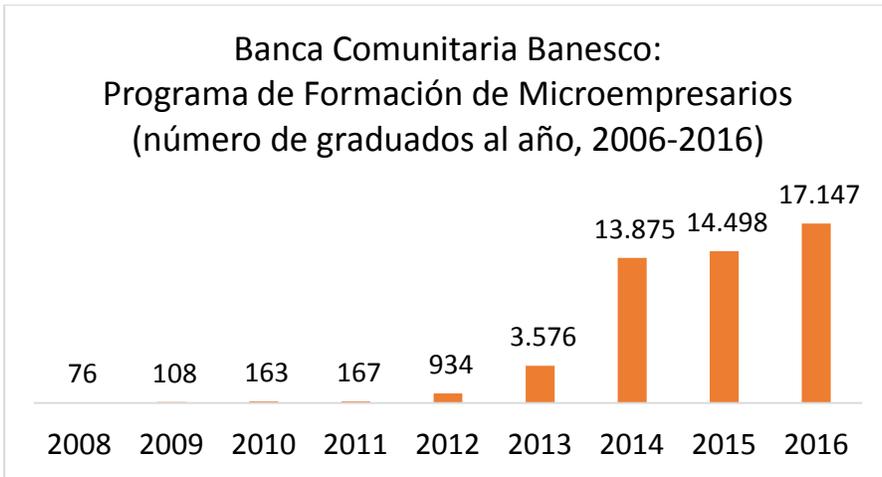


### c. Working Credits



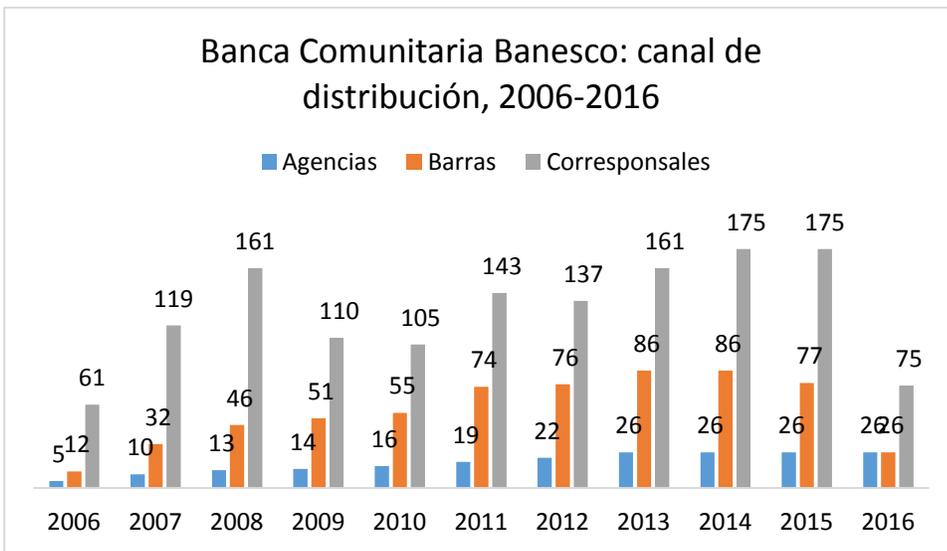
Source: Banesco, *Informe de responsabilidad y sostenibilidad empresarial* (2007 y 2014) and BCB reports (2015 and 2016).

**Exhibit 10. Microentrepreneurs training program**



Sources: Banesco, *Informe de responsabilidad y sostenibilidad empresarial* (2007 y 2014) and BCB reports (2015 and 2016).

**Exhibit 11. Distribution channel evolution**



Sources: Banesco, *Informe de responsabilidad y sostenibilidad empresarial* (2007 y 2014) and BCB reports (2015 and 2016).

## Exhibits 12. Banking new trends

### **Customer behavior is changing**

Customer behavior has changed as new players are emerging, offering cheaper and more efficient solutions as payment, collaborative financing and crowd sourcing.

4 major trends are influencing these changes:

1. Internet banking, customers are using internet as the first point of access to the banks and the branches are becoming less important.
2. Mass adoption of mobile devices, using them for all their banking need apart from cash transaction.
3. Mobile wallet, substituting credit and debit cards with the phone with the gradual disappearance of cash and branches. If only 50% of cash transactions are replaced by electronic payment the model of branches and ATMs would be economic unsustainable. Telephones are used as a channel for day-to-day banking and the bank account becomes a commodity, which no longer requires a full banking license
4. Everybody is a bank: Because cash disappears, banks lose their dominant position in retail banking the usefulness of a banking products relies on the possibilities of buying and using those products on the right place at the right time. Sellers are financing their own customers, as a furniture store, a travel web site, or service providers. If banks lose their daily contact with customers at the expense of other operators, as telecommunication companies or e-commerce web sites, banks would be relegated to a position of utility.

### **Bank are destined to become utilities**

The new role of banks consists in understanding the role their products have in customers' lives and making those products available at the right place at the right time.

A step closer to its customers using the new method that other players are using: focused on user experience, big data and social media.

Banks provide a poor user experience using a number of isolated channels, like Web sites (core channel), cell phone (carry out simple actions), call center (solving problems or can't find something online), ATM (withdrawing cash), branches (as a residual channel or need of advice). Branches are still important to elderly customers, but not for the majority who have less time and seek for fast and convenient solutions. Branches will need to evolve into a less branches philosophy focused on more profitable advisory services and not transactions. ATMs will be probably integrated to cell phones, as cash circulation will diminished.

### **Opportunities**

Thanks to technology customers will have more access to information, they will receive customized offers to compare and socialize their users' experiences through social media. Banks will have advice customers to make decisions, enrich their offers and help them recommend services. Banks have more valuable details about their customers than any other company, they should be able to use Big Data, transforming it into Smart Data, to improve their segmentation, to be more operational or optimize income, and to propose products of other sectors to their customers. Social media can be a way of closing the gap with customers. allowing to have a better understating of customers' needs, to provide better services and assess risk more easily, to have an additional low-cost channel, providing a higher level of security and communication, offering a better service for customers in a more efficient way.

### **Challenges**

Banks can develop social banking platforms. However, they need to face the following challenges: 1. Regulatory compliance in managing customer data; 2. communicate in a coherent and sensible way in a complex environment with multiple operators and empowered individuals; 3. Change operations mentality.

Source: Banking Trends, Efma-Indra, (2015)

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# Banca Comunitaria Banesco: the bank goes to the “barrio”

## Teaching Note

October 2018

### I. Case Summary

By December 2016, Hector Albarrán, Vice-president of Banca Comunitaria Banesco (BCB), the microfinance business unit of Banesco Banca Universal (BBU), the largest private bank in Venezuela, was concerned with the sustainability of the BCB inclusive business model and distribution channel. After ten years of operations, BCB was the leading microcredit institution in Venezuela, serving more than 350 thousand people in 8 thousand low-income neighborhoods, with 51 percent market share. Its results were encouraging, with more than 45 thousand microcredits granted on a yearly basis, 48 thousand microentrepreneurs trained, and 93% of BCB customers affirming that access to credit had improved their quality of life.

BCB's main differentiating strategy had been its inclusive distribution channel, designed to achieve the greatest coverage in popular areas where other institutions had no offices, without incurring the costs of a wide network of traditional agencies. BCB's channel showed a multiple structure, with a "business model to serve the massive segments under an omni-channel strategy, with a simple, economic, dynamic and scalable architecture<sup>9</sup>". It combined a network of community agencies, attention bars, community promoters, non-bank correspondents and community advisors (TC-Exhibit 4). Among BCB channel objectives there were: involving BoP communities, working with social leaders, neighbors, education institutions and social action associations, promoting BCB penetration, gaining community trust and producing economic and social value for all those involved.

However, serving BoP customers (80% of Venezuelan population) posed different challenges. On strategic terms, although BCB creation was strongly supported by BBU president Juan Carlos Escotet, a strategic shift towards internationalization had diverted his attention and focus. While BCB's social impact was still central to its mission, BBU management repositioned the whole unit as an additional segment of the market. On operational terms, BCB had to streamline on the use of banking operative platform, building synergies with BBU, and applying more strict customer risk assessment to gain financial viability.

Adding to all that, Venezuela was facing an economic and social crisis, which combined a decreasing GDP, with high inflation rates, scarcity of basic and consumption goods, and a plunging purchasing power of its population, with an overall negative impact on BCB's customers business.

Albarrán was convinced that he needed to review BCB original model. In addition to containing the effects of the crisis, it was important to think in the medium term. The need to be more cost-efficient moved hand in hand with the evaluation of new service models, which combined technological and human factors, to broaden BCB's reach and customer satisfaction, as well as its social impact.

Some questions were still unanswered: would they be able to keep BCB's reach and service level, while increasing efficiency and financial performance? Should they keep on scaling and replicating

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<sup>9</sup> Channel VP Presentation, 2016.

the model or look for innovation opportunities? How could they achieve a viable balance between economic and social performance?

## **II. Case usage and approach**

BCB case can be used in advanced management courses as part of the MBA core curriculum. It could be useful in management, social responsibility and innovation courses.

It focuses on the development of an inclusive distribution channel, as a key factor in inclusive business models, and on the challenges of developing and maintaining it. The key learning issues in the case center on how an inclusive business channel can reach BoP clients, while facing the trade-offs of scaling-up and improving both its efficiency and social impact.

More specifically this teaching note focuses on inclusive business model design, combining the traditional Canvas Model (Osterwalder & Pigneur, 2010) with the social stakeholders Canvas model proposed by Joyce A. & Paquin R. (2016).

## **III. Learning Objectives**

This case may enable the development of the following knowledge and skills:

### **Knowledge-concepts**

- Inclusive business model and distribution as a way of creating, distributing and capturing economic and social value.

### **Skills**

- To analyze the main issues of designing and managing an inclusive business model.
- To use an enhanced Canvas model introducing social stakeholder analysis.
- To innovate a business model aiming at economic and social performance.

## **IV. Suggested assignment questions**

Students should be asked to prepare for class discussion by answering the following questions:

- What are the main characteristics of BCB inclusive business model?
- What are the main challenges that Albarrán is facing?

## **V. Theoretical Framework and Suggested Readings**

The case analysis and discussion may be supported by two main theoretical references related to inclusive business and business model design.

The first one is Marquez, Reficco & Berger (Chapter 1, 2010), who define socially inclusive business as “business models that proved effective in connecting low-income sectors with mainstream markets and had the potential and the aspiration to improve the living conditions of the poor” (p. 3). They also summarize the principles of inclusive business approach: connecting the local with the non-local,

patient innovation, the leverage of local assets, ventures’ protagonists, the principle of external participation, co-creation of ad-hoc models, and self-financed growth and sustainable social value creation. Under their point of view inclusive initiatives need to meet three goals: they should be able to scale-up an replicate to meet demand; they should be permanent; and they need to have efficiency and efficacy.

The second one pertains to the realm of business model design starting from Osterwalder & Pigneur (2010) business model Canvas, to the more recent triple layered Business Model Canvas proposed by Joyce, & Paquin (2016). The authors enhance the traditional economic view adding a stakeholders’ social value Canvas, which allows for a detailed analysis of the basic factors involved in value creation and delivery to the market and to society. Following these authors we propose the use of the triple layered business model canvas for three purposes: “ as a representation, to make sure that all the elements are taken into account and then to understand the whole; (...) as a generative tool by changing individual elements and cascading the consequences to render the whole still coherent with new avenues; (...) and as a validation tool to add up or balance the costs versus the revenues as well as the impacts versus benefits, (...) by looking at all the relationships to insure win-win situations for all those implied” (p.XX).

Suggested readings for students:

- For Inclusive business: Marquez P., Reficco E. & Berger G. (2010), “Socially Inclusive Business: Engaging the Poor through Market Initiatives in Iberoamerica”. Chapter 1 (pp.1-25). SEKN-Harvard University, Cambridge.
- For the Canvas model: [Osterwalder](#), A. & [Pigneur](#), Y. (2010). *The Business Model Canvas, in Business Model Generation: A Handbook for Visionaries and Game-changers*. John Wiley & Sons, New York.
- For the Social Stakeholders Canvas: Joyce A. & Paquin R. (2016). The triple layered business model canvas: A tool to design more sustainable business models. *Journal of Cleaner Production* 135. DOI: 10.1016/j.jclepro.2016.06.067

**VI. Class Discussion and Analysis**

The case is designed for a 90-minute class session.

Class discussion unfolds with questions grouped in four blocks, as seen in TN-Exhibit 1:

**TN-Exhibit 1. Teaching Plan**

Questions	Main topic	Time
What was there in BCB business model that attracted your attention?	Identifying key factors of BCB inclusive business model.	Block 1 15’
What are the challenges that Albarrán is facing?	Evaluation current situation and challenges	

How does BCB distribution channel work? Who are the main actors involved? What is their role? What value do they create and what do they receive?	Identifying key actors in an inclusive distribution channel. Analyzing social and economic value creation.	Block 2 15'
What are the opportunities and threats for the current BCB business model?	Context analysis and identification of BCB opportunities and threats.	Block 3 15'
What innovations would you introduce in BCB Business Model? How would you manage to balance economic and social value creation, delivery and capture?	Use of economic and social stakeholders Canvas model to combine economic and social value creation views.	Block 4 40'
Closing: lessons learned (take-aways)	Inclusive business initiative: lessons learned	Block 5 5'

### Block 1: BCB business model and current challenges

Q. What was there in BCB business model that attracted your attention? What are the challenges that Albarrán is facing?

Students could answer freely to the first question or be invited to look at BCB business model under the Canvas 9 blocks. For each factor identified students should mention the related challenges (TN-Exhibit 2).

### TN-Exhibit 2. Business Model and Challenges

Business model's key factors	Challenges
Customer segment: Serving BOP segment microentrepreneurs Results and impact (TC-Exhibit 1 and 7)	Understanding specific needs in a hostile environment Segmenting BOP in more focused segments Keep on growing, measuring social impact
Channel: A distribution channel with the greatest coverage in popular areas Results: (TC-Exhibit 11)	Reach a cost-efficient model Maintain channel coverage Refine the omnichannel strategy
Customer relationship: Close personal relation with customers in the barrio	Maintain market coverage and service level
Value Proposition: BCB product portfolio variety and results (TC-Exhibits 8 and 9) Brand identity under Banesco umbrella brand	Balancing social and economic value creation Renewing product/service portfolio, improving product penetration and performance Maintaining the BCB positioning

Key resources: A visible leader or champion BCB personnel Technological operative platform	Reinforcing BCB culture and mission Reinforcing training, loyalty and belonging Create synergies with BBU systems
Key Activities: Risk assessment and customer profiling BCB promotion in the barrio	Heterodox methods to identify clients and evaluate the growth potential of their businesses Security and support by the community
Key allies: community leaders, NGOs, education institutions	Keep them involved in value creation
Cost-structure	Working on financial feasibility in an economic crisis
Income-flows	Diversify the model in a very regulated environment

## Block 2. BCB's inclusive distribution channel

Q: How does BCB distribution channel work? Who are the main actors involved? What is their role? What value do they create and what do they receive?

Based on TC-Exhibit 4 and 11, students could be required to describe the current channel structure and other stakeholders involved in the channel, analyze their roles, the value created and received by each member of the channel and relevant stakeholders (TN-Exhibit 3).

### TN-Exhibit 3. BCB's distribution channel analysis

Actor /stakeholder	Role	Value created	Value received
Community agencies	Offer BCB services and coordinate inclusive channel	Introduce banking services to BOP customers, advise and credit	Economic value: deposits, commissions Customer loyalty and community support
Service bars	Offer banking services closer to customers	Service for customers Improvement for hosting shops	Economic value: deposits, payments, market penetration
Community promoters	Serve in the service bars and gain trust of customers	Close relationship with customers Banking services	Formal job salary Career potential and training Customers loyalty
Community advisors	Serve in the community, identify potential microcredit customers	Information gathering and customer profiling BCB products promotion Advise to microentrepreneurs	Formal job salary + variable income Career potential and training Close relationship with communities
Non-bank correspondent	Offer basic banking services within the barrio	Bring banking service within the barrio in extended hours.	Low commissions and economic value Higher traffic in their

		Manage deposit and withdrawals, cash handling	stores Community respect (-) Security issues
Microentrepreneurs	Microcredit and training target	Support the barrio economy with their business Are role models Grow into a more profitable segment for BCB	Banking service and advice Training and opportunities to grow their business Better living conditions
BOP unbanked potential customers	Receive bank services	Multiply BCB social impact Informally promote BCB in their communities	Banking service and advice Better living conditions in the barrio microenvironment
Communities	Support BCB operations in the barrio	BCB informal promoters and community outreach	Banking service and advice Training Better living conditions in the barrio microenvironment

**Block 3. BCB opportunities and threats**

Q: What are the opportunities and threats for the current BCB business model? Why?

The instructor could ask the students to consider TC-Exhibits 5 and 6 for the environmental and competition analysis and to identify opportunities and threats for BCB (TN-Exhibit 4).

**TN-Exhibit 4. BCB’s opportunities and threats**

<b>Opportunities</b>	<b>Threats</b>
Market resegmentation	Public banks subsidies
New banking trends	Decreasing profitability
Cost-efficiency through synergies with BBU	Fall of purchasing power
BCB Spin-off and model innovation	Government controls
New distribution channel model	High inflation
New allies in the barrio	Raise of credit risk
New products and services	Insecurity
	Microentrepreneurs difficulties to sustain their business

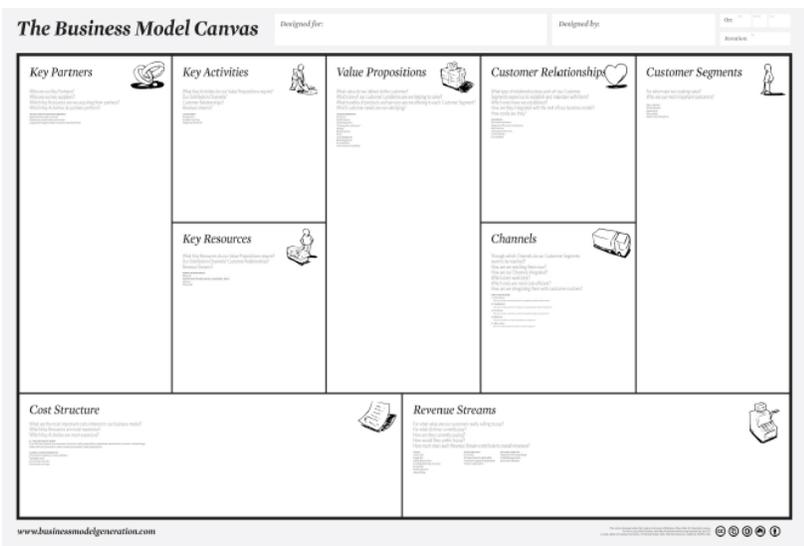
**Block 4. BCB Inclusive business model innovation**

Q: Based on the initial analysis of the economic canvas and considering the dimensions of the Social stakeholders Canvas, what changes would you introduce to BCB business model? Why?

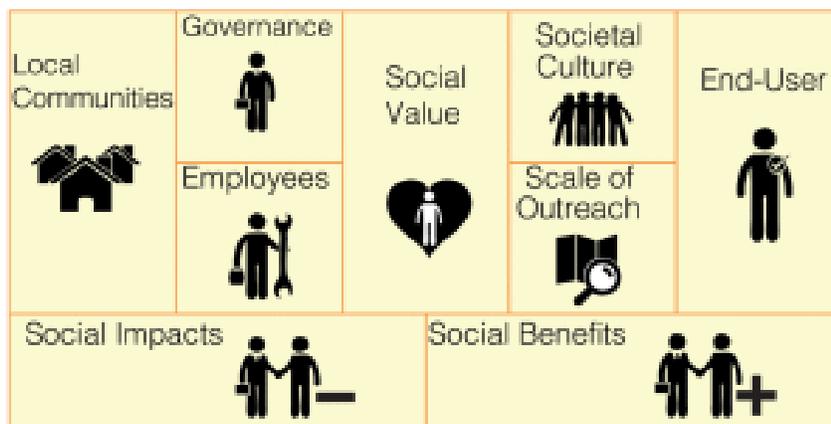
The instructor would ask students to form teams and take 15 minutes to apply the business model economic and social stakeholder canvases in class. This exercise is aimed at reinforcing the concept that inclusive business models should take into account more than just the economic value, taking into account the factors that help create social value.

If necessary, the instructor should ask the students to explain the social canvas model (TN-Exhibit 5) and how it complements the economic canvas, before its application.

**TN-Exhibit 5. The Business model Canvas**



**TN-Exhibit 6. The Social Stakeholders Canvas**



Source: Joyce et al. (2016)

We suggest some questions for each block that the instructor could use to stimulate the students to work on this exercise.

**1. Value proposition and social value**

Q. How can BCB innovate its value proposition in terms of products and services? How can BCB enhance the value created considering its main stakeholders?

**2. Customer segments and End-Users**

Q. How can BCB segment BOP market? Who are BCB social value proposition end-users? To what extent customer segments and social end-user may differ or overlap? What differences are there between the two groups?

**3. Customer relationship and societal Culture**

Q. How can you improve BCB customer relationship? How can BCB enhance the values it stands? How can these two factors combine in a better customer and stakeholders' relationship?

**4. Distribution channel and scale of outreach**

Q. How can BCB innovate its inclusive distribution channel? What channel members should be involved? What should BCB scale of outreach? What stakeholders should be involved?

**5. Key activities and Governance**

Q. What would be BCB key activities considering the innovation you are proposing for BCB model? How should those activities be coordinated? What changes on BCB governance and lines of report within BBU would you introduce?

**6. Key resources and Employees**

Q. What key resources would BCB need considering the innovation you are proposing for BCB model? What is the role of the employees in the new model? How can BCB involve them in economic and social value creation?

**7. Key allies and local Communities**

Q. What key allies would BCB need considering the innovation you are proposing for BCB model? What is the role of local communities in the new model? How can BCB involve them in economic and social value creation?

**8. Cost structure and Social impact**

Q. What would be the new model cost structure as compared with the current one? What negative social impact could the new model have?

**9. Income streams and Social Benefits**

Q. What would be the new model income streams as compared with the current one? What negative social benefits would the new model produce?

**TN-Exhibit 7. Combined economic and social Canvas**

<b>Key allies</b>  <b>Local Communities</b>	<b>Value proposition</b>  <b>Social value</b>	<b>Customer segments</b>  <b>End-Users</b>
<b>Key resources</b>  <b>Employees</b>	<b>Distribution channel</b>  <b>Scale of outreach</b>	<b>Customer relationship</b>  <b>Societal Culture</b>
<b>Key activities</b>  <b>Governance</b>	<b>Cost structure</b>  <b>(-) Social impact</b>	<b>Income streams</b>  <b>(+)Social Benefits</b>

**Block 5 - Closing: Lessons Learned**

To close the class discussion, the instructor may ask the student to reflect on the lessons learned and take-aways. BCB Inclusive business model faced different kinds of challenges. In the development stage of the initiative the main challenges were:

- To have a visible champion and gain the support of top management
- To create an inclusive culture within the organization
- To understand the market needs of the unbanked and to quantify the size of that market, estimated at around 60 to 70 percent of the Venezuelan population
- To design a new product and service portfolio based on benchmark experiences
- Developing an inclusive distribution channel involving BOP actors
- Developing a heterodox risk assessment method

In the scaling-up and replication stage the main challenges were:

- To sustain financial performance
- To develop a cost-efficient model
- To evaluate BCB stakeholders and their potential involvement in value creation and capture
- To reconsider BCB governance to achieve its mission and objective
- To understand the trade-offs posed by the intended scale of outreach and the distribution channel actual potential

- To manage the trade-offs between economic and social value creation

## VII. Blackboard Plan

### 1. Blackboard 1: BCB's business model: challenges and results

Business model's key factors	Results	Challenges

### 2. Blackboard 2: BCB's inclusive distribution channel: roles, value created and received

Actor /stakeholder	Role	Value created	Value received

### 3. Blackboard 3: BCB's opportunities and threats

Opportunities	Threats

#### 4. Blackboard 4: BCB's business model innovation

<b>Key allies</b>  <b>Local Communities</b>	<b>Value proposition</b>  <b>Social value</b>	<b>Customer segments</b>  <b>End-Users</b>
<b>Key resources</b>  <b>Employees</b>	<b>Distribution channel</b>  <b>Scale of outreach</b>	<b>Customer relationship</b>  <b>Societal Culture</b>
<b>Key activities</b>  <b>Governance</b>	<b>Cost structure</b>  <b>(-) Social impact</b>	<b>Income streams</b>  <b>(+)Social Benefits</b>

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- Joyce A. & Paquin R. (2016). The triple layered business model canvas: A tool to design more sustainable business models. *Journal of Cleaner Production* 135. DOI: 10.1016/j.jclepro.2016.06.067
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