Peruvian Microfinance: Mergers and Acquisitions and Industry Outlook

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Introduction

Peru is among the world’s most competitive and innovative microfinance markets and often finds itself atop international country rankings for having the best business environment for microfinance (The Economist Intelligence Unit). The microfinance industry in Peru has contributed to the development of the Peruvian economy and benefited the general population. Over the past decade, Peru has been one of the fastest-growing economies in South America, with an average annual GDP growth rate of 5.9 percent in a low average inflation environment of 2.9 percent (World Bank). As a direct consequence, Peru experienced strong growth in both employment and income as well as sharply lower poverty rates. In 2005, an estimated 55.6 percent of Peru’s population was in poverty; in 2015, the poverty rate declined to approximately 21.8 percent (World Bank). However, as the microfinance sector in Peru matures, lenders must begin to discover other methods to sustain long-term growth. This article analyzes the development and current state of Peruvian microfinance, examines drivers of recent consolidation in the Peruvian market, and offers insight into the future of the Peruvian microfinance industry and overall financial services.

Microfinance and Its Origins

Microfinance is the provision of financial services to low-income clients who have little or no access to an established banking sector (Rosenberg et al.). An organization that offers such services to the poor is called a microfinance institution (MFI). MFIs generally provide

- Small loans, typically for working capital
- Streamlined loan disbursement and monitoring
- An increasing array of financial services (such as savings, insurance, and money transfers) and non-financial services (such as education and healthcare)
Muhammad Yunus, a Bangladeshi entrepreneur and Nobel Prize winner often perceived as the father of modern microfinance, was one of the first to reason that the low-income population might be able to pull themselves out of poverty if financial resources were made available to them on reasonable terms. Yunus started his microfinance operations when he made a simple $27 loan to a group of villagers in Bangladesh in 1974 (Yunus). He went on to found Grameen Bank in 1983 to promote microfinance on an international scale. Since its founding, the Grameen microfinance model, which revolves around group lending, has inspired similar financial inclusion efforts in over 100 countries including the United States (Wilson).

Although Yunus is regarded by many as the father of modern microfinance, the first institution to begin microfinance operations was Accion, a non-profit organization (NPO) founded in 1961 by a University of California, Berkeley, law student named Joseph Blatchford. The NPO’s first projects mainly involved community development projects, such as building schools and managing negotiations between opposing community leaders. Soon the organization realized that the major cause of poverty was the lack of economic opportunity. In 1973 Accion began issuing small loans to small business owners in Brazil; it had a 99.5 percent repayment rate in the first year. With this success the NPO had identified an approach to addressing poverty. Accion is now a global organization with 35 partner MFIs in 21 countries across four continents (Accion, “Key Statistics”). Soon, the prominence of microfinance spread to Peru itself.

Overview of Peruvian Microfinance

The roots of microfinance in Peru originated in the 1950s, but private-sector microfinance began to experience rapid growth in the 1990s when the industry was bolstered by a new policy framework of economic liberalization. This new framework was built on Peruvian economist Hernando de Soto’s theory that economic potential could be catalyzed by formalizing the economic activities of the poor and giving them access to basic financial services (Conger et al.).

Early Development of Microfinance in Peru

Under this framework, regulated financial institutions in Peru currently fall into six distinct legal structures (Concha Zegarra et al.):
1. Credit unions
2. Cajas Municipales de Ahorro y Crédito (Municipal Savings and Loan Institutions [CMACs])
3. Cajas Rurales de Ahorro y Crédito (Rural Savings and Loan Institutions [CRACs])
4. Empresa de Desarrollo de la Pequeña y Micro Empresa (Entities for the Development of Small and Micro Enterprises [EDPYMEs])
5. Banks
6. Financieras (finance companies)

Each of these six structures developed along somewhat different paths. Efforts toward financial inclusion for Peru’s poor trace a long series of steps, including significant foreign influence, that laid the institutional foundations of today’s world-leading microfinance sector. In the 1950s and 1960s, an American priest named Daniel McLellan helped develop Peru’s first credit unions and savings and loans associations (S&Ls), which have been paramount in the creation of Peru’s unique microfinance model (Conger et al.). The core innovation of these credit unions and S&Ls was establishing a link between savings and access to credit. Deposits were driven by the promise that membership provided access to borrowing, which gave rise to the Peruvian microfinance model’s principal tenet: that savings are a key complement to borrowing. American influence also came about in the 1960s when the United States began providing development funds to Peru through the Inter-American Development Bank. The rationale was that economic development would counter Peru’s domestic strife at the time. From microfinance’s earliest years, the Inter-American Development Bank has remained important in capitalizing microfinance portfolios and providing funds for technical assistance to create capable and solvent MFIs.

German influence was also essential in developing modern-day Peruvian microfinance. In the 1980s, Internationale Projekt Consult started building CMACs in
Peru with the support of Deutsche Gesellschaft für Technische Zusammenarbeit, an agency that advocates technical cooperation. Modeled on German S&Ls, known as sparkassen, the creation of CMACs allowed local financial institutions to receive deposits from and lend to residents in Peru’s main cities (Ebentreich). Then in 1992, again following the German savings model, Peru created another significant type of MFI, called CRACs, to promote financial sector development in rural areas. CRACs originally focused on lending to the agricultural sector and could receive deposits as well.

However, the most significant formation arguably came in 1982 when Accion formed Grupo ACP, a nongovernmental organization (NGO) based in Lima. ACP’s operations grew rapidly as it successfully provided credit to low-income townships outside of Lima. Operating as an NGO and only providing loans, ACP was not subject to formal banking regulation. In the following two decades, various NGOs followed ACP’s footsteps and launched their own microcredit operations (Chu). As the microcredit industry began to gain traction, it began to draw attention from the public sector. In 1994 the Peruvian Superintendency of Banking, Insurance, and Private Pension Funds Administrators (SBS)—an autonomous agency with the function of supervising the entire financial system—attempted to regulate the microcredit sector by creating a new non–deposit-taking regulated financial entity called EDPYMEs to incentivize credit-providing NGOs to seek formalization. However, ACP decided to apply for a full banking license instead, which would enable it to provide savings services as well because it already had the largest and most successful microcredit operation in the country. In 1998 Grupo ACP converted to Mibanco, Peru’s first full microfinance bank. Mibanco offers both credit and savings products and has since become the leader and largest MFI in the Peruvian microfinance industry.

In addition to Mibanco, the other main MFI that successfully spread microfinance across Peru was Financiera Edyficar (Edyficar). Edyficar was originally founded in 1997 as an NGO but transitioned into an EDPYME in 1998 when it realized it could not access the financing required to expand its microfinance operations under a non-profit structure. By the end of 2006, Edyficar was the largest EDPYME in Peru. Its main product, which accounted for approximately 90 percent of its loans, was individual loans to micro- and small enterprises. By 2008, Edyficar reconstituted as a financiera (a deposit-taking financial institution), a corporate formation just short of a fully functioning bank. Edyficar went on to become Peru’s second-largest MFI.

Peru clearly had an abundance of foreign influence early in the development of its microfinance industry. Soon, with the foundation provided by foreign influences, Peru would build its own unique microfinance structure.

**Enabling Environment for Competition and Transparency**

Peru is widely considered to have one of the best regulatory and legal environments for microfinance in the world (The Economist Intelligence Unit). Much of Peru’s success in microfinance can be attributed to prudent regulation and strict supervision, balanced with limited government intervention. The SBS has significantly influenced the development of Peru’s microfinance sector and shaped its competitive environment. The regulatory body does not impose interest rate caps on regulated MFIs, allows for foreign investment, and maintains strict credit reporting requirements. The success of Peruvian microfinance is also attributed to the flexibility offered by the six regulatory types of financial institutions and the ability of firms to advance from one category to another (ResponsAbility, 2013). This progressive structure allows healthy, well-managed MFIs to eventually take deposits, which the Peruvian microfinance model considers an integral component to overall financial inclusion and microfinance and economic growth. By encouraging the formalization of the microfinance sector, the SBS has been able to pass regulations that dictate which institutions are allowed certain capacities and who can compete where as well as establish standards for transformation into full-fledged banks or deposit-taking financieras.
Other critical elements of Peruvian microfinance regulation are the credit bureaus and credit rating agencies (Concha Zegarra et al.). These institutions are fundamental to providing financial transparency and data, especially in the microfinance industry where credit information through traditional banking methods is not always available or current because many MFI clients operate in the informal economy (see article by Finn in this volume). In the early 1990s, the Consortium of Private Organizations to Promote the Development of Micro and Small Enterprises (COPEME) started tracking the credit history of microfinance clients, which encouraged self-regulation among non-regulated institutions. The benefits of transparent credit history led to the creation of the first private credit bureau in 1997. Today, there are five private credit bureaus that provide credit ratings for individuals. Additionally, the SBS operates a public credit bureau that collects information on regulated lenders. Banks and all regulated MFIs are required to share their clients' information on current, contingent, and total debt as well as on default rates every month. MFIs utilize credit bureau records as part of their own due diligence to evaluate risk and determine credit-worthiness. The presence of international credit rating agencies, such as Standard & Poor’s, Moody’s, and Fitch, and rating agencies that specialize in microfinance, such as MicroRate, Micro-Credit Ratings International Limited, and Planet Rating, have further increased the transparency of the sector.

Essentially, the presence of credit bureaus and rating agencies has made default and liquidity risk more transparent and controllable, which have made the microfinance sector more attractive to outside investors, namely, big multinational commercial banks (discussed later.) The regulation structure allowed Peruvian MFIs to grow continuously and extensively without their clients becoming overindebted. With this supervision, Peru now has one of the “most complete and timely credit information coverages in the world” (ResponsAbility, 2013).

It is noteworthy that the SBS regulates the financial sector by product rather than type of institution. One effect of this arrangement is that different types of institutions can be competing for the same markets (Oxford Business Group, 2016). For example, CMACs were traditionally not allowed to serve clients outside their municipalities. However, the SBS approved regulation in 2002 that allowed CMACs to expand operations into cities where no other CMAC had jurisdiction (Concha Zegarra et al.), consequently increasing competition in urban areas. If different types of financial institutions are offering the same types of financial products and competing for the same customers in the same markets, this could lead to the development of a highly competitive market. Indeed, Peru has become such an environment.

**Current Landscape and Trends**

Today, the Peruvian microfinance industry is mature and highly developed (J.P. Morgan Global Research). Of the 55 entities regulated by the SBS, 44 are now involved in microfinance, encompassing approximately 4.8 million active borrowers and 5.1 million depositors (MIX Market). The industry gross loan portfolio grew from less than $1 billion in 2001 to approximately $10.8 billion in 2016.

For the past two decades, the microfinance sector in Peru has seen impressive growth and profitability, which has caused competition to increase in two important ways. As previously mentioned, in 2002 the SBS began permitting CMACs to operate outside their municipalities, which led to an abrupt increase of MFIs in many regions. Additionally, large commercial banks took notice of the success of microfinance and began to enter the industry. Prior to the success of Edyficar and Mibanco, traditional commercial banks were reluctant to enter microfinance markets due to a lack of transparency regarding the risk of lending to the poor. The established banking sector believed that the poor were financially illiterate and did not have adequate cash flow–generating capacity; therefore, they would not be able to pay back the interest and principal on loans. In addition, banks were worried about the poor’s lack of collateral to secure these high-risk loans. However, as the profitability of microfinance in Peru was proved by Edyficar and Mibanco, the
big Peruvian banks began to enter the sector. Due to this increase in competition, MFIs needed to improve efficiency, expand services, increase innovation, and reduce interest rates on loans.

Intense competition has therefore put significant pricing pressure on existing MFIs. Competition has provided microentrepreneurs with access to a greater variety of lenders, which caused microcredit providers to significantly lower interest rates. In 2000, effective annualized interest rates on loans were over 50 percent. By 2012, the median interest yield of all Peruvian MFIs decreased to 29 percent (MIX Market). Since lending institutions earn their profits based on interest rate spreads, declining lending rates led to a decrease in overall profitability. One of the main metrics to assess the profitability of MFIs is return on equity (ROE), which measures profit per dollar of shareholders’ contributed capital. As shown in Figure 1, the profitability of Peruvian MFIs has significantly declined due to greater competition.

The microfinance sector in Peru has now become a saturated market and MFIs are being pressured to improve efficiencies to offset declining profitability. Another telling sign of Peru’s market maturation has been the degree of market consolidation. For the past decade, the microfinance industry in Peru has undergone significant consolidation due to the increasing competition. As microfinance proved very profitable, three of Peru’s top four traditional commercial banks—Banco Bilbao Vizcaya Argentaria (BBVA), Scotiabank, and Banco de Crédito del Perú (BCP)—became interested in the area and began acquiring privately owned MFIs, accelerating consolidation in the sector. As discussed later, two crucial, industry-changing transactions transpired when both Edyficar and Mibanco were acquired by BCP.
in 2009 and 2014, respectively. In an industry with vigorous mergers and acquisitions (M&A) activity, Peruvian MFIs are facing intensifying pressure to either adapt to the increasingly competitive environment and differentiate themselves or to sell themselves entirely (Taylor).

**Consolidation in Peruvian Microfinance**

**Strategic Drivers of Mergers and Acquisitions**

M&A are common strategic growth alternatives. M&A activity usually occurs when there is too much competition in an industry and companies believe that the value resulting from synergies in combining firms is greater than the value of two separate companies, often because of economies of scale. In theory, a size advantage can serve as a foundation and catalyst for increased market share, product and service enhancement, and new market penetration opportunities (J.H. Chapman Group).

**Emergence of Mergers and Acquisitions in Peruvian Microfinance**

As discussed previously, Peruvian MFIs have experienced incredible growth over the past 20 years. Additionally, the SBS has fostered an enabling environment for competition among various financial institutions. Heavy competition puts pressure on existing firms to improve efficiencies and reduce redundancies, which creates a strong incentive for M&A. In Planet Rating’s 2013 “Microfinance Index of Market Outreach and Saturation,” Peru was rated 4 on a scale of 1 to 5, with 1 indicating that the market is underserved and 5 indicating that the market is potentially overheated. Experts surveyed by ResponsAbility indicate that mature microfinance markets, such as the one in Peru, focus on increasing efficiency and cutting costs (ResponsAbility, 2016).

In a 2013 survey conducted in Peru by the Center for Financial Inclusion (Álvarez Cisneros), 199 participants—including senior professionals from the SBS, Central Reserve Bank of Peru, and Ministry of Development and Social Inclusion—described what they believed were obstacles to financial inclusion in Peru. The obstacles were unsustainable MFI growth, inefficient product cost structures, limited understanding of client needs, high costs of building/operating branches, and limited institutional capacity among MFIs. These concerns are good drivers for consolidation in the Peruvian microfinance industry. Naturally, intensifying competition—and, consequently, declining profitability—increases the need for both efficiency and innovation as institutions seek to capture market share and find their strategic niche. A list of previous M&A transactions in Peruvian microfinance is presented in Table 1, and a discussion about the deals that had a profound impact on the Peruvian microfinance environment follows.

As previously mentioned, interest rates on microfinance loans dropped substantially from over 50 percent in 2000 to below 30 percent in 2012. Consequently, the ROE of MFIs experienced a considerable decline. Rapidly declining profitability replaced the drive for organic growth (which is internal growth achieved by increasing a company’s own activities) with inorganic growth initiatives by means of M&A. The consolidation trend started in 2006 when Edyficar acquired Crear Cusco, a small MFI with a loan portfolio worth $2.3 million, to further expand its client outreach (Dischner and Gabriel). Since then, Peru’s microfinance market has experienced mergers between various types of institutions as Peru’s flourishing microfinance industry soon started to attract attention from the large commercial banks BBVA, Scotiabank, and BCP.

BBVA, the global Spanish bank operating through BBVA Continental in Peru, showed a strategic interest in the microfinance sector by setting up the BBVA Microfinance Foundation in 2007. At the end of 2007, the BBVA Microfinance Foundation purchased two CRACs, Caja Rural Nor Perú and Caja Rural del Sur. Next, in 2008 BBVA acquired Crear Tacna, an EDPYME, for $11.4 million. The bank ultimately combined the three entities to form Caja Nuestra Gente. Later, in 2010 BBVA acquired Financiera Confianza for $31.6 million and merged it with the recently formed Caja
Nuestra Gente to create Financiera Confianza S.A.A. (BBVA Microfinance Foundation). This series of acquisitions by the BBVA Microfinance Foundation allowed it to create the only Peruvian MFI with a presence in all 24 regions of Peru (Financiera Confianza).

In addition, Scotiabank Peru, the Peruvian operating subsidiary of Scotiabank, a Canadian multinational bank, has demonstrated significant interest in the microfinance environment. In 2008 Scotiabank Peru acquired Banco del Trabajo, a commercial bank that specializes in providing financial services to small and medium-sized enterprises (SMEs). Scotiabank now operates a microfinance lending platform called CrediScotia, which formed as a result of the acquisition. After the deal, Scotiabank became Peru’s second-largest microfinance lender (Oxford Business Group, 2014). With an expanded lending platform and extended consumer outreach capability, CrediScotia’s consumer and microfinance loan portfolio grew from approximately $0.3 billion in 2007 to $1.3 billion in 2012.

Similarly, in 2009, BCP, the largest bank and supplier of integrated financial services in Peru, owned by the financial holding company Credicorp, demonstrated its interest in the thriving microfinance sector by acquiring Edyficar, the second-largest MFI in Peru, for $95 million. In 2014, BCP also acquired Mibanco, the largest MFI in Peru, for $179.5 million through Edyficar. These two deals were by far the most significant in shaping the future of Peruvian microfinance.

Prior to its acquisition in 2009, Edyficar was a huge commercial success, generating an average 29 percent ROE between 2006 and 2009. Additionally, Edyficar experienced a 45 percent compound annual growth rate in its total loan portfolio and grew its total client base from 45,000 to 194,000 clients from 2004 to 2009 (Credicorp, 2009). However, one of the MFI’s main challenges was how to improve client services in an increasingly competitive environment (Dischner and Gabriel). Edyficar was ultimately acquired by BCP for $95 million, which was 2.5 times Edyficar’s book value. This high-acquisition premium demonstrated BCP’s urgency to break into the highly profitable microfinance sector in Peru and offer financial services to low-income microentrepreneurs and underbanked communities. A few years earlier, BCP tried to break into the microfinance market in Peru and failed. By acquiring Edyficar, the bank

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquirer</th>
<th>Target</th>
<th>Deal Value ($ millions)</th>
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<tbody>
<tr>
<td>2006</td>
<td>Edyficar</td>
<td>Crear Cusco</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>2007</td>
<td>BBVA</td>
<td>Caja Rural Nor Perú</td>
<td>Undisclosed</td>
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<tr>
<td>2007</td>
<td>BBVA</td>
<td>Caja Rural del Sur</td>
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<tr>
<td>2008</td>
<td>BBVA</td>
<td>Crear Tacna</td>
<td>11.4</td>
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<tr>
<td>2008</td>
<td>Scotiabank</td>
<td>Banco del Trabajo</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>2009</td>
<td>BCP</td>
<td>Edyficar</td>
<td>96.0</td>
</tr>
<tr>
<td>2010</td>
<td>BBVA</td>
<td>Financiera Confianza</td>
<td>31.6</td>
</tr>
<tr>
<td>2011</td>
<td>Compartamos Banco</td>
<td>Financiera Creditos Arequipa</td>
<td>63.0</td>
</tr>
<tr>
<td>2012</td>
<td>Financiera Universal</td>
<td>Caja Rural Profinanzas</td>
<td>18.5</td>
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<tr>
<td>2014</td>
<td>Credinka</td>
<td>Financiera Nueva Visión</td>
<td>13.6</td>
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<tr>
<td>2014</td>
<td>Edyficar</td>
<td>Mibanco</td>
<td>179.5</td>
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Sources: BBVA Microfinance Foundation; Chu; Credicorp, 2009; Credicorp, 2014; Dischner and Gabriel; Scotiabank.
could augment its own core strengths (capital and financial services expertise) with those of Edyficar.

Edyficar continued to thrive after it was acquired by BCP, generating an average 31.7 percent ROE between 2010 and 2013. The MFI’s management was aggressive and wanted to continuously grow at an annual rate of 30 percent. Even with extraordinary financial results, the company faced several impediments to its goal of continuous growth. Peru’s microfinance market was becoming increasingly competitive; as stated previously, 44 of the 55 entities regulated by the SBS were participating in microfinance activities. With intensifying competition putting downward pressure on pricing, there was an increasing desire to reduce transaction costs and increase productivity rather than to innovate. Soon, Edyficar looked to acquire Mibanco.

The most significant M&A transaction in Peruvian microfinance so far was, unequivocally, the acquisition of Mibanco in 2014. In the early 2000s, Mibanco was the widely regarded industry leader in Peruvian microfinance. Mibanco experienced robust profitability from its inception as a bank in 1998 to 2008: its ROE steadily grew from 0.8 percent in 1998 to approximately 39 percent in 2008, with each successive year more profitable than the last. However, by 2009 it was facing its own significant challenges. The bank’s profitability from 2009 to 2012 suffered drastically due to its inability to respond to the increasingly competitive environment. In 2012 Mibanco’s net income fell by 34 percent and its ROE dropped to 11 percent. To make matters worse, Mibanco’s loan portfolio deteriorated from 2012 to 2014 as delinquency rates increased, which some experts attributed to the fact that 61 percent of Mibanco’s clients had simultaneous loans with other MFIs (Chu). By 2014, Mibanco’s net income and ROE, in rapid decline since 2009, showed no signs of returning to their prior periods of profitability. Finally, in early 2014 Mibanco was acquired for $179.5 million, or 1.3 times its book value, by BCP through Edyficar. The 1.3 purchase multiple of the Mibanco transaction was significantly less than the 2.5 purchase multiple of the Edyficar transaction.

Ultimately, Mibanco’s declining profitability, rising loan loss provisions, and increasing inability to respond to the competitive landscape lowered its equity valuation and made it a prime acquisition target. BCP gladly took advantage of the opportunity to further expand its client base and solidify its foothold in Peruvian microfinance.

The acquisition of Mibanco was intended to create value through economies of scale, savings through more appropriate funding structures, and reduced client acquisition costs (Credicorp, 2014). Although BCP decided not to merge these institutions into its own brand and instead chose to maintain them as separate companies dedicated to serving the microfinance sector, the newly formed entity would become the largest microfinance institution in Peru, with a 19.5 percent market share. As the major commercial banks joined in the wave of consolidation, microfinance was amalgamated with the commercial banks and solidified its place as an integral part of the Peruvian financial system. Even so, the landscape for Peruvian microfinance continues to evolve.

Recommendations for Peru’s Microfinance Industry and Strategic Outlook

The massive wave of consolidation has effectively turned the Peruvian microfinance market into an oligopoly with BBVA, Scotiabank, and BCP at the forefront as the main competitors. These three banks owned approximately 42 percent of the industry gross loan portfolio in 2016 (MIX Market). The trend of commercial banks moving into the microfinance industry has integrated microfinance into a core component of Peruvian financial services.

There are several main implications for MFIs and their clients from the ongoing consolidation in Peruvian microfinance. For microfinance borrowers, the intense competition and prevalent deal activity have resulted in lower interest rates, a more diverse product offering, and higher levels of client service. But the continuing competition and consolidation place increasing pressures on existing MFIs in Peru. To remain competitive
and avoid becoming acquired, existing MFIs must either innovate or differentiate themselves. Without a sound strategy in place to take advantage of opportunities that come with a free market, even market leaders such as Edyficar and Mibanco will become acquired.

The Center for Financial Inclusion has argued that the most immediate way for Latin American MFIs to adapt to growing market competition is by committing to financial technology (fintech)—the use of software and digital platforms to deliver financial services (Taylor). A 2015 study by Accion showed that MFIs using technology saw increased revenue due to enhanced efficiencies, cost savings resulting from the elimination of paperwork, reduced fraud, and improved client service (Accion, “Digital Field Applications”). Thus, developing fintech products could mean increased sales, profitability, and market share.

Fintech is quickly changing the landscape of the financial services industry. According to the Center for Financial Inclusion, fintech propels financial inclusion in three ways. First, fintech enables cheaper financial service access, delivery, and transaction processing, which could allow financial institutions to increase their consumer outreach. Second, fintech enhances credit analysis by integrating the due diligence process with data analytics, which could lead to higher-quality loan portfolios. And third, fintech allows microfinance clients to leave digital footprints. By analyzing digital footprints, financial institutions can get to know their customers and their specialized needs on a more profound level, confirm their identities and assets, and monitor debt levels with even greater transparency.

Peruvian banks and MFIs are aware of the emergence of fintech and have taken the initiative to develop technology infrastructure and encourage customers to embrace the technology. Peruvian Digital Payments was established in July 2015 in a historic collaboration between Peru’s government, financial institutions, and telecommunications companies. Peruvian Digital Payments, co-owned by the Association of Banks of Peru, created the Billetera Móvil (BiM) e-wallet. Publicly launched in February 2016, BiM is Peru’s first fully operable nationwide mobile money platform with the purpose of connecting all of Peru’s financial institutions’ customer bases through all three of Peru’s mobile carriers on one system. No other program in the world integrates all of a country’s banks and mobile carriers on a single platform (Bloomberg). This creation leads to a universal digital platform with greater transparency and tremendous opportunity for financial institutions to offer products and services.

Fintech is the future of Peruvian microfinance and financial services. There are 32 million cell phones in Peru, which means there is a phone for every person. A quarter of those phones are smartphones. A 2016 study discovered that most payments in emerging countries use cash, and Peru is no different: only 4 percent of transactions in Peru were completed digitally (McKinsey Global Institute). There is incredible growth potential here, and BCP recognizes this opportunity. In 2016, BCP was identified among 24 banks worldwide that were innovating financial services delivery channels and other uses of technology (Institute of International Finance). The bank is establishing a wide range of customer contact points that include ATMs, mobile banking, and e-money accounts. Furthermore, BCP is working to increase the acceptance of digital payments by merchants and to encourage digital, as opposed to cash, transactions by customers with the use of the BiM e-wallet. The bank has even put barriers to cashing out from BiM.

These technology-enabled payments are the first step for future MFI innovation and differentiation. Subsequently, Peruvian MFIs could develop fintech infrastructure to utilize BiM as a platform to deliver other financial products, such as loans, savings, and insurance, creating opportunities for smaller MFIs and not just the big banks. For example, Tienda Pago is one of 45 microfinance fintech startups identified by Finnovista Fintech Radar Peru 2017 that are driving technological ventures to disrupt the big banks and the traditional financial services industry (Finnovista). Tienda Pago’s niche is providing short-term (1–2 weeks) working capital loans to the SME retail sector in Peru. These SME retailers use this credit to procure inventory
and to pay suppliers, whom Tienda Pago signs up to its digital platform. This technological development not only allows Tienda Pago’s borrowers to build a formal credit history but also enables business-to-business payments in a cashless ecosystem. Since its inception in 2014, Tienda Pago has over 4,000 registered retailers and even large registered suppliers, such as the Coca-Cola Company and SABMiller (World Bank Group).

Microfinance contributes to the development of a fully functioning financial sector. Access to financing enables microentrepreneurs to expand their businesses, which contributes to overall economic growth and development, a larger and more diversified product and services offering, and robust job creation (ResponsAbility, 2016). Peruvian microfinance has a long and rich history that has seen much success. After years of vigorous expansion, intense competition has led to widespread M&A. The entrance of large commercial banks has not only commercialized the microfinance industry and added it as a key component of Peru’s financial sector but also expanded financial services to much of Peru’s underbanked population. With much of Peru’s microfinance industry now consolidated, it is hoped that existing institutions and newly formed startups will positively embrace innovations, such as the emergence of fintech, and invest in fintech infrastructure to establish the foundation for the future of financial services in Peru and ultimately increase overall access to financial services.


