

Promoting Access to Savings for the Working Poor in Ecuador

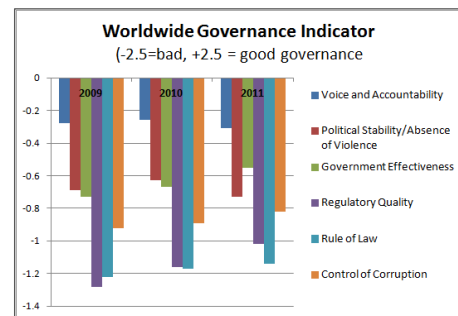
Banco Pichincha, Ecuador

1. Development relevance

Economic and poverty context: After a tumultuous decade in the 1990s, during which Ecuador experienced significant political, economic, and financial turmoil, Ecuador's GDP grew by more than 5% annually between 2002 and 2008. The 2008 financial crisis resulted in GDP growth of less than 1% in 2009, but since then the economy has begun to recover, growing at rates of 2.8% in 2010, 7.4% in 2011, and 5% in 2012.ⁱ GDP is expected to grow by 4% in 2013 in view of rising oil outputs and the disbursement of two new credit lines from China. Since Ecuador's default on its sovereign debt in 2008, China has become its largest foreign lender with oil-for-cash and project loans.ⁱⁱ

Ecuador has rising inflation: this indicator went from 3.6% in 2010 to 5.1% in 2012. The inflation could be controlled since the ten-year high of 8.4% in 2008 partially due to the dollarization. Nonetheless, Ecuador remains sensitive to spikes in international food prices and growing demand-side pressures.

Population and Economic indicators	
Population (2012)	15,492,264
GDP growth (average: 2009-2012 / 2002-2012)	5.1% / 4.5%
Inflation (average: 2009-2012 / 2002-2012)	4.4% / 5.2%
Trade balance (% of GDP) (2011)	-2.2%
Foreign Direct Investment (net) (% of GDP) (2011)	0.82%
Net ODA & official aid received (% of GDP) (2011)	0.21%
Personal remittances ¹ (% of GDP) (2011)	3.5%
Economic Freedom Index ⁱⁱⁱ (Rank among 177 countries)	159



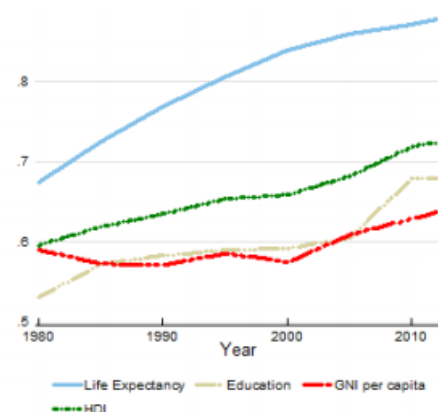
Ecuador was able to contain the global crisis due to an enormous stimulus plan through an expansionary fiscal policy with increased public investment as well as social spending in housing, health and education.^{iv} With the public spending and investment, public debt rose since a low in 2009 and is expected to continue to increase nominally, remaining around 22% of GDP.

The current account remains slightly in shortfall because the trade and service balance continues in deficit, which is only countered by a positive income balance thanks to excess in transfer payments. Ecuador is highly dependent on oil exports and remittances.

According to the Heritage Foundation, Ecuador ranks 159th out of 177 economies in the 2013 Economic Freedom Index (and 26th out of 29 countries in Latin America and the Caribbean). Ecuador's economic freedom score has declined substantially in recent years, and for the past several years it has been considered a "repressed" economy. Comprehensive state interventions, corruption, restrictive regulation, legal insecurity and government bureaucracy make the investment and business climate increasingly unattractive. While government effectiveness in Ecuador has improved steadily (according to the Worldwide Governance Indicators), Ecuador's overall governance still remains quite weak due to rule of law characterized by political interference and inefficient and non-transparent regulation.

A poor security situation, concerns over the erosion of constitutional rights, increasing concentration of power around the executive, and escalating conflict with indigenous groups over extractive industries are expected to polarize further and may lead to sustained dissatisfaction among certain population groups. However, it is anticipated that President Correa's popularity will endure thanks to his commitment to cash transfers and other social expenditures.

Trends in Ecuador's HDI component indices 1980 - 2012



Source: UNDP Human Development Report 2013

¹ Data on "Workers Remittances" not available.

Ecuador's growth has reduced poverty and inequality in the country, with income poverty decreasing from 37.6% in 2006 to 27.3% in 2012 (national poverty line). The most recent Gini coefficient, reported in 2010, was 49.3, a decline from 2006's coefficient of 54. GDP per capita reached \$5,425 in 2012, an increase of 27% over the 2008 figure (\$4,256). While Ecuador's HDI rose from 0.596 in 1980 to 0.724 in 2012, it still ranks below the

Poverty indicators	
GDP per capita (current USD) (2012)	\$5,425
Gini Index (0= equality 100= inequality) (2010)	49.3
Human Development Index (out of 187 countries) (2012)	89
International (at 1.25 USD/day), national and rural poverty headcount ratio	4.6% (in'tl 2010), 27.3% (nat'l, 2012), 49.1% (rural, 2012)

Latin America & Caribbean regional average. In particular Ecuador lags behind others in the region in terms of GNI per capita (PPP US\$), with Ecuador's \$7,471 far less than the LAC average of \$10,300. According to the World Bank, more than half of Ecuador's population is living in poverty or remains vulnerable to falling into poverty. In particular, rural residents are significantly more likely to live in poverty.

Financial sector context: Ecuador's financial sector is quite underdeveloped and is often subject to regulatory changes and state-directed allocation of credit that limits access to financing and adds costs for entrepreneurs.^v However, the government encourages expanding financial services to rural areas and to the poor. Ecuador's microfinance market is fairly well developed with a diverse range of products and services, concentrated in urban areas.^{vi} The country has established credit bureaus and a national network, the Red Financiera Rural. Still, access to formal financial services remains low. For every 100,000 people, there are 9.3 bank branches and only 6.3 ATMs. This compares to 96 branches and 127 ATMs per 100,000 people in Spain. Similarly, while there are 2,076 deposit accounts per 1,000 people in Spain, there are 420 deposit accounts per 1,000 people in Ecuador. According to the Global Findex, in 2011, 37% of Ecuadorians held an account at a formal financial institution and 11% had taken a loan in the past year.^{vii}

MIX Market counts 59 microfinance institutions in the country, serving nearly 800K borrowers and 1.7M savers, with the largest institutions including Credifé, ProCredit, and Banco Solidario.^{viii} However, the top five institutions in both credit and savings comprise nearly 60% of the respective portfolios. The microfinance sector lacks the scale necessary to serve the large unbanked population, concentrated in the rural areas. Credifé, the microfinance company of Banco Pichincha, estimates that at least 70% of all rural microentrepreneurs do not currently have access to financial services, compared to 10% in urban areas. There are few commercial microfinance institutions that currently serve the BoP in Ecuador; most microfinance is delivered through cooperatives and public entities. The strong presence of the public sector in microfinance has created a conflict of interest in regulation and supervision.

Ecuador's government has focused on microfinance legislation, with resulting regulations that may both help and hinder the sector. Regulatory laws passed in 2011 will establish a single legal framework for Ecuador's financial system. It should also be noted that there is heavy regulation of the microfinance industry including interest rate and commission ceilings, bureaucratic delay, and/or barriers which may, at times, inhibit innovation.

Accion's savings project is in line with the Ecuadorian government's "Buen Vivir" program, which focuses on topics such as education, social security, equal rights, housing, the environment, and economic opportunity. The program states that both financial and social inclusion should be a given right of the people. While Ecuador does not have a financial inclusion law, it has a financial education law whereby financial institutions have to help clients understand the characteristics, risks, correct use, and the contract clauses of the products they acquire. This law requires entities to train clients to make informed and analyzed decisions and to communicate information in a transparent, clear, and complete way.

Partner financial institution: Banco Pichincha (BP), the largest private bank in Ecuador, is committed to contributing to the sustainable and responsible development of the countries in which it works. It offers a variety of financial products and services including savings, credit/debit cards, payment services, remittances, investments, and financing. In technical assistance (TA) partnership with Accion, BP works in microfinance through its wholly-owned service company, Credifé. Credifé was created over a decade ago, with Accion TA, to specifically address the financial needs of the BoP. Credifé presently has the largest loan portfolio in the country, followed by Solidario. Credifé's mission is to deliver financial services to microentrepreneurs with a responsible, ethical, high-quality team and innovative technology that is sustainable for its clients, target population, institution, and country. Credifé offers loans,

Credifé's Branch Network Map



insurance (life, credit-life, and hospitalization), and financial education. Credifé also offers savings accounts that can be opened through Banco Pichincha (Credifé is not authorized to take deposits independently, so these accounts are held with BP). As part of this project, Credifé's existing savings product was redesigned to better meet the needs of low-income clients.²

Approximately 40% of Credifé's portfolio is rural. In the rural areas where Credifé operates, it is often the main – if not sole – provider of formal microfinance. In urban areas roughly half of Credifé's clients are women, while in rural areas women, either on their own or with a partner, make up 75% of Credifé's rural clients.

Partner financial intermediary (data in USD) – Banco Pichincha				
	2009	2012	June 2013	2016 ³
Total assets	\$4,767,122,314	\$8,092,708,410	\$8,415,793,495	
Gross loan portfolio	\$2,653,003,204	\$4,291,585,005	\$4,541,207,225	
Total deposits value	\$3,118,267,524	\$4,981,408,733	\$5,055,223,963	
Total staff/women	n/a	6,497/56%	7,262/60%	
Total Office	161 (2010)	219	221	

Banco Pichincha's market position and its infrastructure make it uniquely qualified to scale up BoP savings significantly. BP holds 27% of the savings market and 31% of the credit market. It operates in all provinces in Ecuador.

Since Credifé operates as a service company of Banco Pichincha, it shares many branch locations. However, Credifé has many fewer branches than Banco Pichincha. By delivering savings targeted to the BoP through both Credifé and Banco Pichincha, the project had the opportunity to reach many more BoP clients with savings services than it would through Credifé alone.

Partner financial intermediary (data in USD) – Credifé				
	2009	2012	June 2013	2016
Total assets	\$232,940,368	\$536,125,649	\$546,347,385	
Gross loan portfolio	\$253,681,909	\$528,394,139	\$539,396,977	
Total deposits value	Savings accounts are opened through Banco Pichincha, as Credifé is not authorized to collect deposits independently.			
Total staff/women	All staff are Banco Pichincha employees.			
Total Office	107	102	102	

Banco Pichincha has been working with international partners such as IDB, Gates Foundation, and the Swiss Capacity Building Facility in order to develop innovative services for clients, specifically in alternative distribution channels, savings, and technology.⁴ The project and results described herein are part of a large multi-million dollar savings project aimed at dramatically increasing the number of active savings accounts serving low-income families in Accion partner MFIs in Latin America. Through this project, Accion supported partner MFIs to move from credit-led institutions to more complete financial service organizations, while building its own internal capacity to help other partners implement savings programs. For each MFI, the project included developing appropriate savings products, marketing and piloting those products, and introducing appropriate systems (incl. alternative delivery channels) to integrate savings into the institution.

2. Intervention approach and additionality

Capacity building needs: This project aimed to overcome the poor's lack of proximity to formal financial services as well as build the culture of savings. Although Credifé has the internal capacity to work with BoP clients, its ability to scale up savings had been limited by its infrastructure and regulatory approvals. Through this project, both Banco Pichincha and Credifé offered improved savings products targeted to the needs of BoP clients, utilizing different savings mobilization channels. This project helped Credifé's clients access an expanded product portfolio while building the capacity within Banco Pichincha to understand how to best address the financial needs of the working poor.

Intervention approach: The objective of the project was to greatly expand access to savings services among the working poor in Ecuador. The project intended to reach 100,000 savers (via both BP and Credifé⁵) by May 2013. The savings project began in mid-2010, with SCBF support beginning June 2012. SCBF funding supported experts in alternative distribution channels, marketing, products, and project management.

The project plan had three parts:

a. Develop and launch savings products tailored to the needs of the target client.

After intensive research and redesign to better meet the needs of the microfinance segment, Credifé's existing savings product, "Ahorro Crecer" was re-launched. In addition, an electronic savings account, "Cuenta Xperta," was also introduced.

² The redesigned product was officialized in October 2011 with full implementation beginning in the second quarter of 2012.

³ Projections for 2016 are not yet available.

⁴ Credit Suisse serves as the intermediary for the grant from the Swiss Capacity Building Facility to Accion.

⁵ The revised savings products would be offered by both Banco Pichincha and Credifé, though the accounts are legally under BP.

At the beginning of the project, Accion expected to create additional new savings products; however, after new product design, Accion concluded that “Ahorro Crecer” could be adjusted to obtain better results. Further, Banco Pichincha was undergoing a change in its core banking system that would require significant time for the needed technological adjustments.

b. Design and implement three accessible channels (mini-branches, multi-functional ATMs, and an agent network) to deliver savings.

Activities included market research and analysis, channel design, development of related processes, and implementation. All three channels are now available to clients.

c. Promote the culture of savings via a targeted communications campaign.

This portion of the project focused on the demand side of savings, through a communications campaign, institutional capacity building, a loyalty program for savers, and financial education. The activities included training sessions with Credifé's marketing department; development of promotional activities and advertising to promote savings and the new channels; and new financial education tools usable for savings campaigns.

Additionality: This project involved innovations in product design and delivery, such as the use of agents combined with an electronic savings account that can be opened throughout the network.

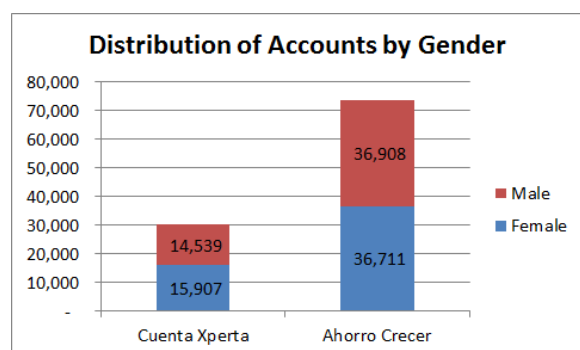
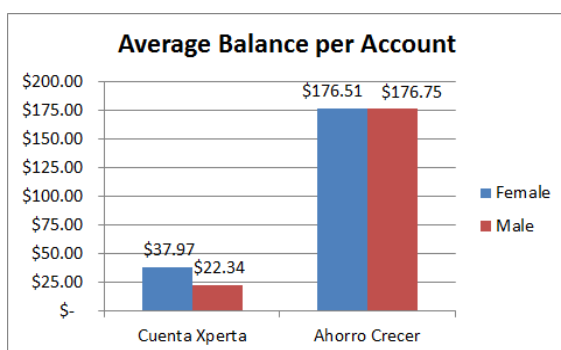
3. Results achieved

3.1. Client level

As of June 2013, a total of 104,065 new accounts have been opened via both Credifé and BP.⁷ There are 73,619 new accounts using the re-launched Ahorro Crecer and 30,446 accounts from the new electronic savings account (Cuenta Xperta). Women have opened slightly more than 50% of accounts and show a higher average balance than men in Cuenta Xperta and a slightly lower balance in Ahorro Crecer.⁸

Outreach - Banco Pichincha (microfinance segment)	2010 ⁶	2012	2013	2016
Number of borrowers	98,748	162,421	486,459	
% of female borrowers	42%	49%	47%	
Average loan balance per borrower	n/a	\$2,740	\$2,464	
Number of savings & deposit accounts	432,787	814,577	1,699,262	
% of female depositors	42%	49%	49%	
Average deposit balance per depositor	\$163	\$211	\$370	
Rural clients	23,452	78,404	147,044	
Outreach - Credifé	2009	2012	2013	2016
Number of borrowers	81,912	101,719	346,957	
% of female borrowers	46%	47%	47%	
Average loan balance per borrower	\$2,961	\$5,195	\$1,555	
Number of savings & deposit accounts	Credifé is not authorized to take deposits independently. All available information is listed under Banco Pichincha.			
% of female depositors				
Average deposit balance per depositor				
Rural clients				

According to a survey of mini-branch clients, customers find the mini-branch useful and believe it provides good customer service. Sixty-five percent of clients will recommend the mini-branch to their friends and family.



⁶ Data from 2009 is not available.

⁷ Totals differ from the initial project report submitted in July 2013 because of the ongoing consolidation of Banco Pichincha's services to low-income clients. As a result, BP's internal classification of the microfinance segment has changed, altering the reported client totals.

⁸ Because Cuenta Xperta accounts can be opened at any agent, and because Ahorro Crecer is an account registered under the branch and not by the nature of the client, information on the breakdown of urban vs. rural is not available.

3.2. Partner financial institution/s level

Market positioning: A major result of the project is that Banco Pichincha now has a communication strategy that includes savings as a priority, as well as new channels for serving low-income clients. These features bring BP closer to the microfinance segment.

During 2013, the average dropout rate is 0.03% for Ahorro Crecer and 1.36% for Cuenta Xperta, as measured by the number of inactive (no transactions after 6 months) and canceled accounts. Since both products are new, the rate is very low.

Key Performance Indicators			
BP	2012	May 2013	2016
ROE	9.4%	7.1%	
ROA	0.9%	0.7%	
PAR _{30days}	3.2%	3.99%	
Credifé	2012	June 2013	2016
ROA	0.56%	0.68%	
Operational Self Sufficiency	129.75%	127.41%	
PAR _{30days}	2.02%	3.06%	
Client Protection Principles	Credifé has endorsed the Smart Campaign and is committed to not only adhering to, but "living" the Client Protection Principles.	Credifé hopes to become Smart Campaign certified in 2014.	
Social Performance	Credifé has undergone several social performance reviews and submits social performance data to the MIX.	Credifé has begun to implement the Universal Standards for Social Performance Management established by the Social Performance Task Force.	

Lately, an important adjustment has gotten underway for Banco Pichincha and Credifé. Previously, Credifé had operated as a service company of BP, but recently Banco Pichincha has begun to absorb Credifé into its normal operations. This is a significant shift in the approach to the way that BP serves Ecuador's poor and indicates a strong willingness to make BoP services an integral part of its operations.

New/Improved products and delivery channels:

Products

The adjustments made to Ahorro Crecer included lowering the minimum amount required to open the account and minimum per deposit; changing the marketing material to include savings-focused messages; and allowing clients to open the account nationwide, not only where Credifé had most of its clients. The re-launched Ahorro Crecer now includes the gift of a piggy bank, designed with messages to encourage daily savings, after six months of saving. The adjustments to this product were positively received by the sales force, who found the new product to be easier to promote and easier for clients to save and accomplish a goal.

The IT team also implemented the needed developments and adjustments for a new electronic savings account, which was launched at the beginning of 2013 – the Cuenta Xperta. This account allows clients to have access to a savings account with minimum opening requirements (just the national identification document) and all functionalities, with some restrictions in the transaction amounts due to money laundering regulations. This account can now be opened through Banco Pichincha's agents' network known as "Mi Vecino," described further below.

Delivery Channels

As of June 2013, we have launched two mini-branches (branded by BP), six multifunctional ATMS, and an agent network (Mi Vecino) with more than 7,000 agents.

The mini-branch concept is aimed at making clients feel that there is a branch close to them that offers the services they need. This model is designed to keep clients at the center of attention, with their needs attended to – it is "closer" to the people both physically and conceptually. It includes multifunctional ATMs, a Kids Zone, a waiting zone, and screens with financial education messaging. During 2012, one mini-branch, La Condamine in Riobamba, was adapted using this model and reopened in January 2013. The Pimampiro mini-branch was launched in March 2013. Banco Pichincha has already identified other cities where mini-branches will be implemented, including Pujilí, Pillaro and Santa Ana.



La Condamine mini-branch on a business day

The Mi Vecino agents' network began a roll-out phase at the end of 2012 after a pilot period. The implementation of the agent's network pilot has been a success in terms of the implementation of the designed

processes and the wide acceptance by the clients. While the network has a low record of transactions,⁹ it is expected to reach scale very soon. As of June 2013, there are 7,289 agents on this network.

Operational capacity: In addition to the new products and channels, Accion is proud of the trainings and new materials developed for Credifé’s commercial force that enable them to better offer savings products. Additionally, we are proud of a client-focused product design process with BP and the communications strategy that brings BP closer to the BoP segment.

Investments mobilized: There have been no recent debt or equity investments. We expect that the deployment of the large agent network, coupled with lower-cost mini branches and ATMs, will assist BP in reaching new regions and will help improve sustainability in the long term.

3.1. Financial sector level

We anticipate that the positive results achieved in terms of serving base-of-the-pyramid clients by a commercial bank will raise interest from other institutions. These results also demonstrate that if adequate delivery channels are put in place to complement the savings strategy, and education is provided, clients are more than willing to save considerable amounts with discipline. We hope these results will also influence the near-future regulation of the country in terms of electronic delivery channels and savings accounts.

4. Lessons learnt and further challenges

- Clients expect to perform all regular transactions at the agents’ network. However, the status of the network during the first phase of its implementation did not allow them to do so. Currently, the second phase allows more transactions, bringing the agents’ network closer to the branch functions. As a result, the number of transactions per day has increased and adoption of the network by clients is improving. There are further plans to increase adoption, including marketing campaigns, reduced cost for transactions made through agents, improved connectivity and complaint response time, and new kinds of transactions, such as school and health payments.
- Even though the project is a priority for Banco Pichincha, processes take longer than expected due to BP’s complex decision-making process. As a result, mini-branches are taking longer than expected. However, Banco Pichincha is fully committed to launching more mini-branches.



Clients using the multifunctional ATM at a mini-branch

“I needed a place to save and what could be better than Banco Pichincha who gave me the opportunity to do it”

Ines Maria Velastegui Pazmiño,
 a microentrepreneur who owns a hardware store in Cotocallao

“I like that it’s an account only for my savings and the bank is not going to make any discounts over it”

Verónica Ramirez,
 a microentrepreneur who owns a clothing store in El Quinche.



Clients using the agents’ network

ⁱ World Bank
ⁱⁱ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ec.html>, 28.10.2013
ⁱⁱⁱ Heritage Foundation, 2013 Index of Economic Freedom, Ecuador
^{iv} Economist Intelligence Unit Limited, 2013, Country Report Ecuador, October 2013
^v Heritage Foundation, 2013 Index of Economic Freedom, Ecuador
^{vi} EIU (2012), Global microscope on the microfinance business environment 2012
^{vii} World Bank Global Financial Inclusion Database
^{viii} MIX Market

⁹ As of May 2013, agents averaged 4.5 transactions per day. The goal is to reach a range of 15-20 per day.