



## Microfinance comes of age

**"Microfinance is banking, and banking is our core competence, so it makes sense for us to be active in this area," says Arthur Vayloyan, Head of Investment Services and Products, Private Banking, at Credit Suisse in Zurich.**

The Private Banking division of Credit Suisse has been active in microfinance since 2000, driven by clients who were seeking socially-responsible investment solutions. Credit Suisse representatives had gained first-hand knowledge of microfinance initiatives around the world, which gave them a useful insight into this market.

"There's significant potential out there," Vayloyan points out. "It's probably tenfold what has been done so far. We talk nowadays about some \$30-\$40 billion worth of microcredit out, and estimates indicate that could easily go to \$200-\$300 billion." Microfinance recipients are at the base of the wealth pyramid – and it's only been partially tapped: "We're talking about four to five billion people. That's the potential of this market: two-thirds of the world's population," says Vayloyan.

Credit Suisse finances the financiers, rather than the individual entrepreneurs. "We couldn't possibly be present in 40 countries around the world with individual borrowers," says Vayloyan. "We refinance the microfinance institutions, and they themselves use the money to give the loans out. It's a refinancing of successful, sustainable microfinance institutions. We partner with specialised microfinance networks worldwide; this gives us access to individual microfinance institutions. We're

talking about institutions with balance sheets of around \$10-\$15 million for the majority."

Returns are significant. "We look for around LIBOR (London Interbank Offered Rate) plus some basis points, ideally over the years," confirms Vayloyan. "Our responsAbility Global Microfinance Fund actually achieved returns relative to the LIBOR market in the midst of the crisis. The best year was 2008, when we saw 5-6% returns to the client."

The crisis hit this market, but not hard. "Countries with microfinance initiatives that were close to the developed world were impacted more due to the transmission mechanism," states Vayloyan. "For example, India – which has a strong internal market versus its share of exports, was actually less impacted than others who were more export-oriented."

The economic crisis had a hidden benefit: putting the brakes on the microfinance market before it could overheat. "We were pleased to see microfinance institutions reduce their offerings when they saw that the demand was not as great as before. Given the growth rates we had seen, we were beginning to wonder if there was too much hype in the market. Instead it calmed down in an orderly fashion," says Vayloyan.

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With these fears of overheating, is there perhaps also the fear of overburdening a relatively inexperienced market with too much debt? “You always have to worry about burdening, when debt is part of the business activity,” points out Vayloyan.

Today, with more investment come “new laws, or changes of laws, or actually establishing laws, some with principles which say the players in the field should adhere to client protection principles.”

Investors in this field tend to be interested in more than just financial returns. “We want to have the double bottom line,” says Vayloyan. “The key thing is this is an investment, but there should be an implicit social impact. Socially-responsible investors care not only for the financial return but also for the impact of their investment.”

But microfinance is not charity – it’s an investment, and one that is coming of age. “We do see the possibility of positioning microfinance as an alternative investment category - an asset class - because of the good returns and low risk. It can reduce the overall risk in your portfolio. But if that is the only reason, people won’t do it, because the most important question for this type of investor is ‘Where is this money going?’”

For Credit Suisse, microfinance is a long-term commitment. “We have expanded our offerings from simple credit products to the capital markets, and now we even have an equity offering,” says Vayloyan. “We have started a capacity-building initiative to help develop the sector itself.”

What’s the worst that can happen? “We once had a nice event with Bob Geldof celebrating microfinance and being active in the developing world, and he phrased it nicely. Once he saw the activity going on more and more in microfinance, he said ‘I like it because the worst you can end up with in microfinance is with charity.’”

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