TYPES OF GUARANTEE SCHEMES AND ITS BUSINESS MODELS

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Theoretical framework on business models

Numerous factors determine the success of a business. Companies are trying to respond to the demands of increasingly demanding customers, so they are continually changing. In this context, the concept of a business model takes on relevance. In recent years its popularity and importance has increased significantly, note the following figures: from 107,000 references in May 2002 on Google, to more than 602 million in June 2006. Even business models can be patented (Rappa, 2002). Changing environments, information technologies and the internet have been important factors for their popularization (Jansen et al., 2007).

The strategy was the benchmark of the past four decades, but today the search for competitiveness begins with the business model (Casadesus–Massanell, 2004). Innovation is of great interest in business models due to the changing pace of today's world, competition and the offer of the best consumer experiences (Mc Grath, 2011).

Strategy and business model are different concepts. The business model describes the fundamentals of how an organization creates, delivers and captures value (Osterwalder et al., 2004). Therefore, the business model is static, does not have the formulas or recommendations for change, while the strategy complements it, contributing to success, is dynamic and rational, focuses on competition and is the plan to create a position unique and valuable. Its role is to develop the business model and encompasses all its components. (Hambrick and Fredickson, 2001; Magretta, 2002; Tikannen et al., 2005; Morris et al., 2005; George and Bock, 2011; Casadesus-Massanell and Ricard, 2011; Wikström et al., 2010).

The business models of the guarantee schemes, according to the scope and financial additionality, have been dealt with in the recent literature (Molina et al., 2019). Still, a proposal is necessary, based on the typology of these schemes, that originate different business models.

Types of guaratee schemes.

When discussing guarantee coverage in favour of micro, small and medium enterprises, it would appear that all guarantee schemes were homogeneous only because their activity consists in the granting of a guarantee. It is far from reality. The guarantee systems are heterogeneous and consequently, respond to different typologies. What is the typology of the various guarantee schemes under which you carry out your activity?

Following a recent empirical classification (Pombo et al., 2013)[4], the guarantee schemes can be of two types:

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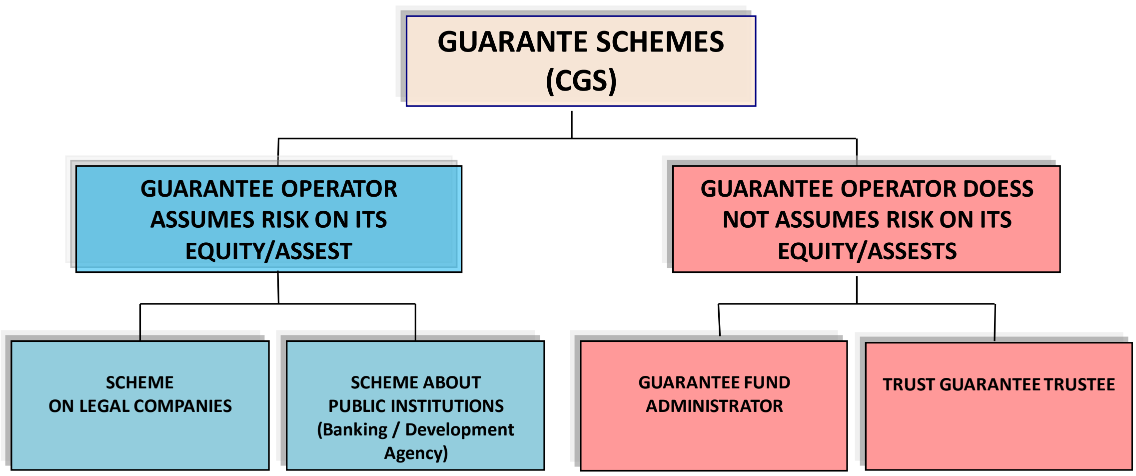
a) Entities who operate the guarantee and assume the risk of coverage on their equity (risk-taken operator) and

b) Non-risk taken operators, who do not respond with their equity because they are merely administrators of an autonomous liquid resource (non-risk taken operators) under the modality of a Guarantee Fund or under a Guarantee Trust.

Figure 1: Typology of guarantee systems or schemes

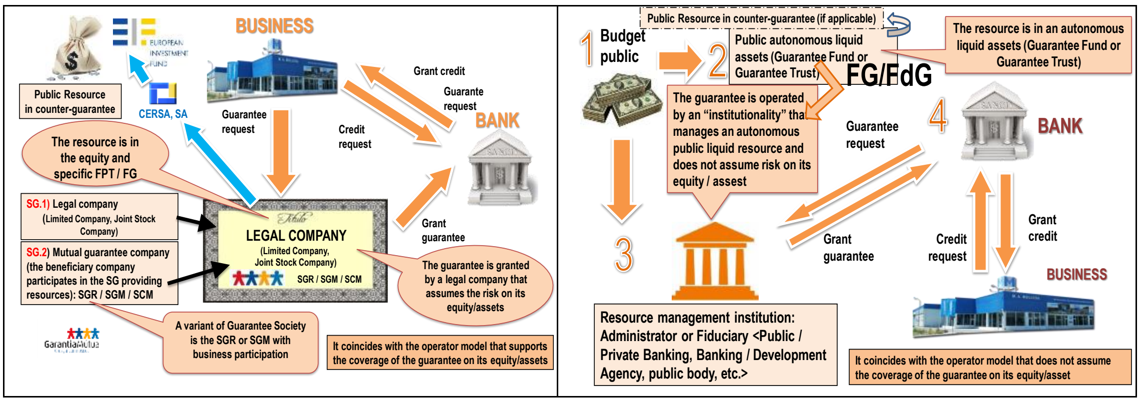


Source: own elaboration

The operator is understood as the entity that develops and executes the activity for the granting and formalization of the guarantee coverage, in a real and effective way, according to the rules of operations.

Figure 2 develops the relationships between the two types of guarantee operators. On the left, the operator who assumes the risk of collateral coverage on his estate (risk-taken operator) and, on the right, the operator who does not take that risk, but manages an autonomous liquid collateral fund or fiduciary of a trust of guarantee (non-risk taken operators). The theory of agency would explain the latter relationship among the contributor of funds (principal) and the administrator (agent). The principal also supervises the activities of the agent, who is the administrator. As can be seen, both models respond to a capitalization scheme and different corporate governances.

Figure 2: Operation schemes of the two types of guarantee schemes

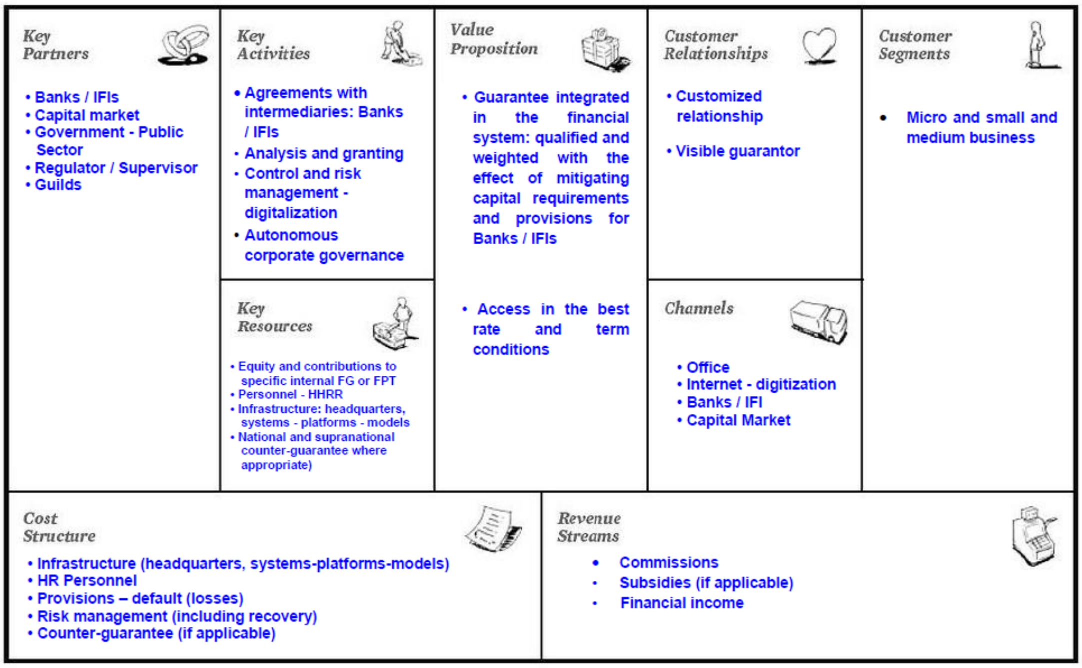


Source: own elaboration

Business model of guarantee schemes.

To understand the interactions between the different elements that make up the business model of this type of operators, we show their business models in graphs 3 and 4, according to Canvas:

Figure 3: Business model of the operator that assumes the risk on its equity

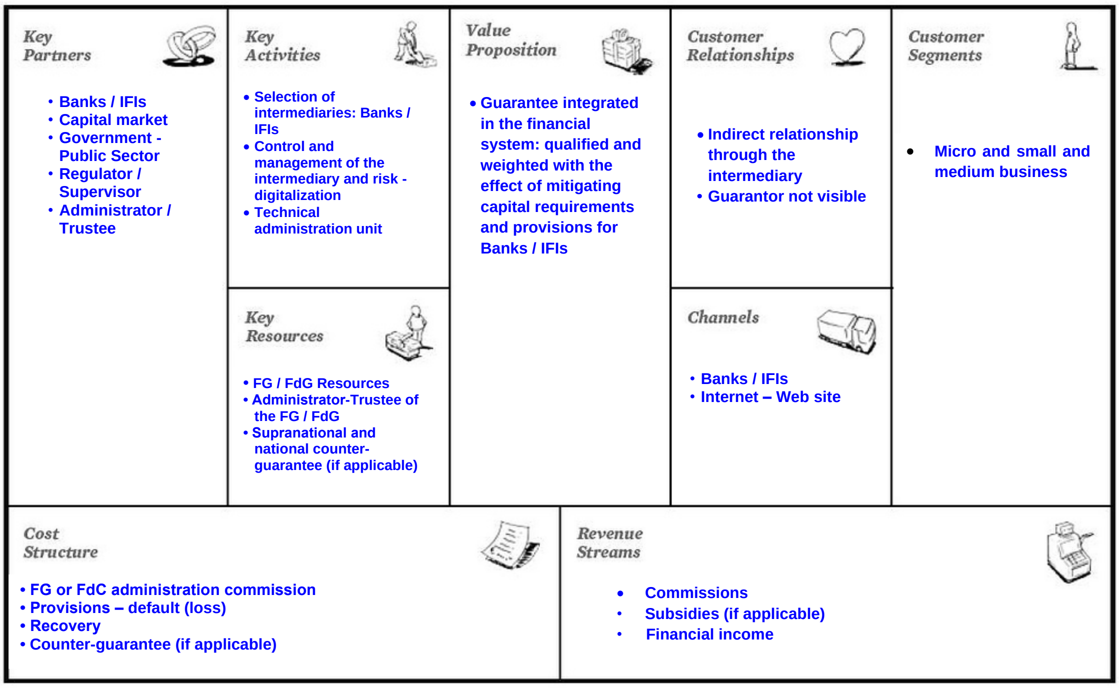


Source: own elaboration

ELEMENT	RISK-TAKEN OPERATOR	NON-RISK TAKEN OPERATOR
Customer Segment	Micro, small and medium business that needs guarantee coverage to access credit.	Micro, small and medium business that needs guarantee coverage to access credit.
Value proposition	Guarantee coverage that allows the customer segment access to credit. It is appropriate that guarantee is integrated into the financial system, both qualified and weighted so that financial institutions can mitigate provisions and capital requirements so that the value offer is real and valid.	Guarantee coverage that allows the customer segment access to credit. It is appropriate that guarantee is integrated into the financial system, both qualified and weighted so that financial institutions can mitigate provisions and capital requirements so that the value offer is real and valid.
Channels	The primary channels of the two operators are financial institutions and the internet. In this case, there is also direct contact with the client.	In this case, in general, contact with the beneficiary is indirect, through the banks, since they do not know or have information that there is guarantee coverage.
Customer relationships	There is a direct relationship and in some cases, personalized.	The relationship is indirect through financial institutions.
Revenue streams	Commission income from the guaranteed coverage service and financial profit from the returns of the	Commission income from the guaranteed coverage service and financial profit from the returns of the resources invested are similar in both models.

	resources invested are similar in both models.	

Figure 4: Business model of the operator that does not assume the risk on its equity



Source: own elaboration

ELEMENT	RISK-TAKEN OPERATOR	NON-RISK TAKEN OPERATOR
Key resources	Capitalization is a critical factor that differs among models. The legal form of equity contribution is social capital, and specific Provisional Technical Funds or Guarantee Funds. Besides, other resources are the infrastructures (headquarters-platforms-models), human resources and, in the case of mixed systems, the national counter-guarantee.	The capitalization formula is Autonomous liquid Guarantee Funds or Trusts. There is an administrator of the Guarantee Fund or a fiduciary in the Trust. It is possible the existence of supranational counter-guarantee.
Key activities	The emphasis is on agreements with intermediaries, analysis and granting processes, control and risk management and autonomous corporate governance.	The processes of selecting intermediaries, controlling and managing the intermediary and developing a technical administration unit.
Key partners	Financial Institutions, Capital Market, Government - Public Sector, Regulator / Supervisor and Guild	Financial Institutions, Government - Public Sector, Regulator / Supervisor and with the Administrator / Fiduciary.
Cost structure	Costs related to Infrastructures (headquarters, platform-model systems), HR, provisions – default (loss), risk management (including recovery) and national counter-guarantee (if applicable).	The costs related to the administrative commission of the Fund or Guarantee Trust, with provisions – default (loss), with recovery and supranational counter-guarantee (if applicable)

Main differences among the two business models.

The following table shows the main differences between the two business models. In the first column, the elements of the business model are located according to the canvas methodology and, in the following two columns, the situation of the operator that assumes the risk of its assets (risk-taken operator) and the one that does not take it (non-risk taken operators). The main differences must be in customer relationships, essential resources and activities, partnerships and cost structure.

Risk-taken operators behave differently from non-risk taken operators:

a) Customer relationships are intended to be personalized and even through digital means <the beneficiary is loyal>;

b) Funding bases on share capital, internal specific Technical Provisions Funds FPTs or Guarantee Funds;

c) The entity does not generally delegate the main activities, among them, the analysis and granting of the guarantee, the control and management of the risk and having an independent corporate governance;

d) Alliances with stakeholders are broader than on managing operators;

e) Cost structure is broader and generates in infrastructure costs (headquarters, platforms, system models), human resources and risk control and management.

ELEMENT	RISK-TAKEN OPERATOR	NON-RISK TAKEN OPERATOR
Customer Segment	Intersectorial	Differentiated finalist programs
Value proposition	Clearer integration financial system	Less clear integration
Channels	Physical headquarters – networks	Intermediaries
Customer relationships	Direct (visible guarantor)	Indirect (guarantor not visible)
Revenue streams	There's no difference	There's no difference
Key resources	Share capital and, where appropriate, specific FPT or FG. It has HR Sometimes there is national and / or supranational counter-guarantee	Guarantee Fund or Trust. It has an administrator or trustee. There may be supranational and / or national counter-guarantee
Key activities	The operator analyzes, grants, controls and manages the guarantee. The entity operates with independent Corporate Governance bodies	The directors control the agent (fiduciary) and makes operational decisions about the guarantee. Technical Administration Unit
Key partners	Stakeholder Width	Limited Stakeholders
Cost structure	Infrastructure, HR and risk control and management	Administration and recovery costs

Unlike the risk-taken operators who assume the risk of insolvency over their assets, non-risk taken operators relate exclusively to banks or IFIs. Funding comes from a Guarantee Fund or Trust, for which you have an administrator or fiduciary. The entity delegates critical activities, such as analysis and guarantee granting, for which an administrator or fiduciary centralizes the management. Non-risk taken operators manage have a more limited number of stakeholders. Finally, its cost structure includes, in particular, the administration costs of the administrator or fiduciary and expenses for the recovery.

In full trend of implementation of the digital transformation in the financial system and its reflection in the new business models of banks and IFIs, this should not be a matter outside the guarantee schemes. It is not possible without a perspective of a better knowledge of the activity and the clients. This article aims to provide a better understanding of the operation of guarantee schemes through their typology and their corresponding business models.

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