Crisis environment

What does the current Covid crisis?

How does it affect the microfinance sector?

What else can we expect?
Where do we stand as of today?

**Covid crisis**

- Increasing prevalence of still unknown mutations
- Government sanitary measures: rules, partial and full lockdowns
  - Floating measures according to surges/drop of infections in last 12 months
  - Unclear development – high levels of insecurity

**Economic crisis**

- Certain sectors more affected than others (i.e. tourism, cross border transport) – in most countries 2020 recession, and 2021?
- Government easing measures: tax relieve, subsidies, moratoria
  - Limited supply, time buying, high administrative burden - unclear near and medium-term future
How was your credit business affected from Covid so far?

- Increasing arrears: 25%
- More restructuring/rescheduling: 33%
- Less loan demand: 33%
- Higher cost for loan recovery: 8%
How does Covid-19 affect the financial sector?

Financial and operational implications

- Credit portfolio impairment
- Loan loss provisions growing
- Distortions between sectors/regions/business units
- Withdrawal of deposits
- Liquidity pressure
- Demand for products/services decreasing (growing?)
- Mobilization limitation (revolving?)
How can the financial sector react?

Potential counter-measures

- Increase restructurings
- Reduce expenses/costs
- Pre-qualification of sectors/regions/provinces
- Communication with depositors
- Communication with creditors
- Change in customer communication
- Process innovation
Where do we go as Financial sector?

Climate risks: physical and transition risk

• Physical: decreasing value of assets
• Transition: new regulations and customer behavior

Future: more crisis to come?

• Fundamental change in business process management – digital transformation
• Increasing data availability
Challenges

*How to process increasing amount of (new) information*

*How to centrally adjust decision rules at scale*
Credit Operations

Basic loan process

Communication

Scoring and learning

Decision system outline & set-up
Credit focus

New clients

Recovery

Revolving & increasing exposure
Basic loan process

Time line

Origination
Basic loan process

Timeline:
- Origination
- Loan evaluation
Basic loan process

Time line

Origination

Loan evaluation

Loan decision
Basic loan process

Origination → Loan evaluation → Loan decision → Recovery
Basic loan process

Loan origination → Loan evaluation → Loan decision → Loan recovery

Rating/Scoring
Basic loan process
What does your loan origination primarily rely on?

1st: Marketing
2nd: Word of mouth
3rd: A mix of all
4th: Strategic alliances
5th: Relationship banking
Origination

Who to address? (Client segmentation)

What and how to communicate?

How to organize?
Client segmentation

Pedro Ruiz 59 years old, married, 3 children (24, 31, 38)

I am a cocoa producer in my community and I am looking for a credit for working capital to be able to bring in the harvest. I’m not comfortable with banks, but I manage everything with my cooperative – they care about me. I would like to speak directly to someone in my community, who will help me understand how best to finance my needs in this situation.

Personality
- Conformist
- Traditional
- Individualistic
- Progressive

Motivation
- Low
- High
- Social recognition
- Security

Life style
- Simple living conditions
- Basic education
- Confident with the life he leads
- Head of the household

Media usage
- Low use of digital media
- It has a smartphone
- Basic information is received for traditional channels (TV, radio, newspaper)
- Has access to digital media

Financial situation
- Low
- High

Impact of the crisis
- Low
- High
Do you have sound client segmentation in place?

1st: Yes
2nd: No
3rd: I don't know
What to communicate?

Customers live the crisis – existential threat as entrepreneurs...

- What are your customers main pain points in the current situation?
- Do you have a solution for it?
- What are requirements?
- What solutions for what segment?
Communication channels

Overview PESO:

- Media relations
- Blogger relations
- Influencer relations
- Website
- Blog
- Content
- Brochures

EARNED

PAID

OWNED

SHARED

Advertising
Banner ads
Google adwords

Social media
Word of mouth
referrals

To start with (examples):

**online:**
- Website
- Social media
- Weblog

**offline:**
- Events / Trainings
- Promotional material
- Radio / TV
- Newspaper
- Others

22
Are you actively managing your communication channels?

- Yes: 5
- No: 3
Organize the communication

Adjust your communication to the crisis impacts

- Review your marketing/communication plan
- Identify key messages and offers
- Identify main channels
- Adjust your marketing to be flexible
Basic loan process
Evaluation – Challenges in crisis times

Changing information landscape – insecurity

Define robust rules

Do so at scale in unified manner

 Remain flexible – as situation may change
Evaluation – Solutions

Scoring systems

Information management

Digital business process management
Does your institution apply some of the following?

- Digital data gathering: 3
- Digital data processing: 0
- Omnichannel banking: 0
- Integration with external systems: 0
- Application of credit scores: 5
Evaluation – Solutions

easily calculated number (the score) that reflects the level of risk [1]

Evaluation – Solutions

easily calculated number (the score) that reflects the level of risk [1]

Information sources

CLIENT
- Declarations
- Documentation
- Opinion

INTERNAL
- MIS
- Verification/Observation/Opinion
- References

EXTERNAL
- Public information
- Data bases
- Crowd-sourced insights
- Experts
Scoring areas (example)

**Qualify**
- **Sector outlook**
  - Rating per sector
- **Capacity**
  - Best prepared clients
- **Plausibility**
  - Compare statement vs. references

**Prioritize**
- **Profitability**
  - Most profitable clients
- **Productivity**
  - Most robust clients
- **Finances**
  - Financial situation
- **Willingness**
  - Most committed clients
- **ESG**
  - Most impact clients
Scoring benefits

- **Quality control**
  - Alignment
  - Systemization

- **Decision making**
  - Unified
  - Standardized

- **Efficiency**
  - Automation
  - Transparency
  - Accountability

- **Client performance**
  - Satisfaction score
  - Payment behavior

- **Institutional performance**
  - Prioritization
  - Unit margin
  - Productivity
Scoring operationalization

Digitize your processes
Centralize monitoring
Supervise performance
Document risk appetite
Analyze, analyze, analyze
Are your evaluation criteria adjusted on a floating basis?

1st: No
2nd: Yes
3rd: I don't know

7 respondents
Organize scoring

Reorganize your processes for structured information management

- What information sources to use?
- What rules to apply?
- What tools to use?
- What constant feedback to integrate?
Basic loan process

- Origination
- Loan evaluation
- Loan decision
How is your decision system ensured?

- Mostly by centralized system: 1
- Mostly supervision structure: 2
- Mostly staff training: 4
Decision - Challenges

*How to adjust models in times of crisis*

- How to prioritize
- How to adjust to recent developments
- How to steer strategically
Decision logic – Set-up (simplified)

- Sector outlook
  - Rating per sector

- Capacity
  - Best prepared clients

- Plausibility
  - Compare statement vs references

- Productivity
  - Most robust clients

- ESG
  - Most impact clients
## Decision system – Set-up

<table>
<thead>
<tr>
<th>Basic</th>
<th>Advanced</th>
<th>Statistical (AI?)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPERT</strong></td>
<td><strong>EXPERT (extended)</strong></td>
<td><strong>Identification of variables</strong></td>
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<tr>
<td>1 Identification of variables</td>
<td>1 Identification of variables</td>
<td>1 Identification of variables</td>
</tr>
<tr>
<td>2 Standardized model</td>
<td>2 Definition of unwanted clients</td>
<td>2 Definition of unwanted clients</td>
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<tr>
<td>3 Piloting</td>
<td>3 Data cleaning</td>
<td>3 Data cleaning</td>
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<td>4 Testing and simulation</td>
<td>4 Modelation and simulations</td>
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<tr>
<td>5 Feedback and adjustments</td>
<td>5 Result analysis</td>
<td>5 Result analysis</td>
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<tr>
<td>6 Pilot</td>
<td>6 Pilot and scale-up</td>
<td>6 Pilot and scale-up</td>
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<tr>
<td>7 Scale-up</td>
<td>7 Ongoing monitoring and feedback</td>
<td>7 Ongoing monitoring and feedback</td>
</tr>
</tbody>
</table>
Organize decision management

How to implement transparent and solid decision making in times of crisis

- What are your key decision elements?
- What information do you and could you use?
- How can you systemize your decision rules?
- How can you adjust your rules as insights arise?
Basic loan process

- Origination
- Loan evaluation
- Loan decision
- Recovery
Recovery - Challenges

Performing loans in low risk sectors are not the focus

Non-performing loans can threat the existence!
Basic loan process

Treat non-performing loans as new applications/decisions!
Closing remarks

Potentially increased crisis scenarios will become the new normal

The time was never better to find a way through such times

Adjustment to such new realities require proactive change management
Q & A
How relevant was the webinar?

- It was very interesting: 6
- It was okay: 0
- It was not relevant for me: 0
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*EU Programme for Employment and Social Innovation

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