



EaSI Technical Assistance

Credit operations in crisis times

EaSI Technical Assistance Webinar

Christoph Jungfleisch, CEO YAPU Solutions
christoph.jungfleisch@yapu.solutions

18.02.2021, Berlin/Germany



EaSI

Better access
to finance for a
more social Europe

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?

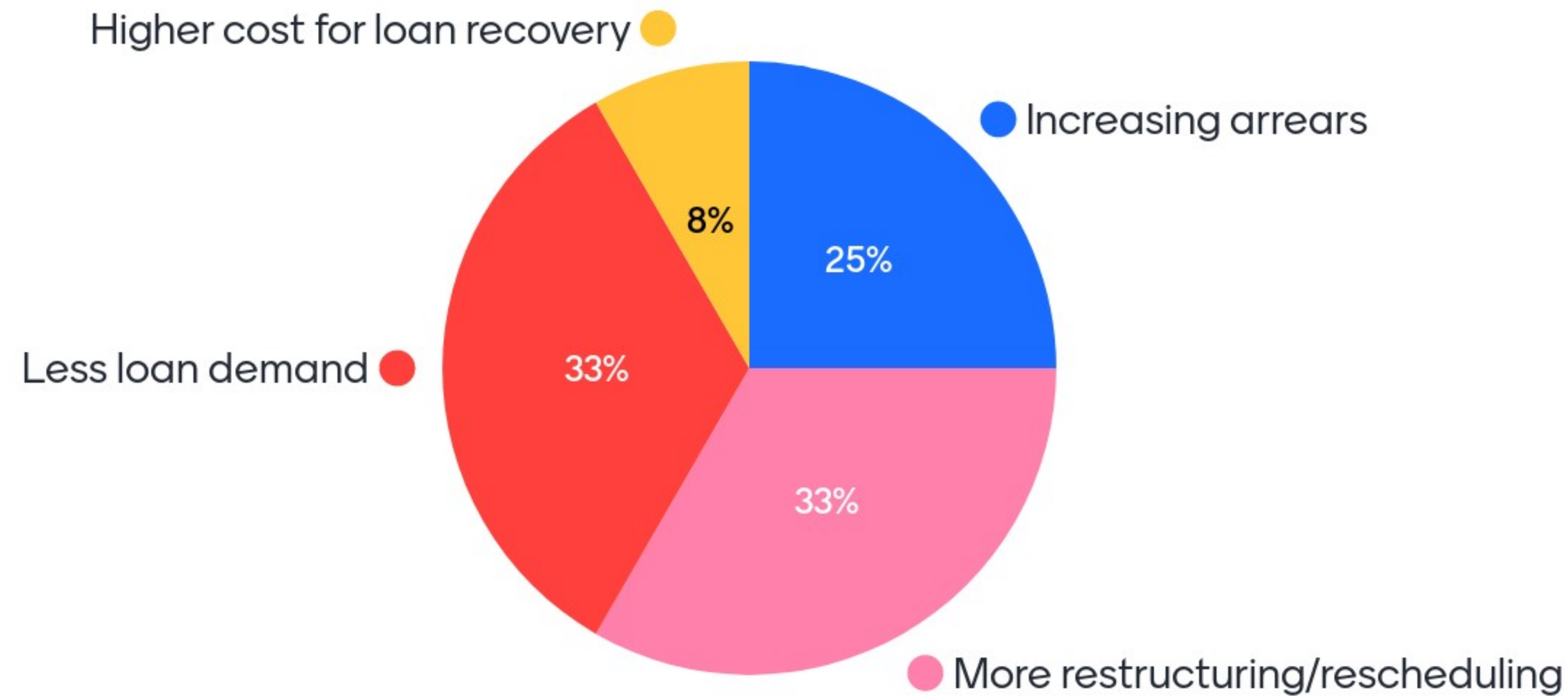
Covid crisis

- **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?



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



EaSI

Better access
to finance for a
more social Europe

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

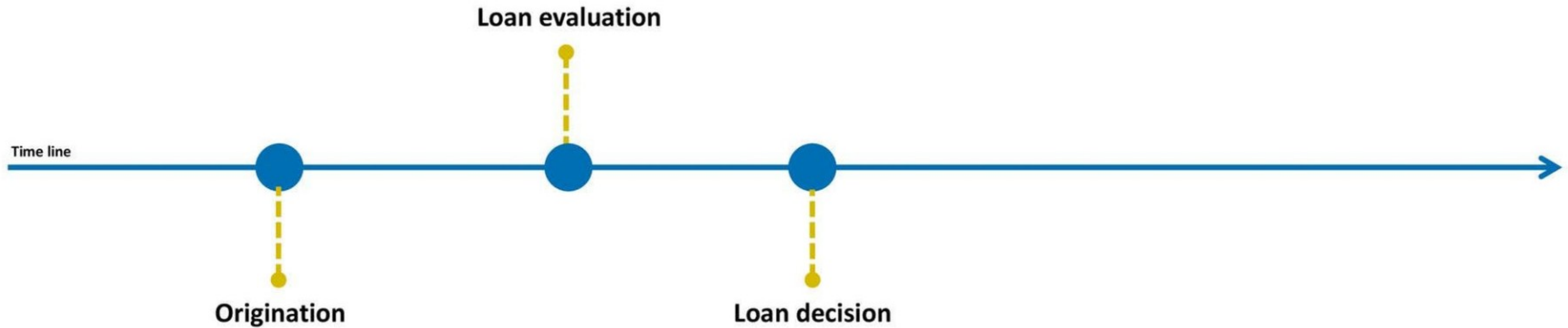


Basic loan process

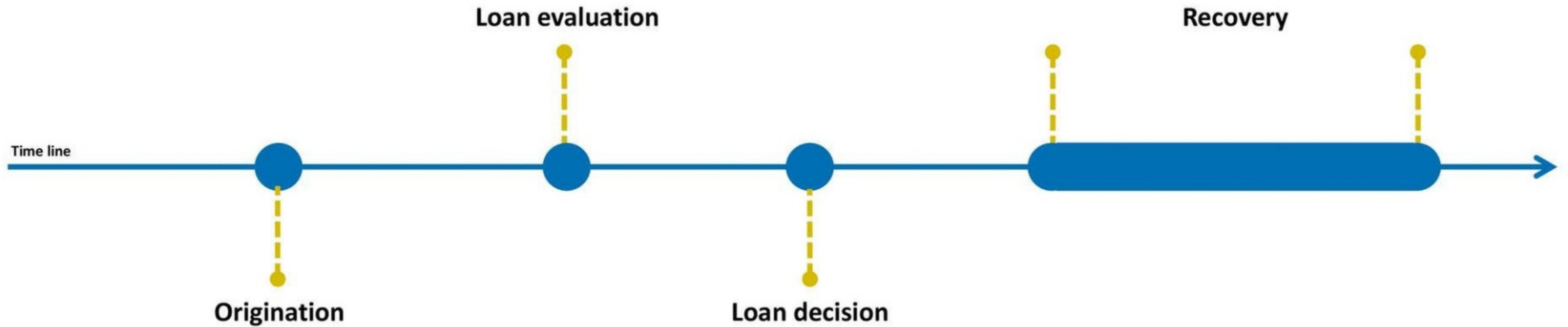




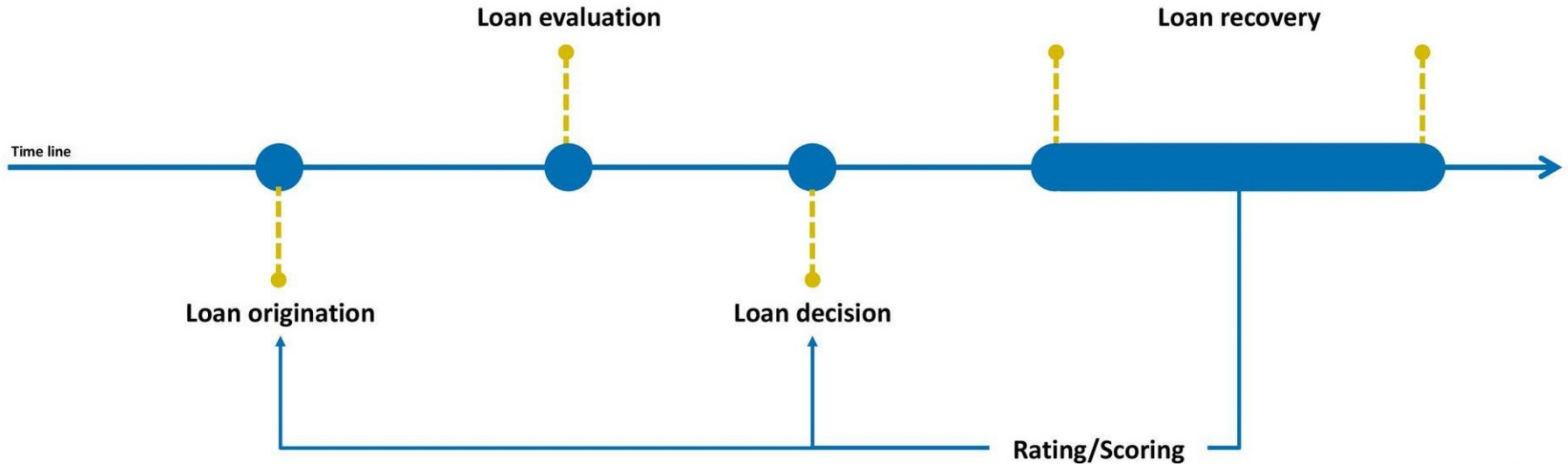
Basic loan process



Basic loan process



Basic loan process

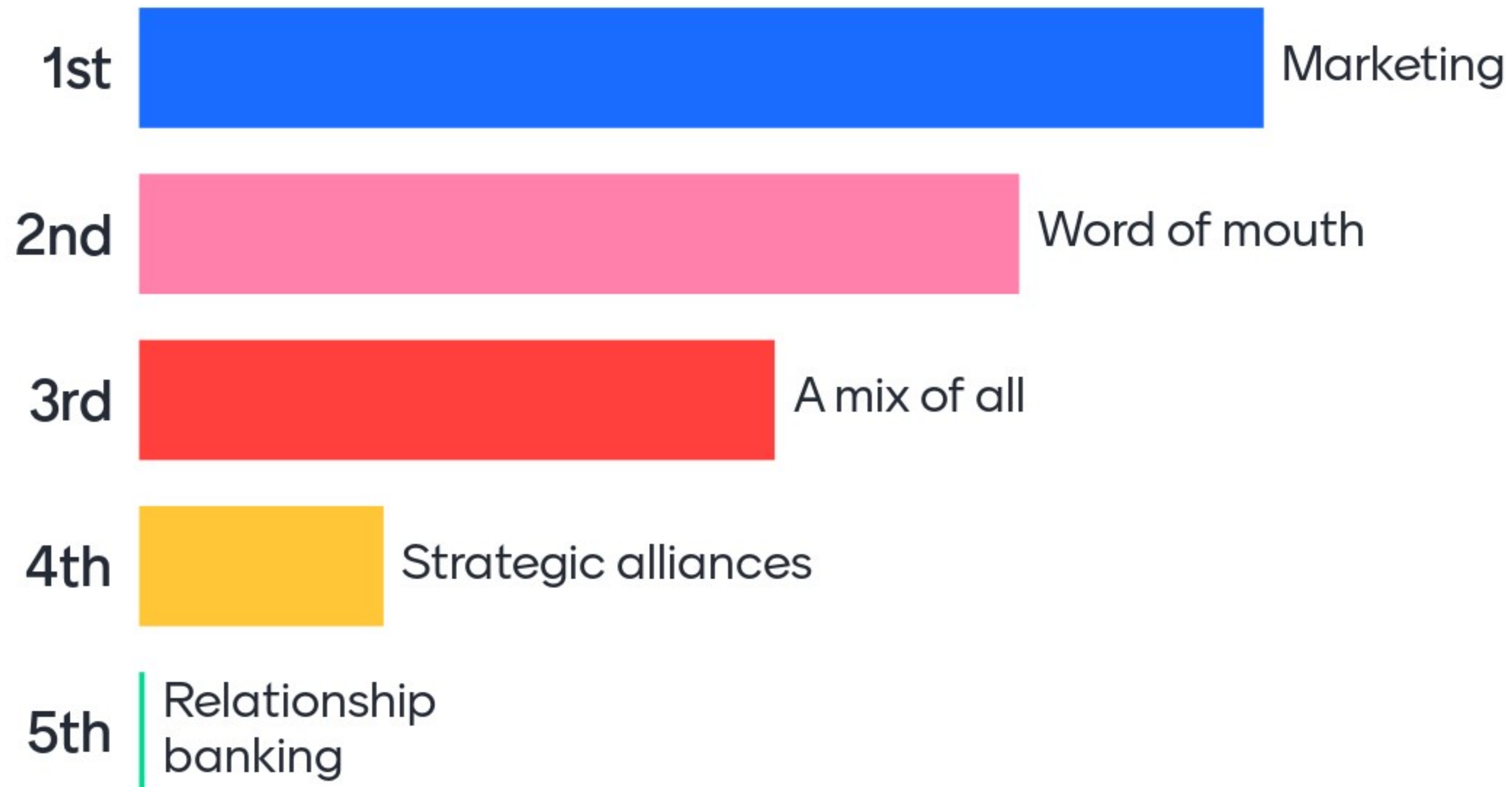




Basic loan process



What does your loan origination primarily rely on?



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



Motivation



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

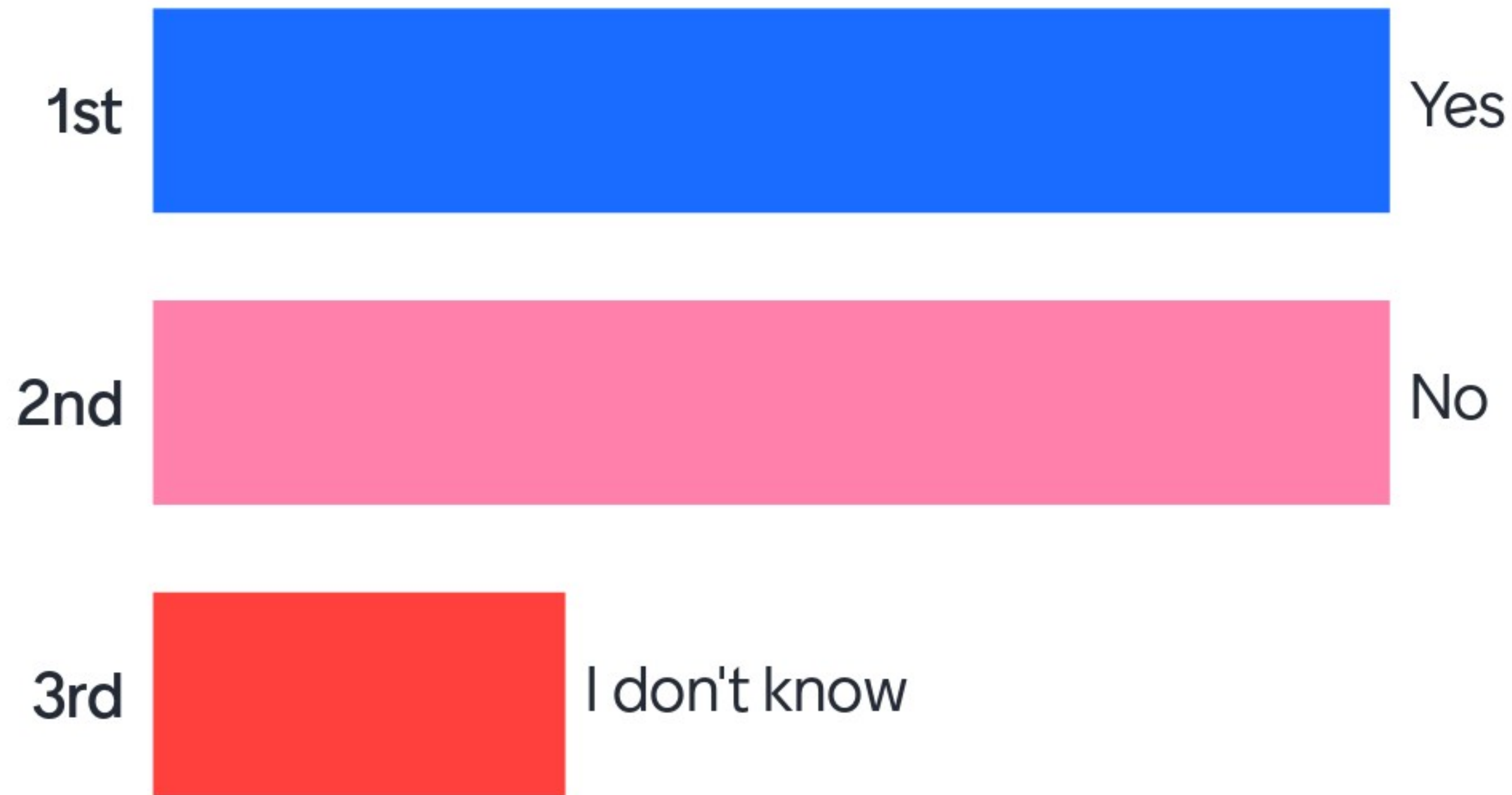
Financial situation



Impact of the crisis



Do you have sound client segmentation in place?



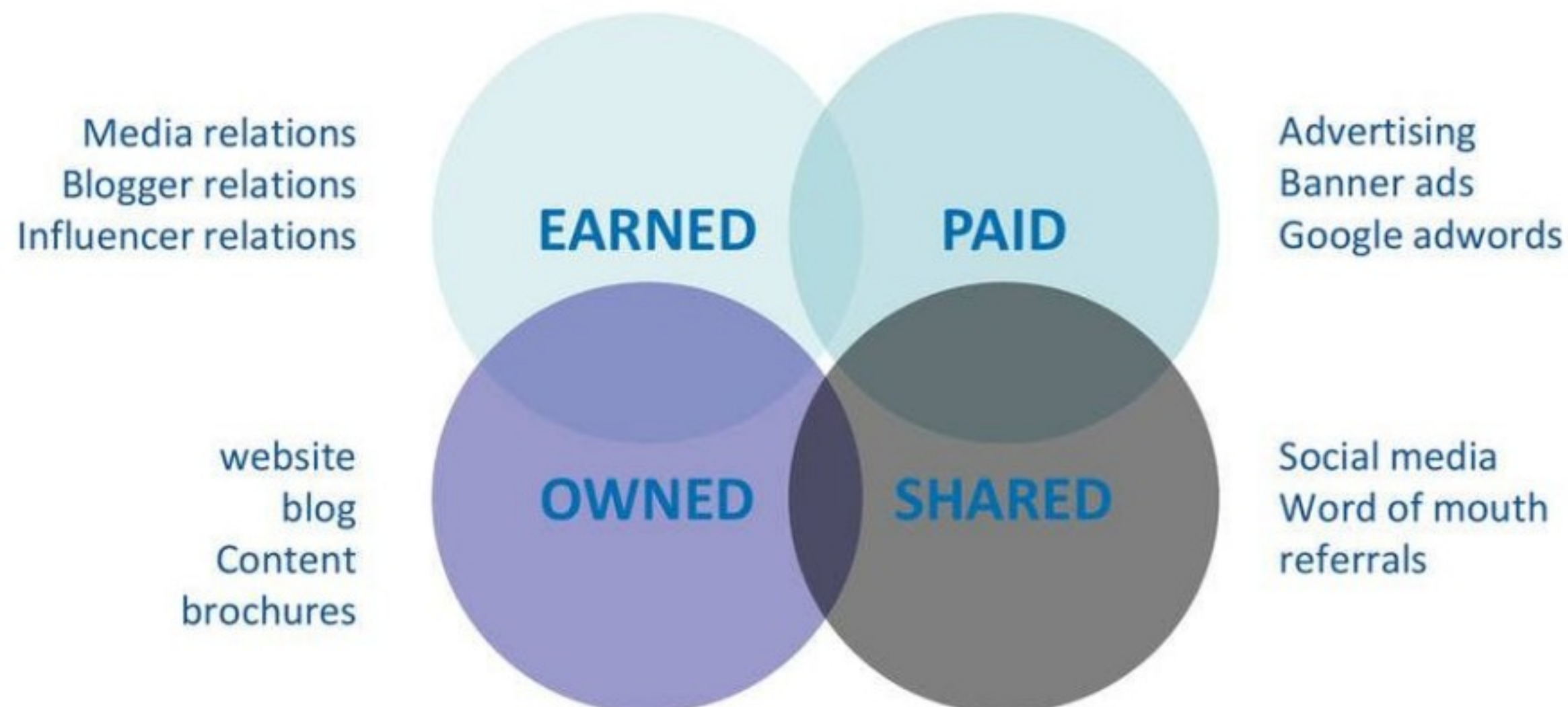
What to communicate?

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:



To start with (examples):

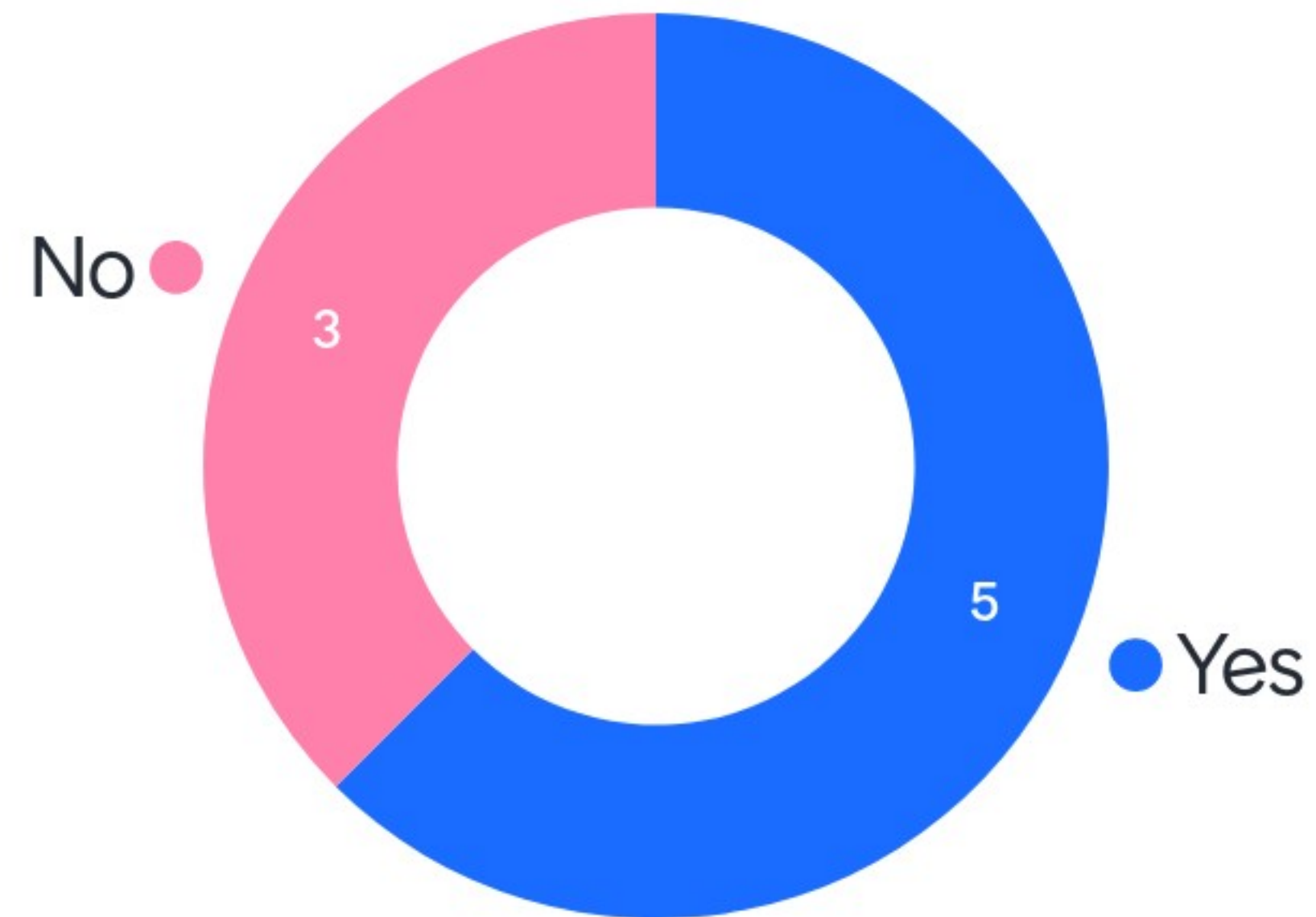
online:

Website
Social media
Weblog

offline:

Events / Trainings
Promotional material
Radio / TV
newspaper
Others

Are you actively managing your communication channels?



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

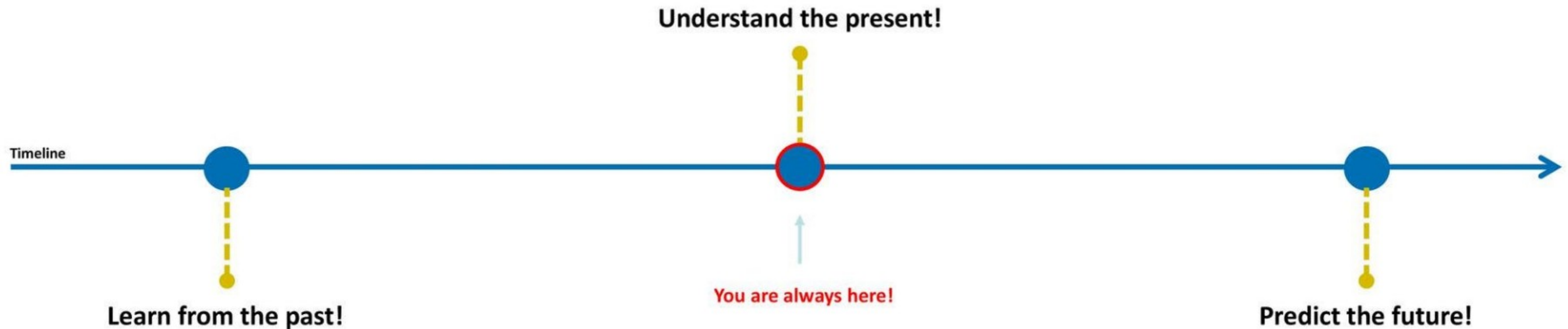
Does your institution apply some of the following?





Evaluation – Solutions

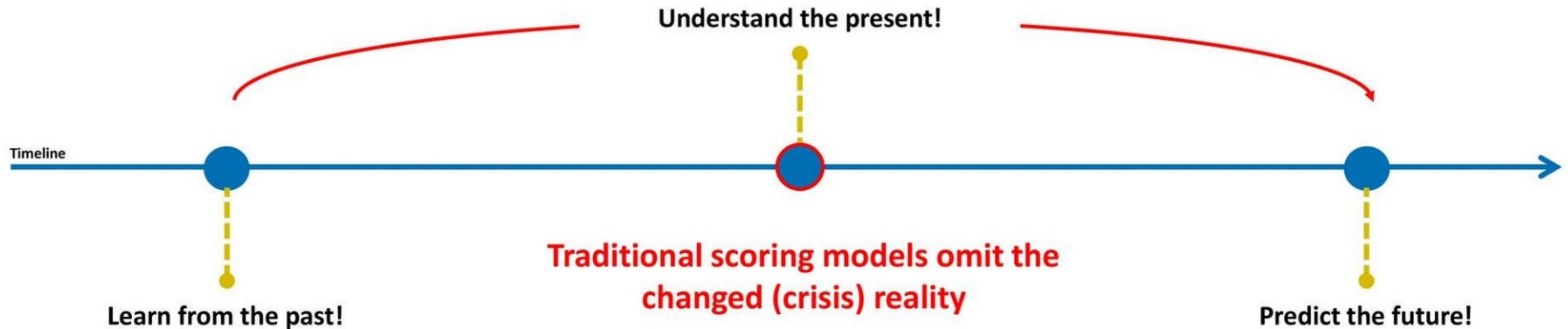
easily calculated number (the score) that reflects the level of risk ^[1]



^[1] https://en.wikipedia.org/wiki/Risk_score

Evaluation – Solutions

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



^[1] https://en.wikipedia.org/wiki/Risk_score

Information sources



CLIENT

- **Declarations**
- **Documentation**
- **Opinion**



INTERNAL

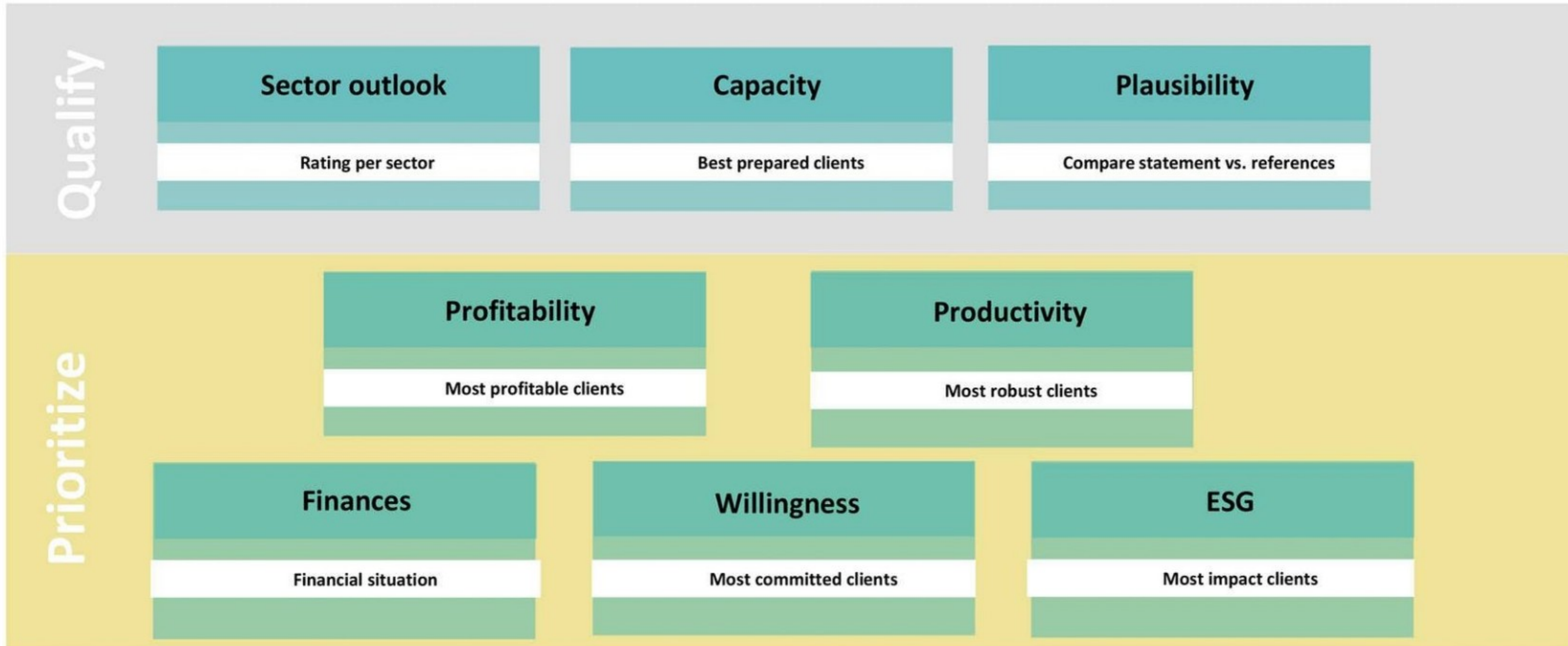
- **MIS**
- **Verification/
Observation/
Opinion**
- **References**



EXTERNAL

- **Public information**
- **Data bases**
- **Crowd-sourced
insights**
- **Experts**

Scoring areas (example)



Scoring benefits



- **Quality control**

- Alignment
- Systemization



- **Decision making**

- Unified
- Standardized



- **Efficiency**

- Automation
- Transparency
- Accountability



- **Client performance**

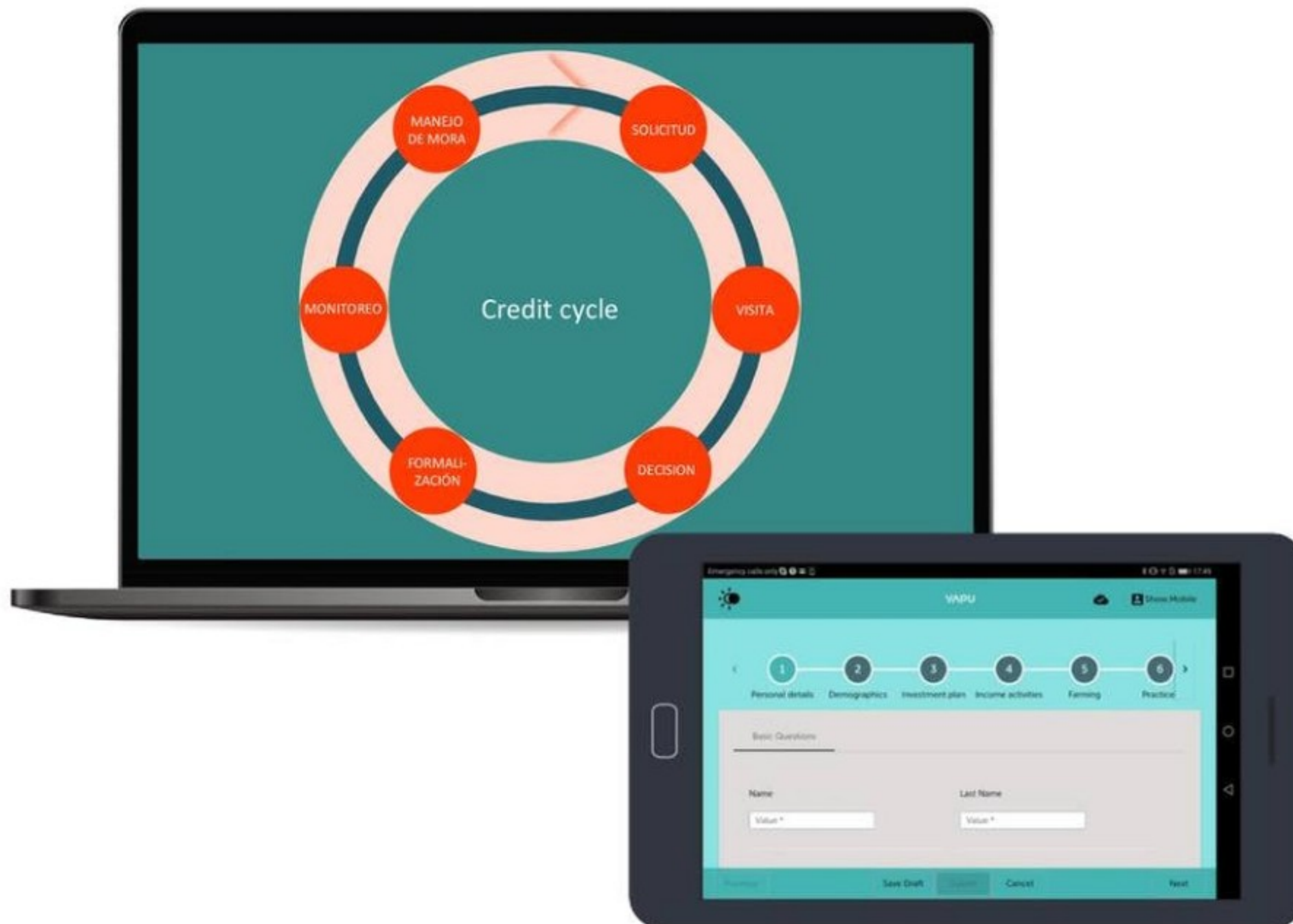
- Satisfaction score
- Payment behaviour



- **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?



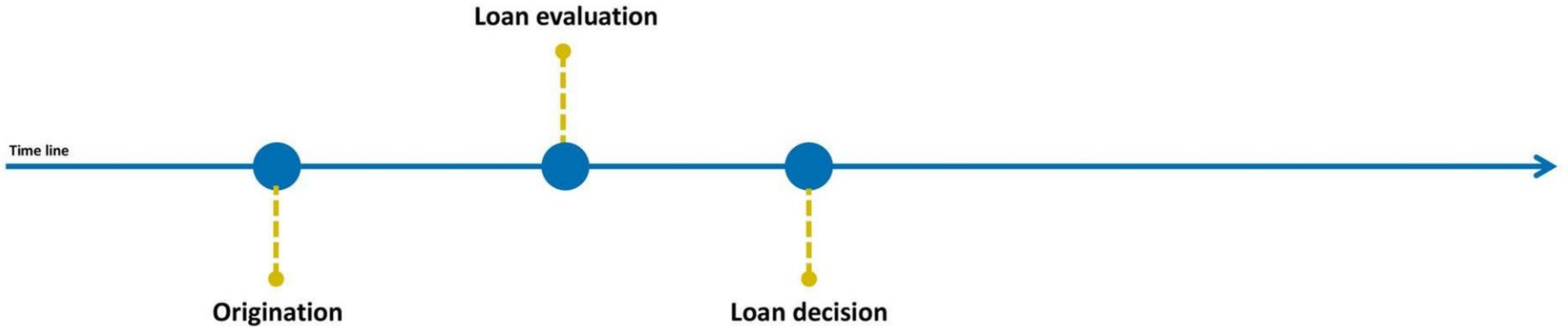
Organize scoring

Reorganize your processes for structured information management

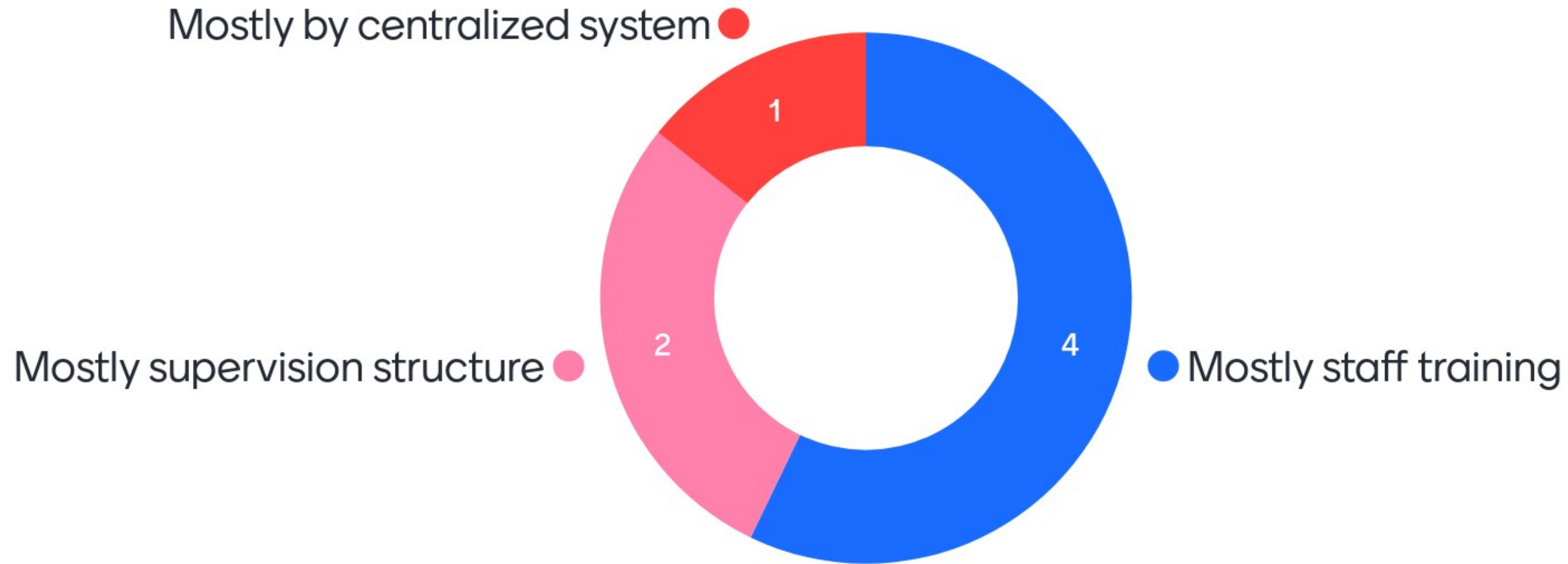
- **What information sources to use?**
- **What rules to apply?**
- **What tools to use?**
- **What constant feedback to integrate?**



Basic loan process



How is your decision system ensured?



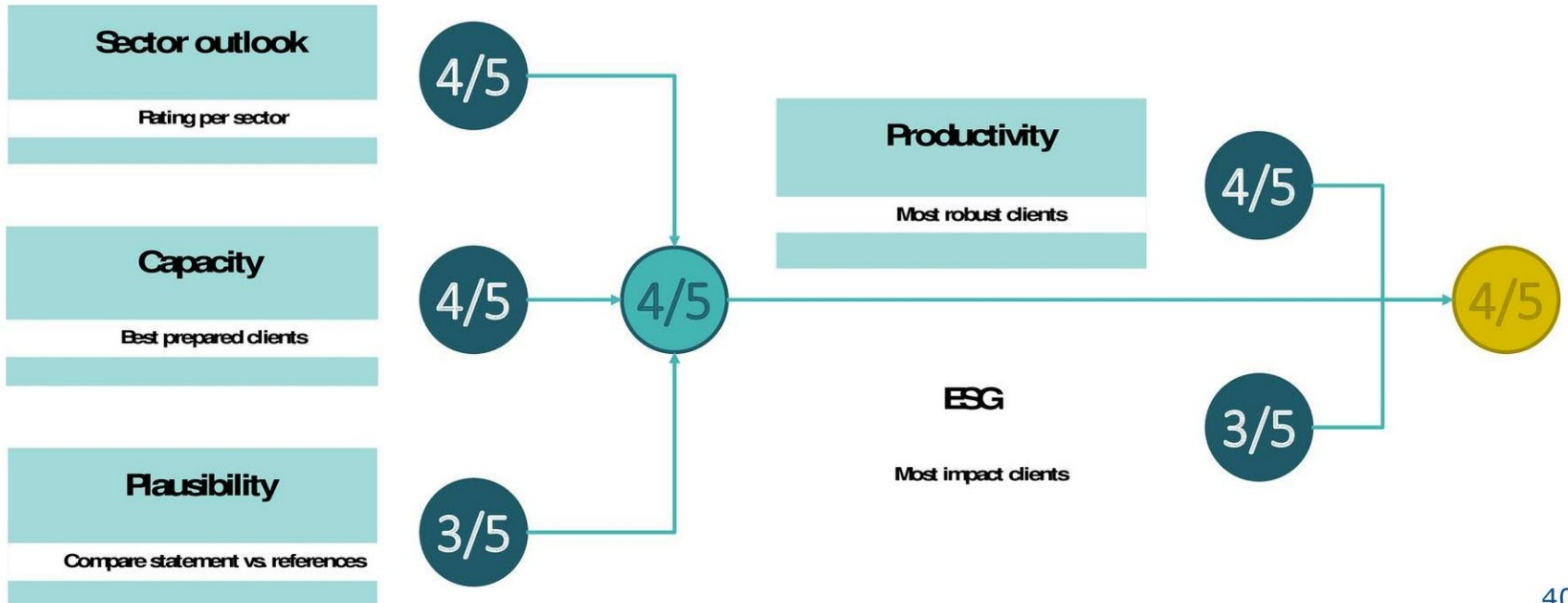


Decision - Challenges

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)



Decision system – Set-up

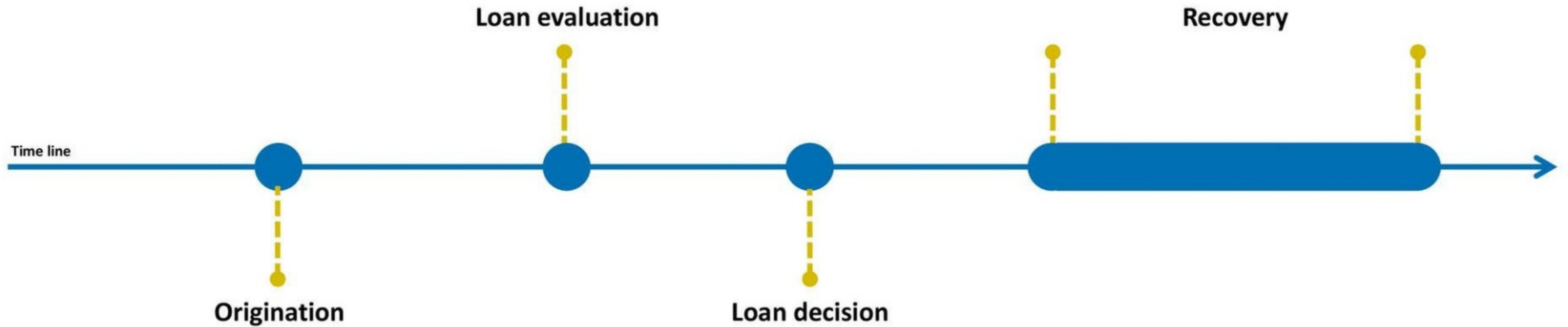


Organize decision management

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



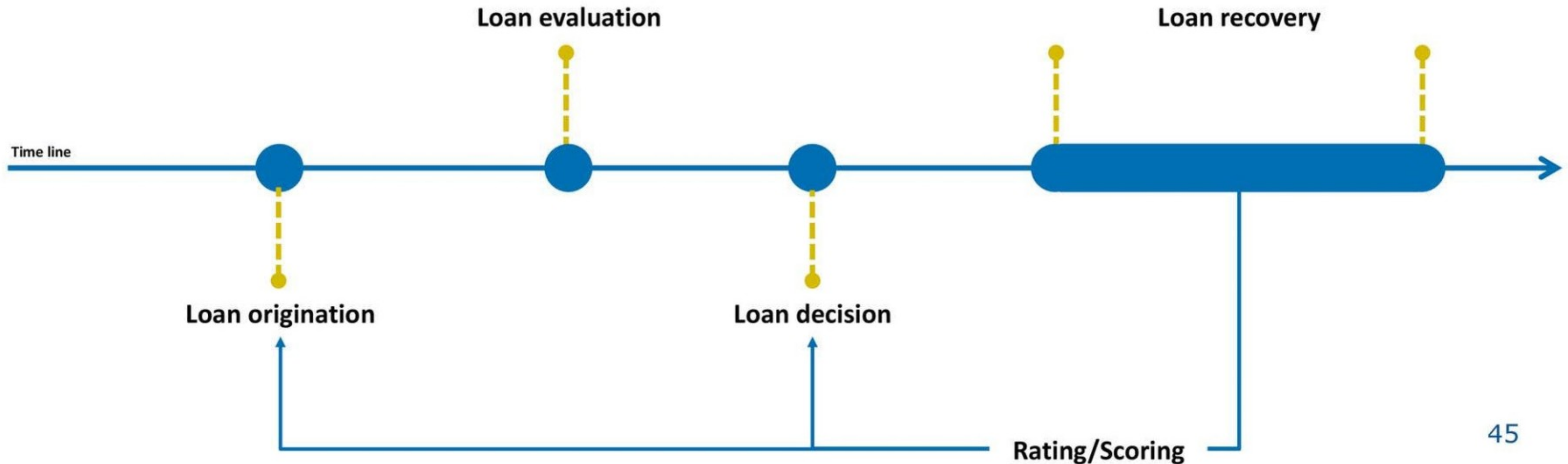
Recovery - Challenges

Performing loans in low risk sectors are not the focus

Non-performing loans can threaten the existence!

Basic loan process

Treat non-performing loans as new applications/decisions!



Closing remarks

Potentially increased crisis scenarios will become the new normal

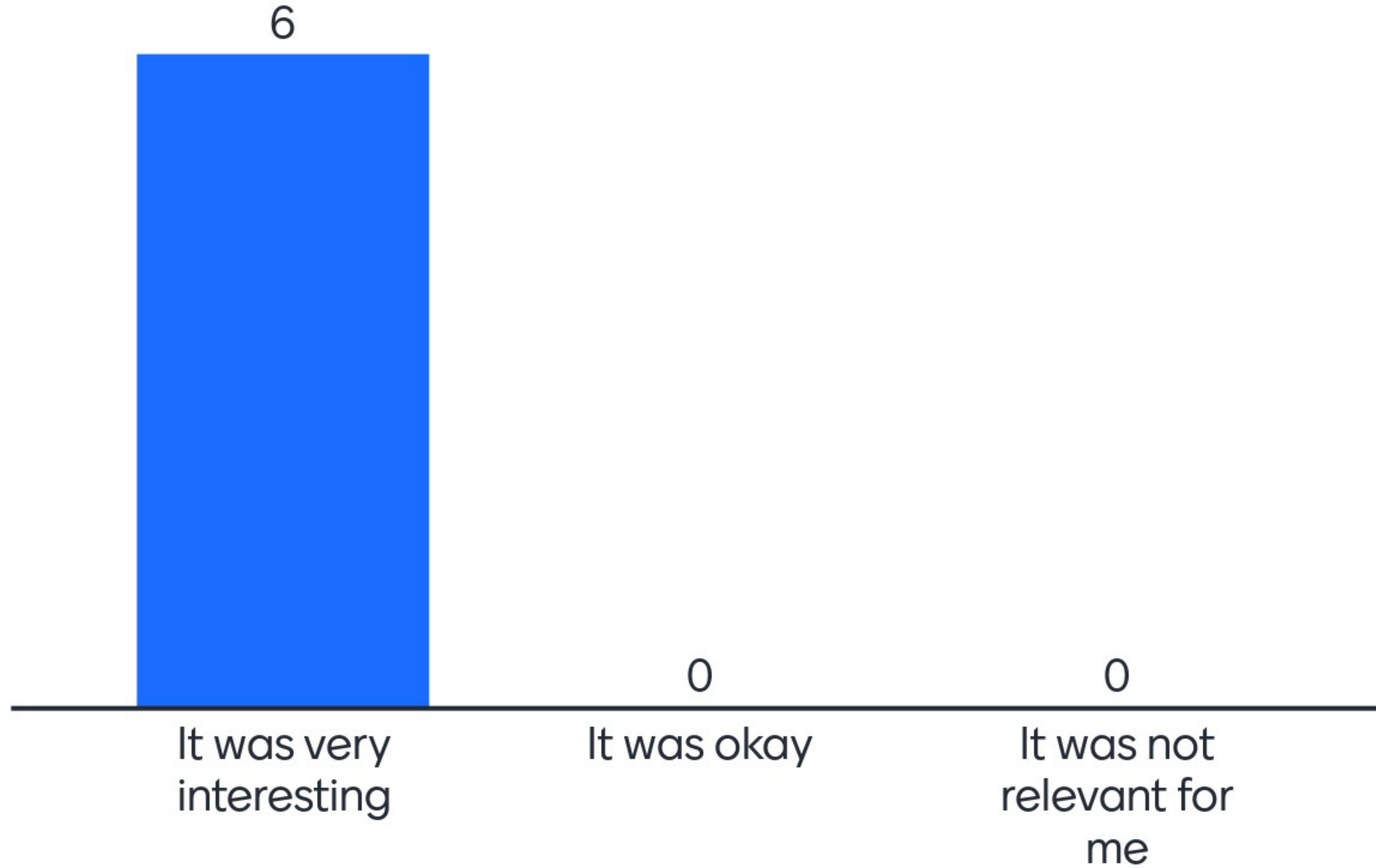
The time was never better to find a way through such times

Adjustment to such new realities require proactive change management



Q & A

How relevant was the webinar?





EaSI* Technical Assistance

For more information, about:

Technical Assistance, contact:
easi.ta@fs.de

Ratings and Evaluations, contact:
easi.ta@mf-rating.com

*EU Programme for Employment and Social Innovation

The author of this presentation takes full responsibility for its contents. The opinions expressed do not necessarily reflect the view of the European Commission.