

RISK MANAGEMENT in Microfinance

ATM for SMEs 
Interreg Europe

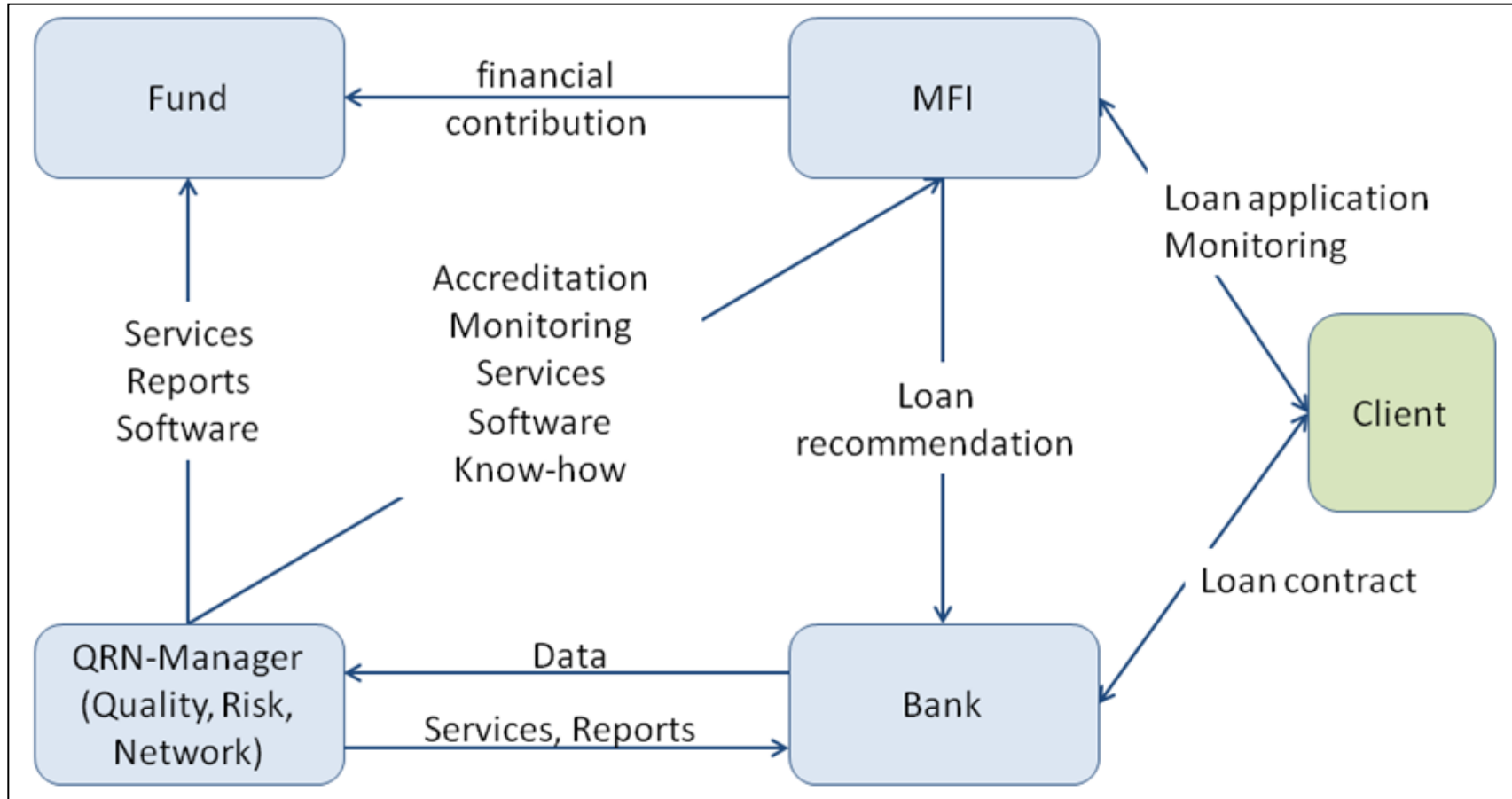


European Union
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Trust-based Partnership Model



How do we assess and manage risks?

- The biggest threat for MFIs are defaults
- Common practice: PAR 30, PAR 60, PAR 90 and default rate
- The aim is to
 - identify risks by analysing the **past**,
 - learn from past mistakes to improve future micro-loan provisioning
- But how do we predict the **future** to
 - focus on those customers/borrowers who need support making their business sustainable?
 - Set up an adequate loan-loss-provision?
 - Identify branches, customer types, which are more risky than others?



Risk Prognosis

Risk type	Repayment Probability	Characteristics
Type 1	97 %	Regular repayment
Type 2	90 %	Slightly increased risk: 1 late repayment (PAR 15) and max. 3 times late paying the monthly instalment
Type 3	80 %	Increased Risk but saving the loan is possible: More than 2 late repayments (PAR 15) or more than 3 times late paying the monthly instalment
Type 4	50 %	High risk: Cancellation of contract very likely: More than 5 late repayments (PAR 15)
Type 5	0	Contract terminated



Trust-based Partnership Model

Risikotyp	Anzahl	Summe der aktuellen Salden	Rückzahlungswahrscheinlichkeit	rechnerischer Ausfall
Typ 1	230	-407.656,36€	97%	-12.229,69€
Typ 2	16	-27.666,25€	90%	-2.766,63€
Typ 3	8	-11.315,82€	80%	-2.263,16€
Typ 4	5	-7.834,81€	50%	-3.917,41€
Typ 5	0	0,00€	0%	0,00€
Gesamt	259	-454.473,24€	-- --	-21.176,88€
Durchschnittliche Restlaufzeit aller Kredite				17.8 Monate

Recommendations

- Centralised registration of cooperating partners and persons recommending loans
- Default rate is essential for the survival of FI but inadequate to predict potential problems.
- Separate analysis of young loans since those loans tend not to be critical.
- Detailed analysis if FI cooperates with external partners. Aggregation on MFI level might conceal potential risks.

