

Developing the MF sector by increasing the efficiency of MFIs

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- **Insolvency rate** in the MF sector is still relatively low, however **operational costs** per account are high and erode significantly margins.
- The challenge for MF sector is about **reducing operational costs** by automation. This can be achieved employing tools such as **credit bureau** and automated **origination and customer management systems**.
- Retail Banks have already moved from highly manual to highly automated processes and have enjoyed very positive results. The same **transformation is possible and recommended** for MF sector.
- Most of the learning acquired in the Retail Banking sector is applicable to the MF sector – adapting the existing tools for the MF specificities is the recommended route to enjoy quick and tangible results.

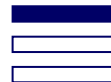
- Large presence of MFIs in the same territory **and** the lack of any form of data sharing may result into borrowers facing over-indebtedness issues.
- Processes are still very manual and seldom computerised
- Generally weak risk management skills
- Poor telecom infrastructure makes it difficult to link people in the field with the central office
- No organised data collection and data driven decisions
- Cost of funding might increase given the low transparency of the credit portfolio quality and the sub-prime recent crisis.

- Three main areas of intervention:

1. Introduce adequate risk management tools

2. Reduce operational costs with automation

3. Deploy the above with low cost & wide access technology

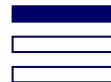


Data Sharing

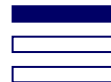
“Data is shared for the prevention of over-commitment, bad debt and to support debt recovery and debtor tracing, with the aim of promoting responsible lending and providing a wider access to finance”

Credit Bureaux are the established vehicle for data sharing in both mature and emerging markets and they have proven to:

- Reduce the information asymmetry problem between borrowers and lenders
- Improve the accuracy of the credit risk evaluation
- Ease the adverse selection problem and therefore lowers the cost of credit for goods borrowers
- Improve access to credit
- Opens the door to the “traditional banking sector”



- No info on previous borrowing status may:
 - Penalise good borrowers (e.g. no diversification on price, maturity etc)
 - Prevent renewal/extension of existing loans
 - Create over indebtedness in the market
- Limiting data retention time may:
 - Prevent development of Credit Scoring models
 - Prevent the identification of recurrent bad borrowers



Credit scoring

The objective of scoring is to enable an objective, precise and automated evaluation of the probability of default of a given borrower.

The correct use of credit scoring allows to:

- Reduce bad debt
- Automate the origination and customer management process
- Rate precisely the risk of credit portfolios, bringing the right level of transparency needed to rating agencies



Credit Origination Systems

- Reduce costs and improve the quality of data gathering
- Reduce the costs of manual processes
- Bring structure and adequate controls

Customer Management Systems

- Automate most account management processes
- Allow early warning systems
- Allow dynamic exposure management
- Helps lender take timely, appropriate actions

Both systems improve and leverage on solid customer level data



- Technology can assist in reducing the cost and increasing access to finance with:
 - Web based origination process
 - Automated, on the fly decisions
 - Web based credit bureau services
 - Automated proactive limit management

- MF organisations are not dissimilar to the SME or retail lending operations of the banking sector of 10 years ago.
- The tools and expertise developed for the “traditional” banking sector can be deployed with success if adapted for the MF specificities.
- Once these tools are proven and operational, the MF sector will reach a level of sophistication, transparency and efficiency comparable to the banking sector, with the related benefits being passed to the final customer.