

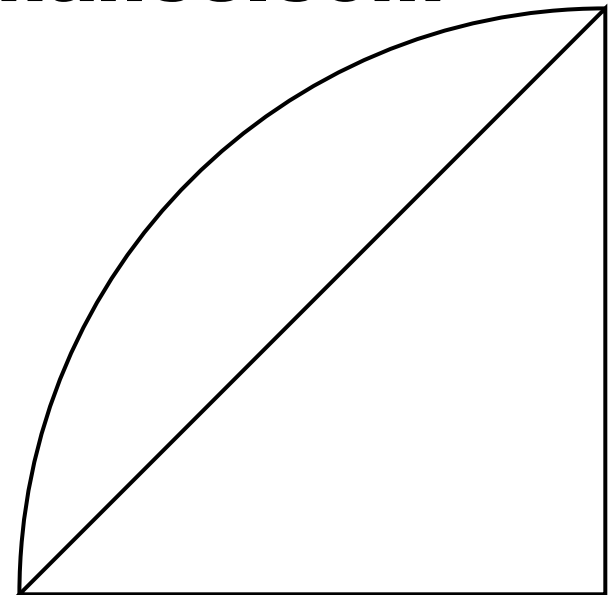
Scoring for Microfinance: Beyond the Hype

Mark Schreiner, Director

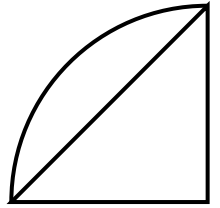
Microfinance Risk Management

<http://www.microfinance.com>

**Next Generation Access to Finance:
Gaining Scale and Reducing Costs
with Technology & Credit Scoring,
World Bank, Sept. 17, 2007**

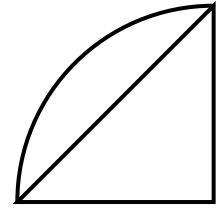


Scoring for Microfinance: Hype



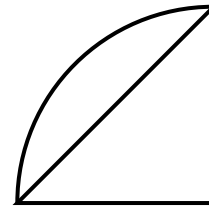
- **In rich countries, scoring enables outreach to more and poorer people**
- **Scoring is exactly opposite of how microlenders now analyze risk**
- **Downscalers are used to scoring, & seek to avoid learning new methods**
- **If you will buy it, vendors will sell it**
- **Revolution? Or big improvement?**

Scoring for microfinance: Myths



- **As accurate as for microfinance as for consumer loans or home/auto mortgages (but highlights 10-20% of cases as risky)**
- **Replaces loan officers (but with time, credit bureaus more & more important)**
- **Saves time up-front in evaluation (but reduces time in collections & write-offs)**
- **Removes need for downscalers to learn new methods (but a useful, familiar tool)**
- **Auto-decisions (but useful as objective ‘third voice’ in credit committee)**
- **Central to Basel II (but improves risk management)**

Scoring for microfinance: Facts

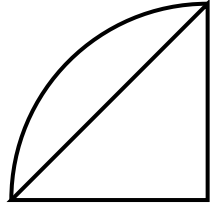


- **Quantifies risk:**
 - **Increases profit**
 - **Grows portfolio**
 - **Decreases arrears**

- **Centralizes control**

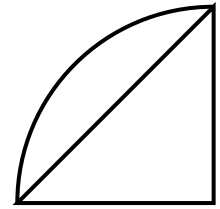
- **Spreads culture of intentional, explicit, risk management (Basel II)**

Scoring for microfinance: How-to



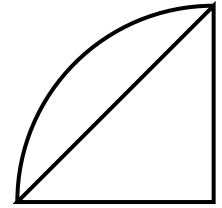
- **Less stats., more change mgmt.**
- **Not a project but a (long) process**
- **Definitely not a scorecard**
- **Buy-in key**

Scoring for microfinance: Buy-in



- **Why trust a machine or consultant?**
- **Back-testing: Apply scoring to past data to show if it would have worked**
- **Adjust for user feedback (indicators, weights, reports)**
- **Automate in existing MIS (no 'extra' work)**
- **Training → Understanding → Trust**
- **Report why risk is high, so users can do something about it (beyond rejection)**

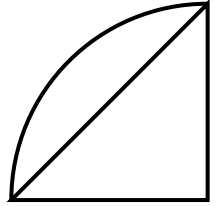
Scoring for microfinance: Data



Data is boring but key!

- **Capture in MIS database:**
 - **Credit-bureau data**
 - **Behavior as a depositor**
 - **Rejected applications**
- **Quantify qualitative judgments**
- **Expand initial written application**
- **Lenders won't improve data until they see that scoring helps (buy-in)**

Scoring for microfinance: More



<http://www.microfinance.com>

English, Castellano, Français