

Session 7

Other Potential Profitability Drivers: Operations and Risk Management

- Cost and Revenue Drivers:
1. Scoping and Marketing
 2. Product Mix and Design
 3. Delivery Channels & Operations
 4. Risk Management

Profitability
drivers

Main Cost Drivers

One-off upfront investments:

- Scoping/market research (feasibility, strategy)
- Pilot test

Ongoing investments:

- NFS
- Communication of strategy (internal/external)
- Adjustments to operational procedures, manuals, and documentation
- Strengthening/adjustments of MIS
- Staff (and/or agent) recruitment and training

Operational Adjustments

- Eligibility and selection criteria (segmentation)
- Application forms (legal requirements, language)
- Appraisal processes (manuals, documents)
- Staff training: cultural awareness, new procedures
- MIS
- Risk management systems

Adjustments to MIS

At start of pilot:

- Baseline data for both FS and NFS
- Progress/success indicators by client segment

During/after pilot:

- Integrate indicators for FS and NFS based on unique client identifiers to monitor cross-sales
- Define and monitor early warning triggers

Social Performance Outcomes

- Not necessary to track *new* social outcomes indicators, rather to segment existing outcomes data by client segment
- Do no harm: Smart Campaign's Client Protection Principles. Especially *Privacy of Client Data*
- OBS: Nationality-based data is sensitive, so de-identify external reports for client safety

Risk Management

Q. Is there evidence that refugees present higher actual credit risk than national clients?

Nope!

Q. What are common strategies used by FSPs to reduce the risk of non-performing loans?

- Smaller loans, shorter terms, more frequent repayments;
- National co-members in groups and/or national loan guarantors

Alternative Risk Mitigation Strategies

- Character assessment using references
- Segment by displacement phase and expected stay
- Assess intent to “put down roots”
- Verify regular sending of remittances
- Allow refugee guarantors/incentivize national guarantors
- Require the client to save or provide cash (or asset) collateral for loans (perhaps in COO)
- Use alternative credit scoring technologies based on mobile phone usage
- Verify credit history with FSPs in country of origin
- Customer care – staying with clients through

Risk Management cont'd.

- Help FSPs review risk management measures to transition from assumptions to 'probable risk.'
- With time and better data, FSPs can move to risk-based management and monitoring.
- A risk-based approach does not imply "zero failure" but stronger mitigation for higher risk categories.

Balancing Costs and Revenue

- A wider range of products will support the business case
- Customer acquisition (portfolio growth) will support the business case
- Client loyalty (retention) will likely be high if products are well adjusted, as refugees do not have as much choice as nationals
- There are likely to be non-cash CSR and social performance gains from including refugees

External Funding

Types of financing

- Fundraising grants for preparation phase: protection agencies (e.g., UNHCR) and conventional microfinance funders/investors
- Some interest in credit guarantee funds (capital) to buy down or share perceived credit risk
- Seek longer-term grants for NFS that fit with strategy

Proceed with care:

- Avoid requirements for specific products/separate projects for refugees
- Retain control over segmentation and selection of clients (do not outsource)
- Consider reputational risk—if humanitarian financing becomes known, it can impact repayment

Your turn: Let's help Finclude Bank

- Read and review [hand-out 5](#)
- 4 problems: one for each group
- Discuss in groups and put your solution to Finclude's problem on the flipchart
- Presentation after lunch

Time: 45 minutes