

FIRST+

Financial Institution Resilience & STrengthening

**Strategies for controlling and
managing delinquency crises**

Presenters: Zibrim Biosama and Mawuena Kofi Abba



CapPlus
CapitalPlus Exchange



Young
Africa
Works



Session Objective

By the end of this session...

Participants will be able to appreciate strategies for controlling delinquencies, such as how to:

- Analyze institutional factors affecting delinquency
- Identify incentives and disincentives for borrowers' timely repayment
- Develop strategies for keeping delinquency within acceptable limits
- Keys to success: what to do, and what not to do



Session Objective

Techniques for managing a delinquency crisis, such as how to:

- Analyze a major delinquency problem
- Plan a comprehensive response, with both short-term and long-term actions to resolve the problem
- Keys to successful implementation



Strategies for controlling delinquency

Analyze institutional factors

Before the loan

1. Client acquisition and questioning skills
2. Forgery/fraud (business does not exist)
3. Bad analysis (qualitative and quantitative)
4. Poor loan structuring

After disbursement

1. Overfinancing
2. Underfinancing
3. Lack of effective monitoring (diversion, relocation, warning signs)

Strategies for controlling delinquency

Analyze Client factors

1. Diversion of funds
2. Incomplete implementation of investment plan
3. Disaster (theft/fire outbreak/accident/sickness, bad weather)
4. Client related issues (travel, death, family problems, market for product)
5. Poor business management skills

Identify incentives and disincentives for borrowers' timely repayment

- Loan repayment structuring (to meet business plan)
- Timely loan appraisal and disbursement
- Understanding the business and client as well as business environment
- Use of text messages as a reminder for repayment, deposit through mobile phone
- Business workshop on developments in the business industry
- Assign a dedicated relationship officer
- Cross selling (Deposit, investment, loans, internet banking etc.) - **convenience**

Develop strategies for keeping delinquency within acceptable limits

Keys to success: what to do, and what not to do

- Client acquisition (seek reference)
- Analysis (both qualitative and quantitative assessment should be carried out)
- Credit Committee (discuss the business and customer, decide on monitoring schedule)
- Disbursement (disburse according to the business needs, use tranches if applicable)
- Post disbursement (Investment plan, milestone and Collateral monitoring)
- Develop relationship with guarantors

Quantity influences the quality, but it is the quality that directly impacts on the risk!

Means of monitoring

- Observe the indicators daily and create a watch list
- Checking client's account balance, arrears report
- Calling clients on phone
- Visiting clients according to the monitoring schedule at credit committee.

Issues of concern

- Has loan purpose been fulfilled?
- Educate client on bookkeeping & cash management
- Remind client of his obligation to your institution
- Observe changes in business

Issues of concern

- Assess impact of loan on the business
- Do not be afraid of arrears, have confidence in solving them
- Distinction between *Willingness*, *Capacity* and *Ability*
- ***Decide and act fast*** (Strictness on given procedures)
- Assume the image of a strict but fair partner to your clients
- Consider it a learning process
- React without delay (effective arrears management)
- Influence the quality of your risk assessment

Techniques for managing delinquency crises

Analyze a major delinquency problem

- Visit to client immediately to discuss the current situation and the reason for delinquency
- Conduct a business appraisal or review to establish the current business situation
- Identify the key gaps
- Identify and distinguish between *Willingness*, *Capacity* and *Ability*
- Discuss and give feedback to client on possible way out
- Get client buy-in
- Implement action plan to resolve the delinquency with timelines

Classification of delinquency for structured management

Able and willing	Unable but willing
Restructuring (top-up)	Apply pressure
Manual, cash payment agreement	Contact co-debtors, guarantors
Change of payment dates	Negotiate for alternative payment options
	Seize collateral, legal procedures
Able but unwilling	Unable and unwilling
Restructuring + selling	Set limits for legal procedures
Selling of assets, collateral	Apply pressure
Restructuring + additional security + co-debtors	Periodic check for income and possessions
	Write off
	Seize collateral, legal procedures

Plan a comprehensive response (short-term and long-term)

Arrears Committee

- Organize and follow all arrears management procedure or guidelines
- Document all business findings at Arrears Committee and issue the necessary legal notices to client
- Take a timely decision on the following based on the current business appraisal
 - Restructure (Refinance, Reschedule)
 - Recovery (Negotiated settlement, waiver, partial or full settlement)
 - Write Off
- Enhance security and guarantor (If applicable)
- Create a comprehensive monitoring scheme and adhere to it

Effects of bad loan portfolio on lending:

- Lost income
- Liquidity challenges
- No funds for on-lending
- Opportunity cost of institution
- low Productivity
- Provision for Bad Debts
- Domino effect

Upcoming Events

15 June 1:00 – 2:15	<i>Proactive Strategies to Prevent Future Nonperforming Loans</i> Webinar
22 June 1:30 – 2:45	<i>Gender Finance is a Win-Win-Win!</i> Webinar
21- 22 July	<i>Credit Risk Management</i> Workshop in Takoradi

For more information on FIRST+, contact

Binyam Tadesse

btadesse@capplus.org

GHAMFIN is also currently providing workshops for its member associations as part of FIRST+. Please check with your association to learn what workshops are available to you.



CapPlus
CapitalPlus Exchange



Young
Africa
Works



Zibrim Biosama

Independent Consultant

bzibrim@yahoo.com

Mawuena Kofi Abba

Independent Consultant

mawuenaba@gmail.com