



Risktensive management

Making risks manageable

Staying ahead of Corona: Scenario building and stress testing

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Risktensive management



Introduction

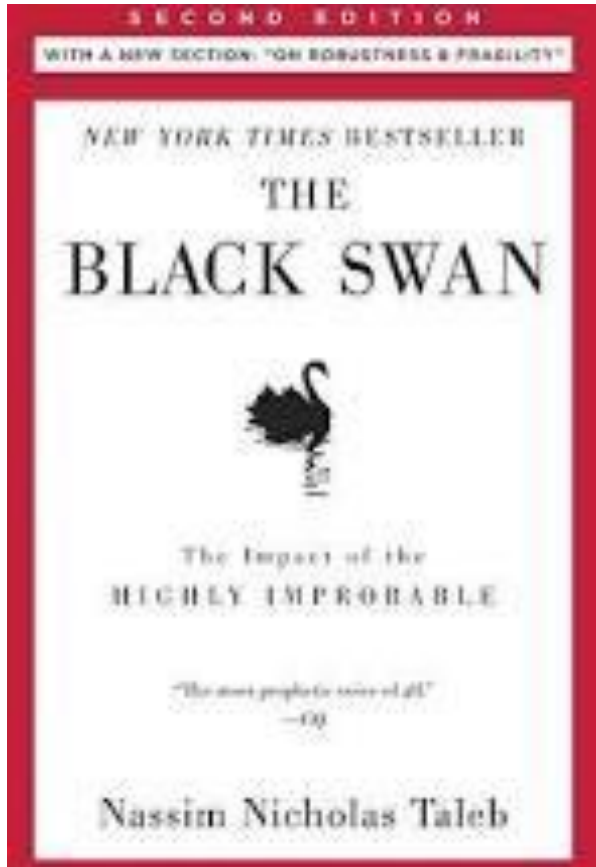


Content

- Risk factors as input for scenario building
- Liquidity analysis
- Stress testing
- Contingency planning.



The black swan....



Taleb:

I know that history is going to be dominated by an improbable event, I just don't know what that event will be...

But one person did...!

Bill Gates in 2005:

"If anything kills over 10 million people in the next few decades, it's most likely to be a highly infectious virus rather than a war,"



What makes it so special?

- Worldwide crisis, not limited to one country
- Big difference with SARS outbreak in 2003:
 - SARS: 8,500 cases, 900 deaths, 32 countries
 - Corona (3/3/20): >1 million confirmed cases, 46,000 deaths, 205 countries
 - Differences in terms of infectious period, transmissibility, clinical severity and extent of community spread
- Economy very different now:
 - International travel increased
 - Economy of China much bigger
 - Much more international trade
 - Interdependency in the value chain – the weakest link



Additional issues

- EBA (Cambodia)
- Dessert locust threat from East Africa
- Recent natural disasters
- Oil price shock
- Depreciation local currency
- Reduction in remittances
- Export of ready made garments
- Import of raw material stagnates
- Increase in prices / lack of certain goods
- Hoarding



Case study?

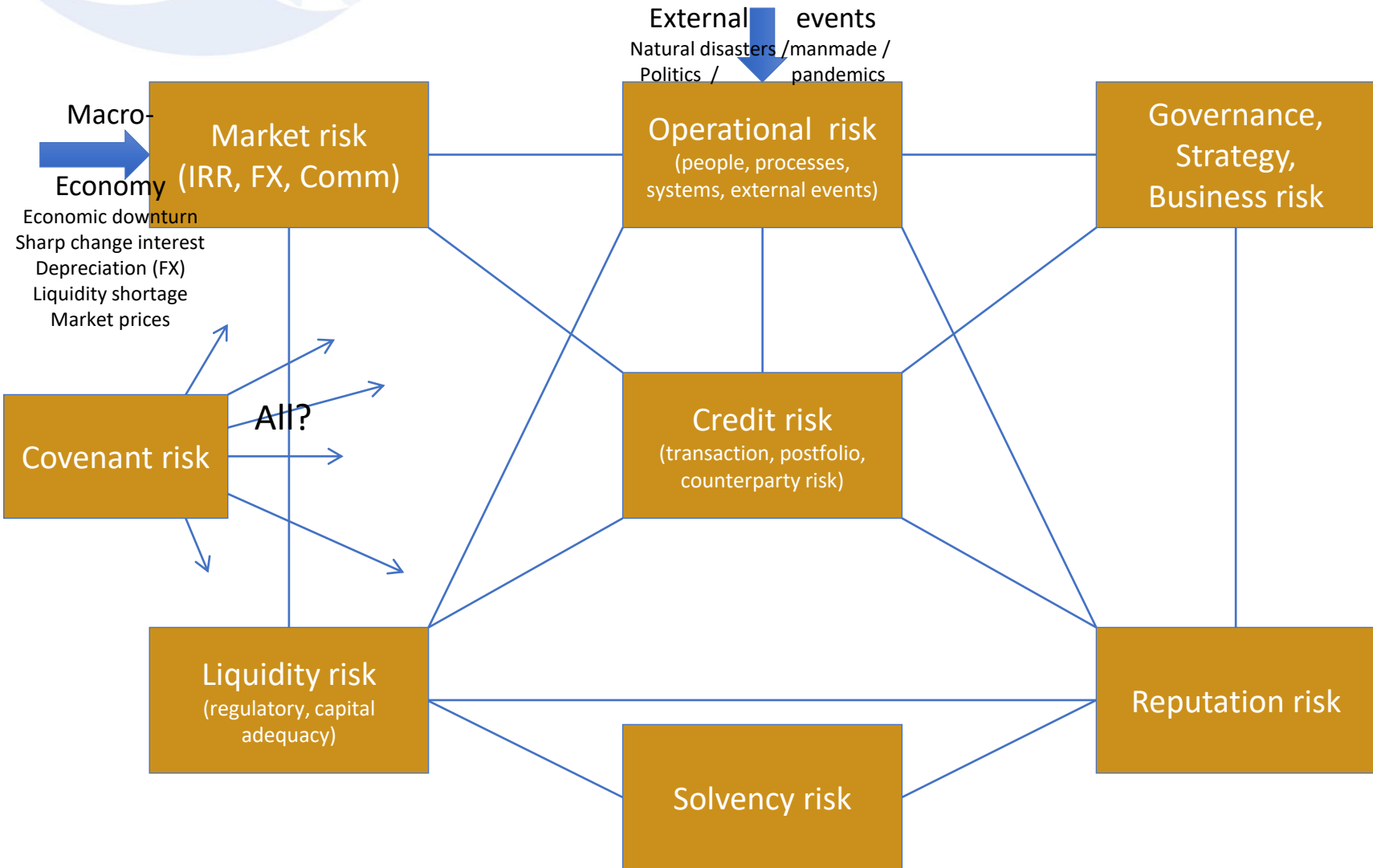
- Not really, only partially
- SARS, see before
- World wide economic crisis
- Andhra Pradesh microfinance crisis
- Effect of damage to the reputation (DSB)



Risk factors as input for scenario building



Interconnectivity of risks





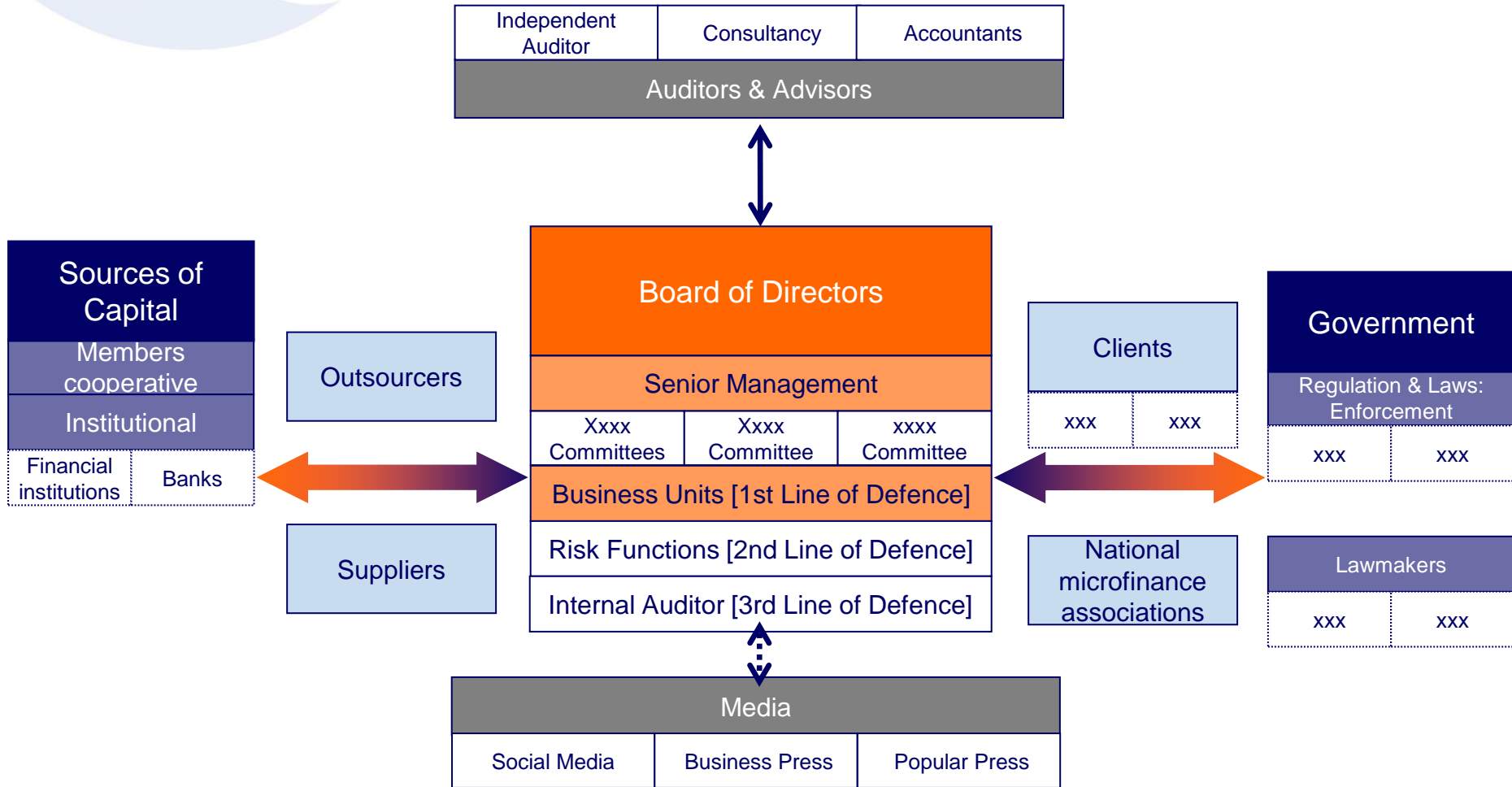
Event types - scenario analysis

Scenario analysis based on risk events caused by:

- Stakeholders
 - Third parties / suppliers
 - Macro-economic events
 - Political events / reactions of the public
-
- How important are they?
 - What kind of risks can they create?
 - Can they give support?
 - Can you influence them?



Stakeholders





Importance of stakeholders

Name stakeholder	Influence (H/M/L)	Current level of support	What do you want from the stakeholder?	What is important for the stakeholder?	What kind of risk can they create?	How can you improve their support?	Action
Clients							
Staff							
Funders							
Regulators							
NMA*							
Etc.							

*) National Microfinance Associations



Governance: restricting measures

- Declaration of national emergency giving extra power for the government
- Partly lock down a selection of economic sectors:
 - Closing schools, universities, working from home
 - Social distancing, hotels, restaurants / cafés, markets, casino's, fitness / sports and other entertainment,
 - Banning / limiting (large) events e.g. churches / mosques, beaches
 - Limited public transport, flights; borders shut, passengers / returning citizens arriving 14 days in quarantine
 - Fines or arrests for violations
- Partly lock geographically, e.g. infected area
- Partly lock down timewise (curfew)
- Full lock down.

See also:

<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>



But also support

Governance

- Fiscal & macro economic measures
- Payrol support for highly affected areas
- Expansion of employment programs
- Postponement collection of taxes

Funders / NGO's

- Emergency funding
- Technical assistance



Categories of clients

1. Business as usual e.g. food shop
2. Increased business e.g. cleaning (soap), protection facilities (masks, gloves, screens, online shops)
3. Decreased business (non food shops, barbers..)
4. Business stopped (tourism, import / export dependent, restaurants....)
5. Business in a lock down area / situation

What does that mean for the payment behaviours



(Not) willing / able to pay

Assessment of individual client situations
Intensified monitoring (e.g. loan use)

Willing to pay	Yes	Restructuring	Great!
	No	Write off / (restructuring)	Collection / zero tolerance

No Able to pay Yes

1. Per client
2. Aggregate
3. Portfolio analysis
4. Quantifying



Repayment: PAR

Health of clients

- Rural
- urban





Risk factors as input for **scenario building**



Events combined: scenario's

- A scenario is a combined effect of these events
- Make 2 or 3 scenario's: realistic and worst case
- Try to stop or slow down the chain of events, it is like the pandemic itself.....: survival is key
- It all leads to deterioration in the liquidity

Liquidity = survival

Scenario analysis is input for the stress testing: which absorption capacity do you have?



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Liquidity



Cash flow analysis

- Cash flow per week / daily – next 3 months
- Lower loan repayments
- Voluntary savings withdrawals
- Lower revenues (interest + fees)
- No renewal of loan
- Withdrawal stand by facilities with the bank
- Cap on withdrawals from the bank
-
- But also: slowing down / postponement expenses, investments; extra inflow



Maturity gap report

- Gap report – monthly time buckets
- Based on balance sheet
- Asset – liability gap

	< 1 month	1-2 months	2-3 months	3-6 months	6-12 months	1-2 years	2-3 years	> 4 years	No maturity	Total
Assets										
Cash on hand										
Saving deposits with banks										
Term deposits with banks										
Loans to customers										
Fixed and intangible assets										
Other assets										
Total Assets										
Liabilities										
Savings										
Term deposits										
Loans payable										
Other liabilities										
Total Liabilities										
Total Equity										
Total Liabilities & Equity										
Asset-Liability Gap										
Maturity gap as % of equity										
Cumulative Gap										
Cumulative gap as % of equity										





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Excel – liquidity gap



Stress testing



Possible ingredients for stress testing

- Increase in non-repayment by clients
- Non-availability of staff
- Lock down situations
- Political measures
- Withdrawal voluntary savings
- Depreciation local currency
- Non renewal / withdrawal of funding
- Intermittant service of outsourcers / suppliers



Stress testing scenario 1

Example 1.

- Partly lock down
- Improvement of the situation after 3 months, gradual increase in business over another 3 months
- Based on the portfolio analysis of the clients:
 - 30% of the clients have business as usual
 - 20% have increased business
 - 30% have decreased business by on an average 50%, but given their buffer expectation is 15% down
 - 20% have no business anymore, 80% down, 10% go bankrupt



Stress testing scenario 2

Example 2.

- Partly and later full lock down / curfew
- Improvement of the situation after 6 months, gradual increase in business over another 3 months
- Based on the portfolio analysis of the clients:
 - 20% of the clients have business as usual
 - 10% have increased business
 - 50% have decreased business by on an average 50%, buffer to be ignored
 - 20% have no business anymore, go bankrupt
- No renewal of loan
- Overdraft facility has to be repaid
- Excess saving will be withdrawn to the full extent



Three simplified stress test scenario's

1. Normal
 2. Scenario 1:
 - Repayment down 5% 1st month, 10% down the next months
 - Overdraft facilities are partly drawn down in the 2nd and 3rd month
 - Voluntary savings are withdrawn in the 1st month
 3. Scenario 2, idem but with measures taken:
 - Slow down of disbursements
 - Tax deferral 6 months
 - Capital injection from the government / funder
- EXCEL



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Contingency planning



Contingency planning - financial

Expenses down, investments down, inflows up

- Stopping new disbursements...? But...Agri!
- Delaying payments – asking for postponement
- Consider lowering salaries temporary
- Capital spending is postponed, but...?
- Vacancies are not filled
- Sale of illiquid assets, but...?
- Don't forget to allow for any (permitted) savings withdrawals (voluntary savings)



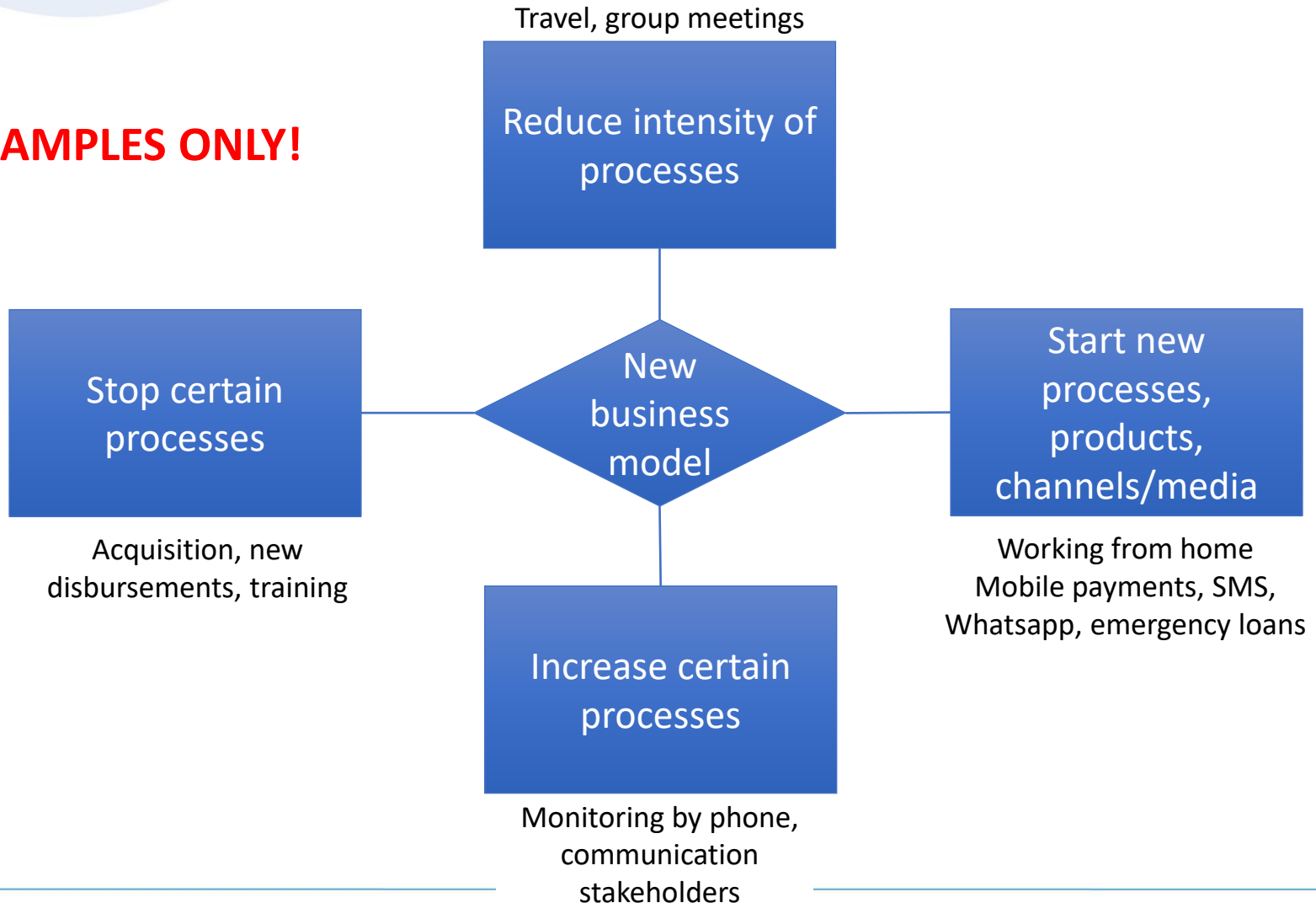
Contingency planning - non financial

- Clear communication to all stakeholders is key, use different channels (SMS, USSD, Whatsapp, Messenger)
- Lobby together in a joint effort with National Microfinance Associations towards
 - Government
 - Donor agencies
 - Investors / funders
- Of course health measures / A-B teams / working home
- Think out of the box



Analyse your processes and change them

EXAMPLES ONLY!





But also: give support

- Clients in need:
 - Restructuring
 - Emergency loans
- Agricultural sector and value chain effects
- Staff:
 - Extra payment to keep them motivated.

You need them, but they need you too!
Same with funders!



Summarised

No time to wait: 80% now better than 100% in 2 weeks

1. Analyse actual situation and risk factors
2. Define 3 scenario's
3. Translation into effects on liquidity position
 - Cash flow / liquidity gap report
4. Contingency plans
 - Non-financial / Financial

Good news:

The financial sector is essential

We only survive this crisis when we work together in solidarity!



Be very careful in communication.....!

TO OUR VALUED CUSTOMERS:

**AS PER RELEASED MEMO # 24-2011
THERE WILL BE STOP
ACCEPTANCE OF NEW LOAN
APPLICANTS.**

THANK YOU AND GOD BLESS.....

BY: MANAGEMENT



Refer to website WHO
Guidance note business continuity

Thank you!

Q&A