

Managing Non-Performing Loans

Bangladesh Experience

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BRAC Bank – SME Portfolio Overview

Our **Chairperson, Sir Fazle Hasan Abed** founded **BRAC Bank** in **2001** with institutional shareholding of **BRAC, ShoreBank & IFC** to serve the “**Missing Middle**” segment of SMEs and to work as a catalyst for growth of the vibrant yet unbanked SME sector of Bangladesh.

Since Inception



- No. of loan disbursed: **628,551**
- Disbursed Amount: **US\$ 5,580m**
- Collateral Free Customer Base: **95%**
- Collateral Free Portfolio: **62%**

Customer Touch Points



- 457 SME Unit Offices
- 186 Branches

- ✓ BRAC Bank holds **37% market share** of collateral-free Small Business portfolio of the industry
- ✓ In 2015, BRAC Bank disbursed **63%** of all **collateral-free loans** of the **industry**.
- ✓ **88%** of monthly Small Business loan disbursement of BRAC Bank is **collateral-free**

Portfolio (Dec'17)



- Current Customer Base: **122,656**
- SME portfolio: **US\$ 975m**
- Collateral-free Customer Base: **116,618**
- Collateral-free Portfolio: **US\$ 607m**

Number of Staff



- Total SME Staff: **2,429**
- Loan Officers: **1,723**

Business Model

The Beginning (Inception to 2008)	Experimental Years (2009-2013)	Healing Years (2013-2016)	Take-off (2016 onwards)	Learnings
<p><u>Sourcing:</u> CROs & AMs</p> <p><u>Underwriting:</u> ZMs up to BDT 8 lacs (US\$ 10,000)</p> <p><u>Collection:</u> CROs</p> <p><u>Verification:</u> An Audit person to verify the business numbers provided by source</p> <p>Model was designed for rapid expansion and rapid portfolio growth.</p>	<p><u>Sourcing:</u> CROs & AMs</p> <p><u>Underwriting:</u> 11 Credit Centers formed under Credit Division.</p> <ul style="list-style-type: none"> • CROs submit files to Credit Centers • Credit Analysts visit the customers and prepare a report • Approver approve the loan based on Analyst's report. <p><u>Collection:</u> Separate Collection Team</p> <p><u>Verification:</u> Credit Analysts of CRM</p>	<p><u>Sourcing:</u> CROs & AMs</p> <p><u>Underwriting:</u> Credit Centers dissolved and deployed Area Credit Managers (ACMs).</p> <ul style="list-style-type: none"> • CROs submit files to their respective ACMs • ACMs visit the customers and Approve. <p><u>Collection:</u> CROs responsible for collection</p> <p><u>Verification:</u> ACM</p>	<p>Same model with following changes:</p> <ul style="list-style-type: none"> • Underwriting function made independent & reports to Chief Risk Officer • Attractive Incentives scheme rolled out for CROs & AMs • More engagement of field staff. All field level staff aligned towards organization's goal 	<ul style="list-style-type: none"> • The key success factor of the model is ACCOUNTABILITY both at ACM (Credit) & CRO (Business) level which resulted in better quality loan booking and stronger collection. • Continuous focus on portfolio quality established a strong awareness on quality loan booking and collection.

Governance

The Beginning (Inception to 2008)	Experimental Years (2009-2013)	Healing Years (2013-2016)	Take-off (2016 onwards)	Learnings
<p>Internal Audit Team performed full audit at SME unit offices once every 3 years.</p> <p>Poor Governance resulted in many operational irregularities which in turn effected the portfolio quality.</p>		<ul style="list-style-type: none"> Established a independent & decentralized Monitoring team which directly reports to MD & CEO Monitoring team visits each SME Unit Office once every 3 months and check for operational compliance They also visit random customers to find out any operational irregularities and also check quality of service. Monitoring Team is directly reports to MD & CEO 	<p>Strengthen the compliance culture by taking immediate punitive actions based on findings of Monitoring Team.</p>	<ul style="list-style-type: none"> Very Strong compliance culture established Drastic reduction of operational irregularities. Process/Policies are also reviewed regularly based on findings of Monitoring team Transparency between the Bank & the customers resulted in improved service quality.

Product Features & Design

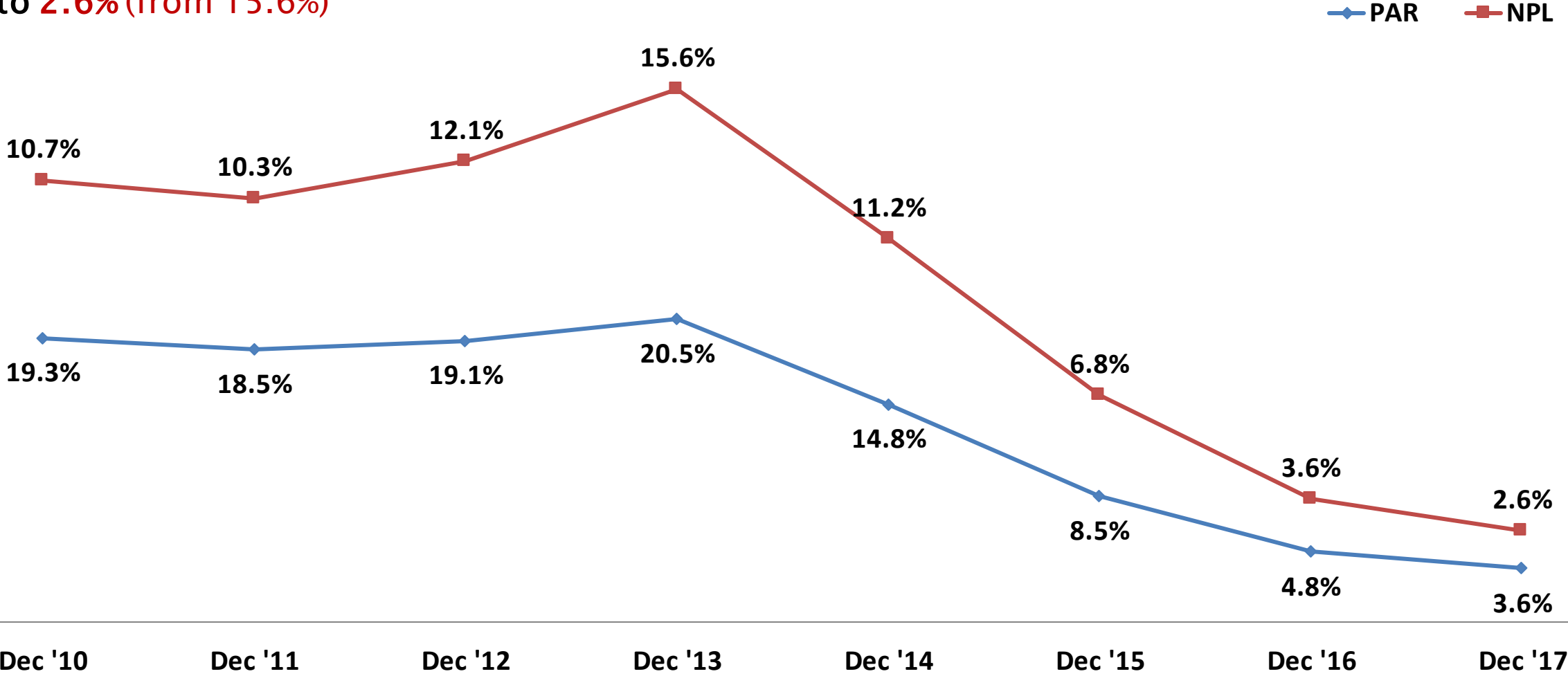
The Beginning (Inception to 2008)	Experimental Years (2009-2013)	Healing Years (2013-2016)	Take-off (2016 onwards)	Learnings
<p><u>Anonno: Term Loan</u> <u>Tenor:</u> Up to 12 Months <u>Security:</u> 2 Guarantors & land document (not mortgaged) <u>Repeat</u> given after 50% time passed</p> <ul style="list-style-type: none"> • Many segment specific products without assessing customer need • Separate teams for selling loans to separate segments resulted in inefficiency 	<p><u>Anonno: Term Loan</u> <u>Tenor:</u> Up to 36 Months <u>Security:</u> 2 Guarantor & No Land Document <u>Repeat</u> given after 50% time passed</p> <p>New products launched focusing only portfolio growth</p> <p>All Product changes & new products were designed for Rapid Portfolio Growth</p> <p>Customers & Sales Force not involved in product development.</p>	<p><u>Anonno: Term Loan</u> <u>Tenor:</u> Up to 18 Months for working capital & up to 36 months for fixed asset <u>Security:</u> 2 Guarantor & land document <u>Repeat</u> given after 70% time passed</p> <p><u>Apurbo: Term Loan & Overdraft</u> <u>Tenor:</u> Up to 60 Months <u>Security:</u> Mortgage of Land <u>Repeat</u> given after 1 year</p> <p>Simplified the Product Suit.</p>	<p>Done extensive FGDs with customers to assess their needs and based on the outcome of FGDs started designing tailored Products for each customer segment.</p>	<ul style="list-style-type: none"> • Shortening of Loan Tenor of unsecured loan and re-introduction of land document has drastically improved portfolio quality. • Right product offering have a direct impact on portfolio quality.

Product Pricing

The Beginning (Inception to 2008)	Experimental Years (2009-2013)	Healing Years (2013-2016)	Take-off (2016 onwards)	Learnings
<p>Anonno: Interest Rate: 24%; Processing fee: 2.5% One EMI of loan kept as security</p> <ul style="list-style-type: none"> All charges (including security deposit) was loaded into the loan amount and interest is charged on the entire amount. Effective interest rate was 27% 	<p>Anonno: Interest Rate: 24%; Processing fee: 2.5% Discontinued the one EMI security deposit</p> <ul style="list-style-type: none"> Charges realized from loan amount. 	<p>Anonno: Interest Rate: 23.75%; Processing fee: 1.5%</p> <p>Apurbo: Interest Rate: 16%-18%; Processing fee: 1%</p>	<p>Anonno: Interest Rate: 16%-19%; Processing fee: NIL</p> <p>Apurbo: Interest Rate: 12%-15%; Processing fee: NIL</p> <p>Moved from fixed to variable pricing model. For example -</p> <ul style="list-style-type: none"> lower rate for customers who maintain their account with us. Lower rate for customers with good repayment 	<p>Competitive pricing allowed us to attract better quality customers.</p> <p>Product pricing have an impact on portfolio quality. Pricing have to be:</p> <ol style="list-style-type: none"> Competitive with the market Customer should generate enough profit from the business to comfortably do the repayment.

Portfolio Quality – PAR & NPL

PAR brought down to 3.6% (from 20.5%) and NPL to 2.6% (from 15.6%)



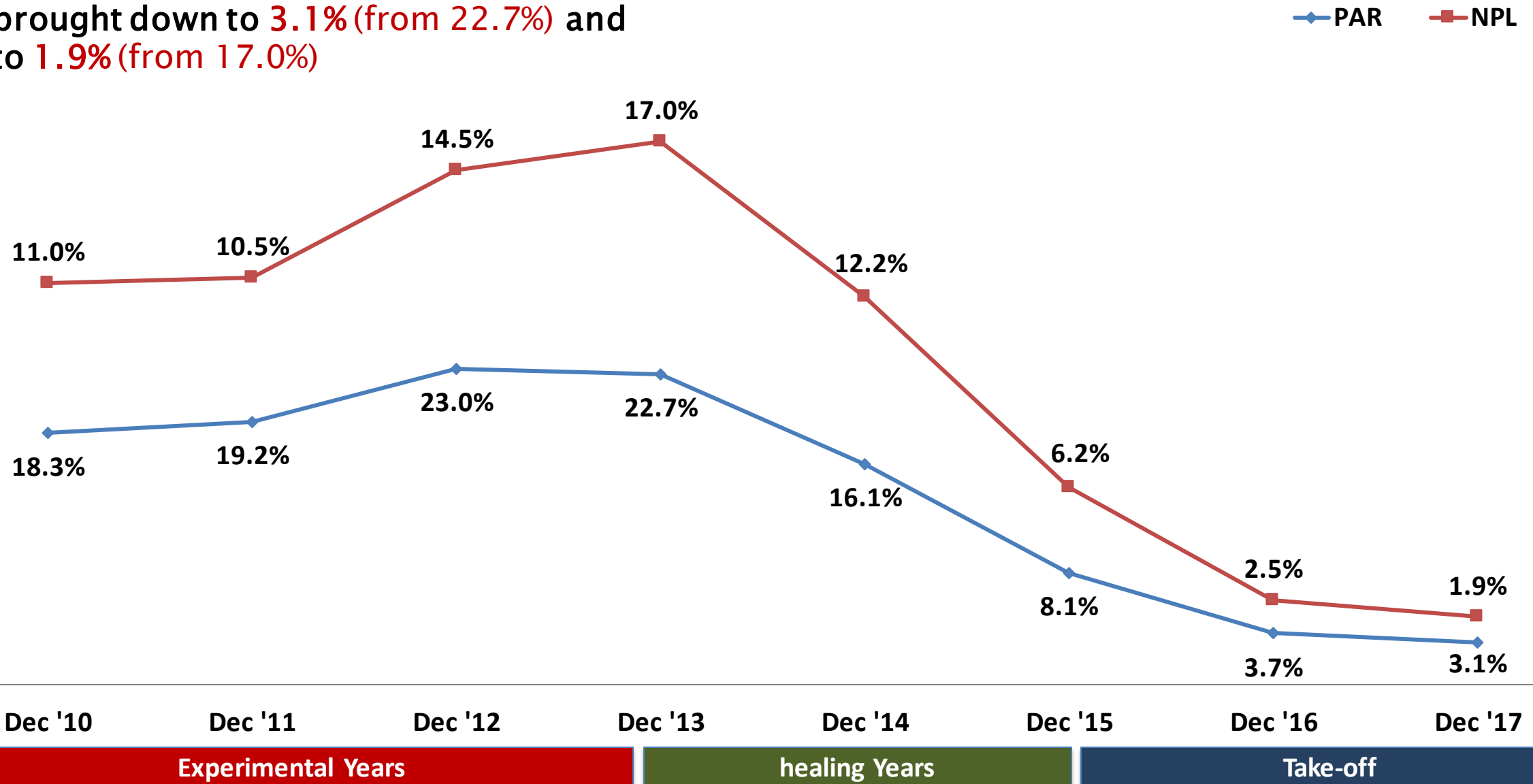
Experimental Years

Healing Years

Take-off

Portfolio Quality – PAR & NPL of Collateral-free Portfolio

PAR brought down to **3.1%** (from 22.7%) and NPL to **1.9%** (from 17.0%)



What Next?

Our operating model from 2013 onward is producing results but it is a very **HIGH COST** model.

We need to **embrace Technology & FinTechs** in following areas –

- Automate the current manual loan process
- Have a strong data analytics capability
- Build Credit Scoring Model by digitizing our Credit Manager's knowledge & Data Analytics
- Do a segmentation of our customer base
- Enhance our product suit with products tailored to meet customer needs of each segment

**A 60 second experience
of
BRAC Bank SME Banking**