Risk Management, the Engine for Responsible Financial Inclusion

March 22, 2017

Risk Management Initiative in Microfinance

Speakers

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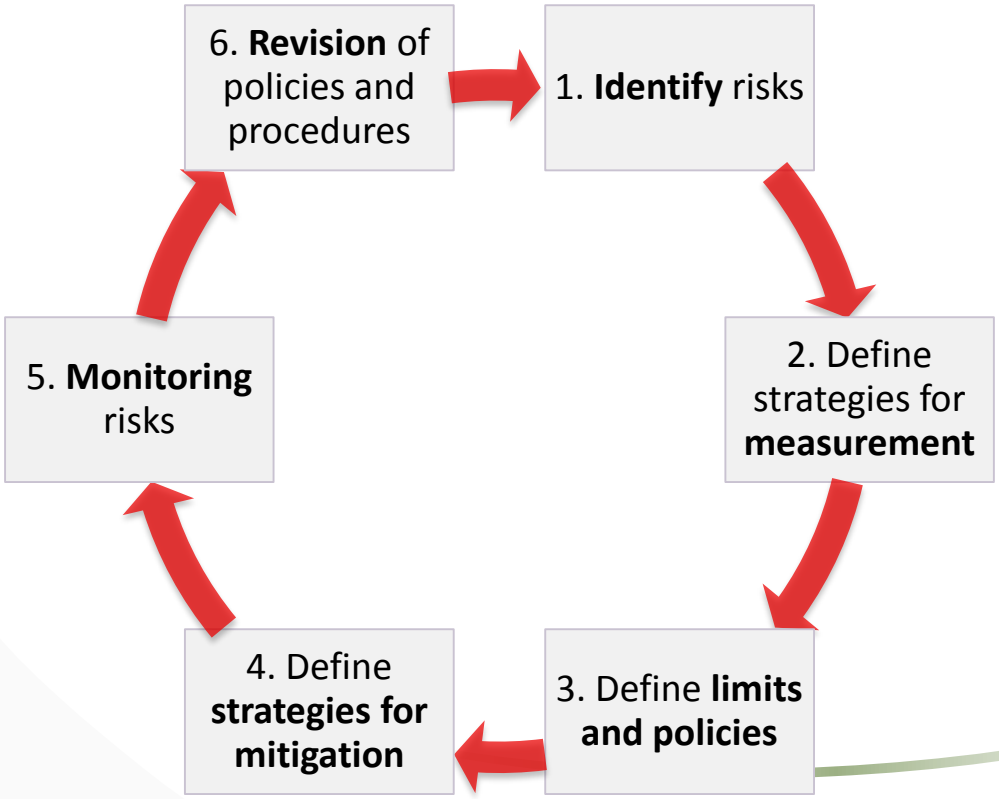
Risk Management Cycle

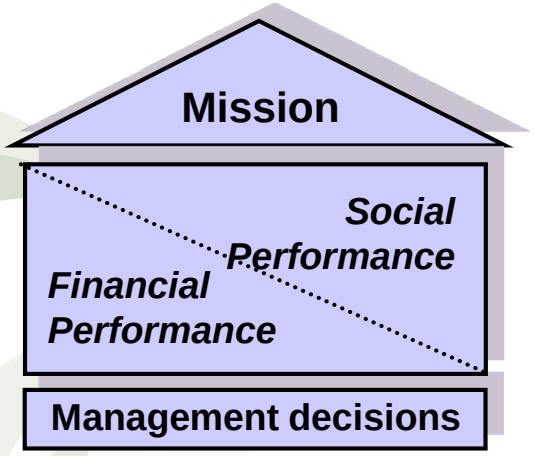
Risk Management is a dynamic and continuous process of identification and management of risks

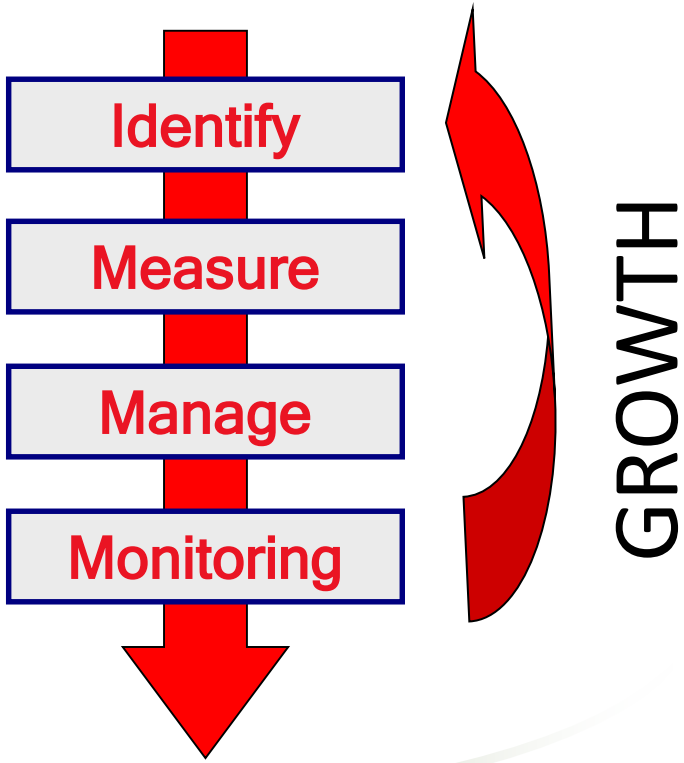


Risk Management & Consumer Protection

Towards positive impact on Risk Management and Consumer Protection:

RM and CP work together and such an approach is motivating and avoids risk of "TA fatigue"





If you measure you can manage:

- You need to define the desired performance
- You need to measure based on the desired performance

Creating a path towards stronger, more appropriate risk management…

Strategic Pillars

- Awareness building
- Industry collaboration
- Global adoption and implementation of appropriate risk management standards

RIM Risk Management Initiative in Microfinance

Active Members

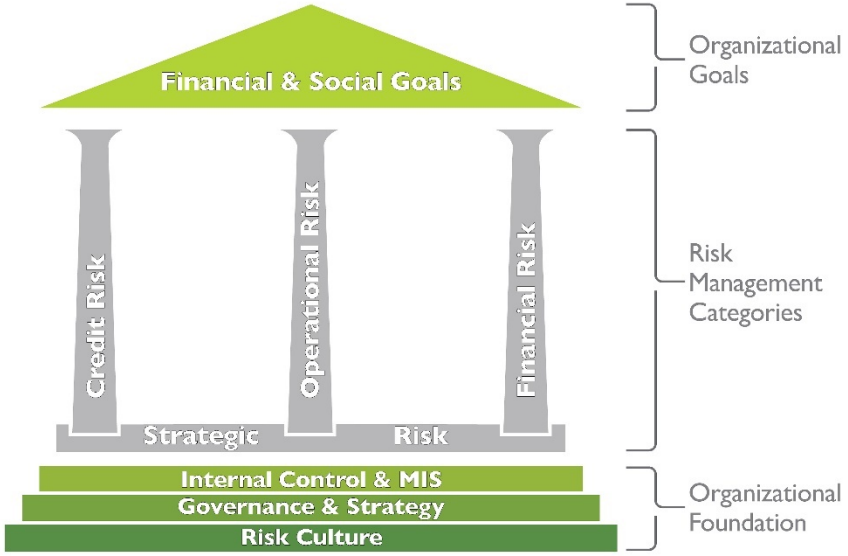
Graduation Model

Risk Management Initiative in Microfinance

TIER III
Start-up MFIs or small NGOs that are immature and unsustainable.

TIER II
Small or medium sized, slightly less mature MFIs that are, or are approaching, profitability.

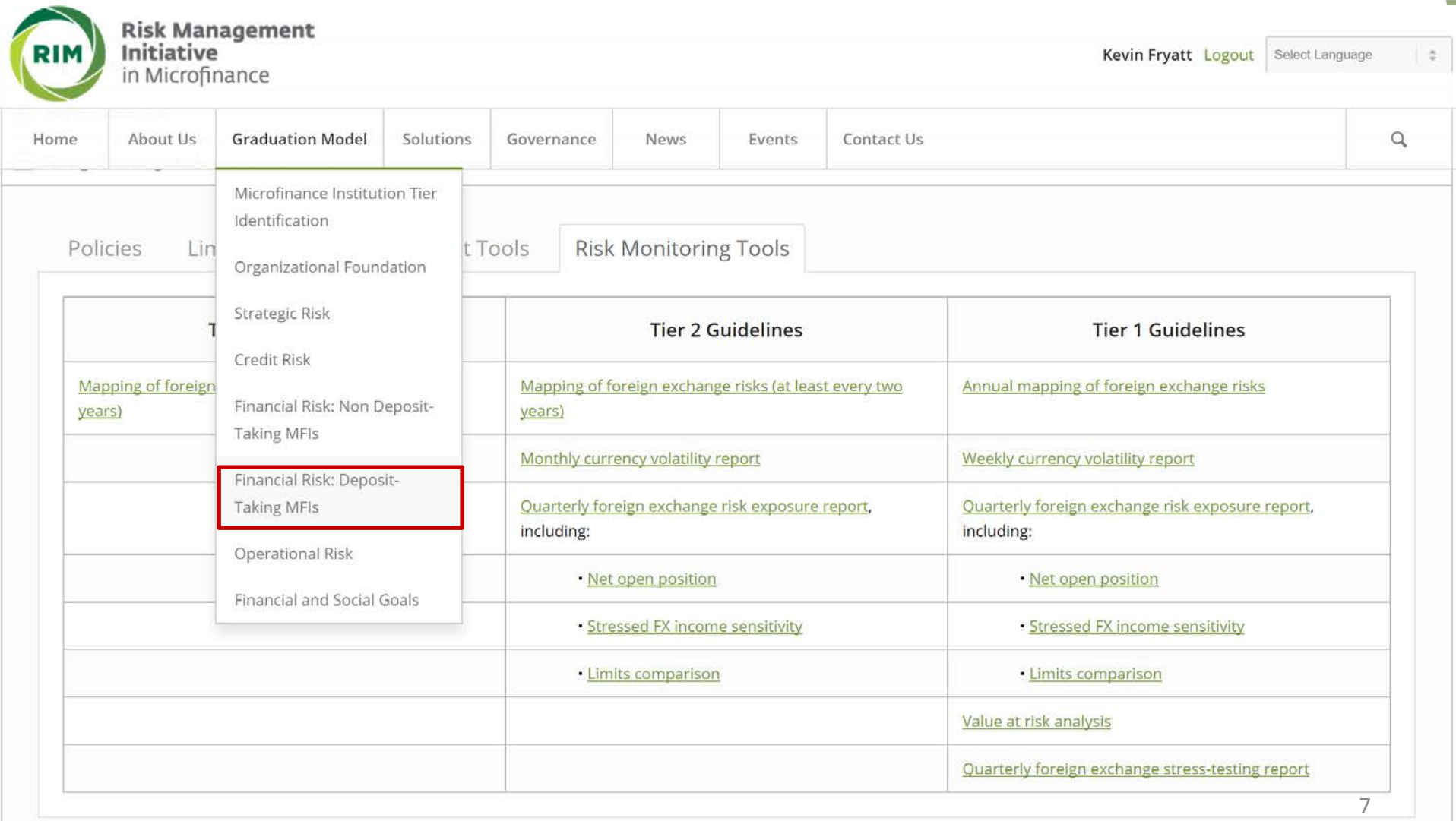
TIER I
Mature, financially sustainable, and large MFIs that are highly transparent.



- **Financial and Social Goals**
  - Social Results
  - Profitability
  - Efficiency and Productivity
- **Credit Risk**
  - Credit Transaction Risk
  - Portfolio Risk
- **Operational Risk**
  - People Risk
  - Process Risk
  - Systems Risk
  - External Events Risk
  - Legal and Compliance Risk
- **Financial Risk**
  - Liquidity Risk
  - Interest Rate Risk
  - Foreign Exchange Risk
  - Investment Portfolio Risk
  - Capital Adequacy Risk
- **Strategic Risk**
  - Governance Risk
  - Strategic Risk
- **Foundations**
  - Internal Control and MIS
  - Governance and Strategy
  - Risk Culture

Graduation Model

http://www.riminitiative.org/graduation-model/

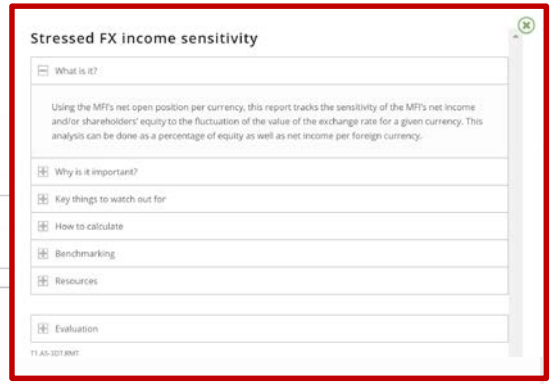


Implementation Solutions

Implementation Solutions

- **Institution Assessment**
- **Institution Assessment Training**
- **Assessment Toolkit** *(for Independent Assessors)*
- **Assessment Toolkit** *(for Internal Staff)*
- **Assessor Database**
- **Working Groups**

Knowledge Base



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Home | About Us | Graduation Model | Solutions | Governance | News | Events | Contact Us

Policies | Limits | Risk Management Tools | Risk Monitoring Tools

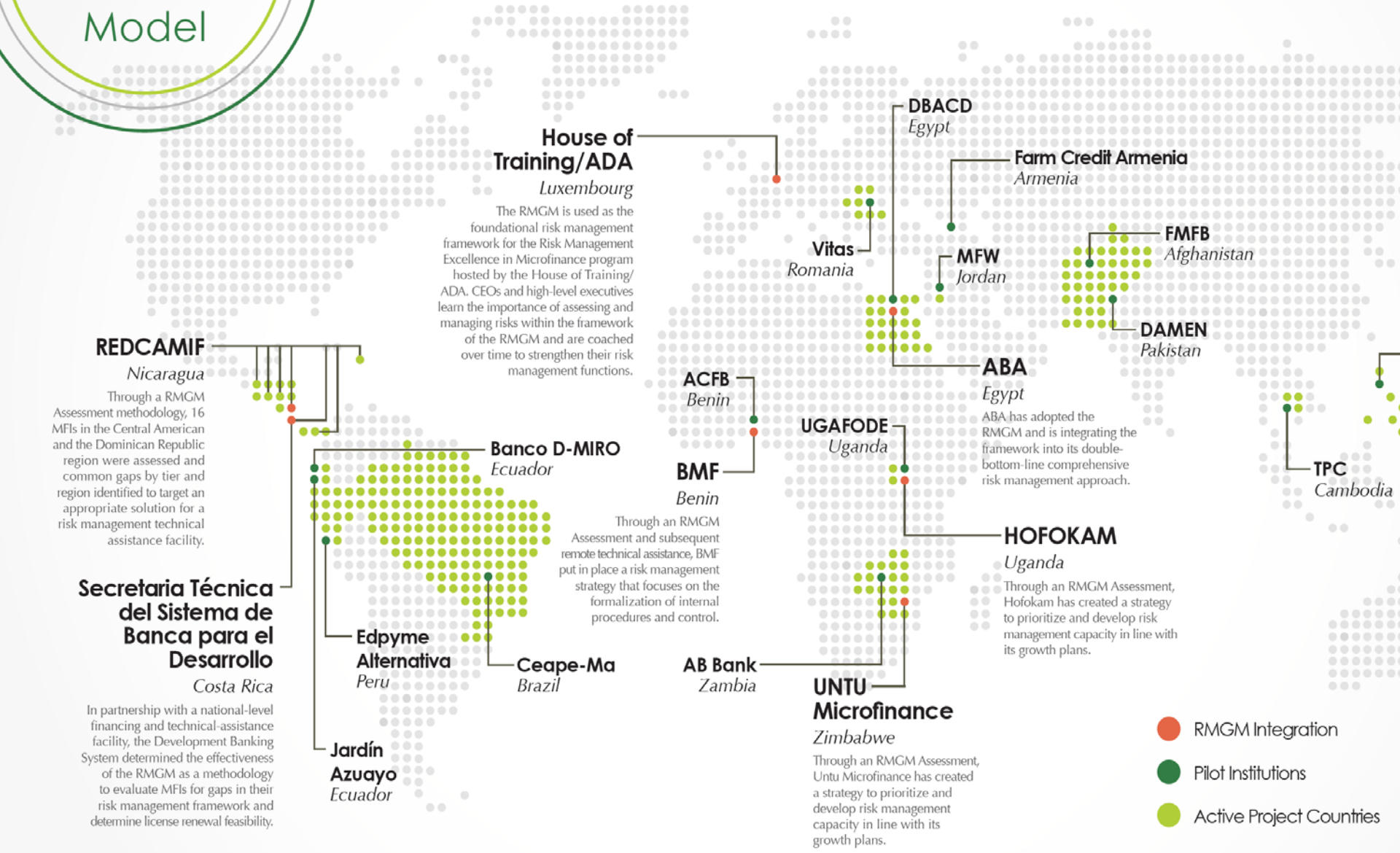
Tier 3 Guidelines	Tier 2 Guidelines	Tier 1 Guidelines
Mapping of foreign exchange risks (at least every two years)	Mapping of foreign exchange risks (at least every two years)	Annual mapping of foreign exchange risks
	Monthly currency volatility report	Weekly currency volatility report
	Quarterly foreign exchange risk exposure report, including:	Quarterly foreign exchange risk exposure report, including:
	• Net open position	• Net open position
	• Stressed FX income sensitivity	• Stressed FX income sensitivity
	• Limits comparison	• Limits comparison
		Value at risk analysis
		Quarterly foreign exchange stress-testing report

30 DAY TRIAL

Did you attend one of our recent risk management webinars? Sign up today for your 30-day trial access to our Knowledge Base.

Risk Management Graduation Model

The Risk Management Graduation Model (RMGM) is a scalable, comprehensive risk management framework for microfinance institutions. This framework has been rigorously developed, tested, and implemented by financial institutions, consultants, networks, and microfinance associations worldwide as a global risk management benchmark.



Introduction

- **AccessHolding** operates a network of **10 commercial banks** and **MFIs** in developing and transition countries
- **Significant differences** in **age** (3-19 yrs), **size** (USD 4m-400m total assets), **structure** ((non)deposit-taking) as well as **regulatory** background (non-regulated / Basel 1-3)

- Need for **adequate risk management** has grown significantly during the last years (business, regulators, lenders/shareholders)
- Appropriate **benchmark** for **microfinance** institutions needed to develop risk management framework

Risk Management Graduation Model (RMGM)

- Experiences with RMGM on two levels

On Single entity level

On Group level

Bank / MFI	Tier level
Zambia	Tier 3
Madagascar	Tier 2
Nigeria	Tier 2

- Zambia was RMGM pilot bank
- Madagascar has been building up a RM Framework, based on RMGM
- Nigeria has started developing a RM Framework, based on RMGM

Benefits/Value of RMGM

- Provides a best-practice standard for risk management in our banks/MFIs, based on their level of maturity
- Comes along with the tool for gap analysis, that is easily applicable by the banks/MFIs themself
- Additionally, the Risk Management knowledge base provides valuable input on RM practices
- Chance to participate in working groups to contribute to further development of the model (e.g. network risk reporting)

AccessBank Example: Tier Identification

- Project to implement a Risk Management Framework
- Application of RMGM model

CATEGORY	INDICATOR	*CHOOSE ALL VALUES*
SUSTAINABILITY	**Positive Return on Assets (ROA)**	*Positive ROA for at least 2 of the last 3 years*
	ROA <-5%	*No ROA <-5% in the last 3 years*
	ROA trend	*Positive trend in ROA in last 2 years*
SIZE	**Size in assets**	*USD 5 - USD 50 million*
TRANSPARENCY	**Regulation**	*Regulated financial institution*
	Ratings	*Not rated in the last 2 years*
	Audited financial statements	*Audited financial statements for at least the last 3 years*
OTHER	**Liabilities structure**	*Deposit-taking*

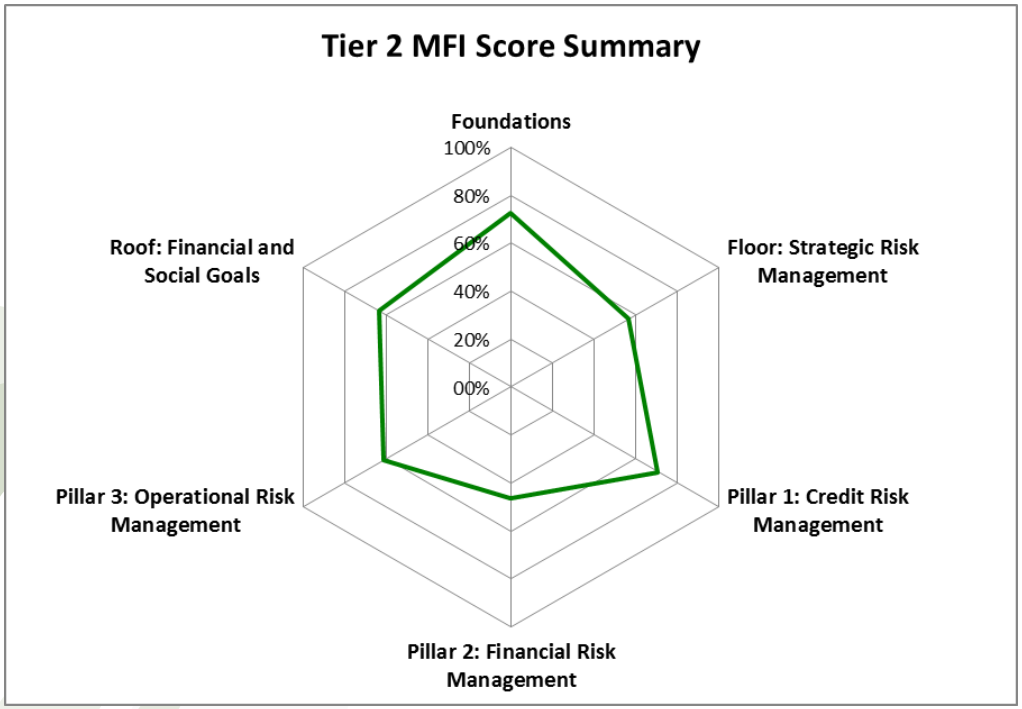
Step 1: Identify Tier level

The MFI tier level is

TIER 2

AccessBank Example : Output Gap Analysis

Step 2: Assess Adherence to RMGM Guidelines



- Highest gaps identified in
  - Strategic Risk Management
  - Financial Risk Management
  - Operational Risk Management

Step 3: Develop RM graduation path

- Prioritization on Financial Risks and Operational Risks and Development of project plan in order to fill gaps

AccessBank Example : Feedback

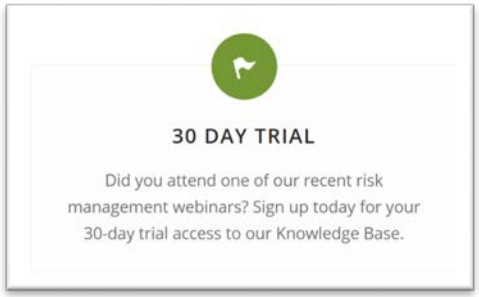
- Provides a helpful starting point to develop a risk management framework
- RMGM tool helpful to identify gaps between the model and the banks‘ actual risk management practices
- Provide guidelines on what kind of policies, tools, limits the banks should have in place
- Proved to be beneficial in discussions with external parties (e.g. refinancers)

Get Involved Today

Risk Management Initiative in Microfinance

Action Steps

- **Sign up for 30-day trial membership and explore RIM's Knowledge Base**
- **Join Working Group Brainstorming Call**



SIGNUP CODE: **RIMFREE30**

April 26th @ 10:00am EDT
Signup on RIM's website:

http://www.riminitiative.org/event/working-group-brainstorming-session/

Q&A Session