

Risk Management, the Engine for Responsible Financial Inclusion

March 22, 2017



**Risk Management
Initiative**
in Microfinance

Speakers

Presented by:



Aldo Moauro
Executive Director,
MicroFinanza Rating



Kevin Fryatt
Director,
RIM



Daniela Rehnert
Risk Management
Advisor,
AccessHolding

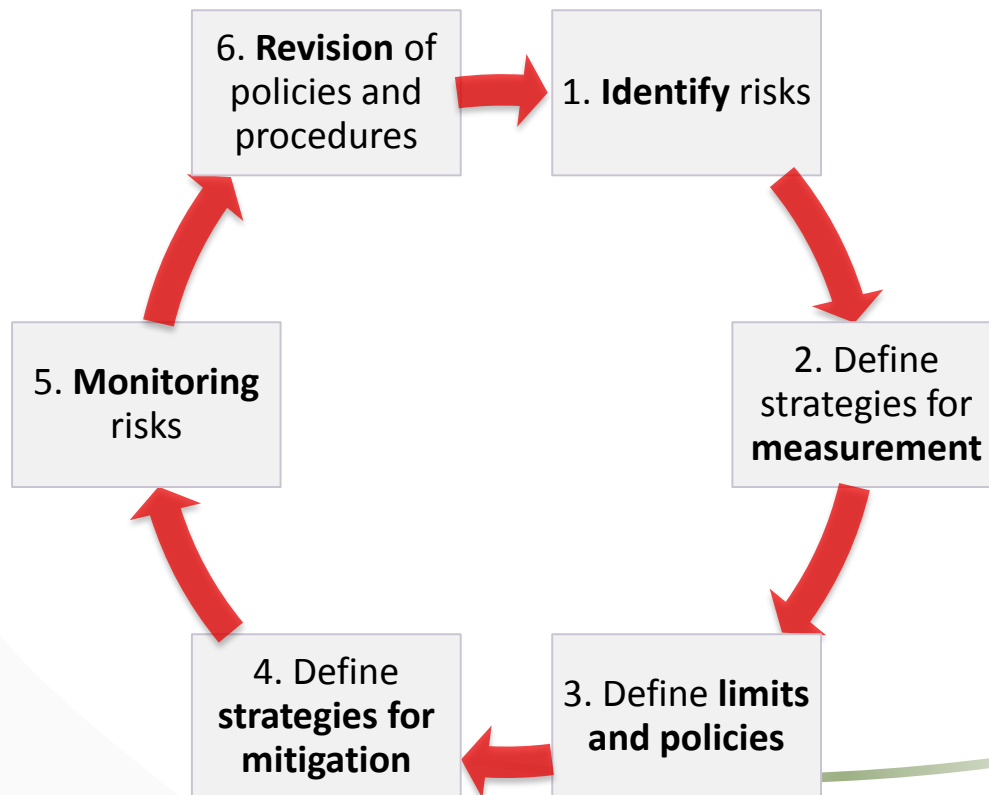
Moderated by:



Sa-Eun Park
Principal Consultant,
MagpieVenture

Risk Management Cycle

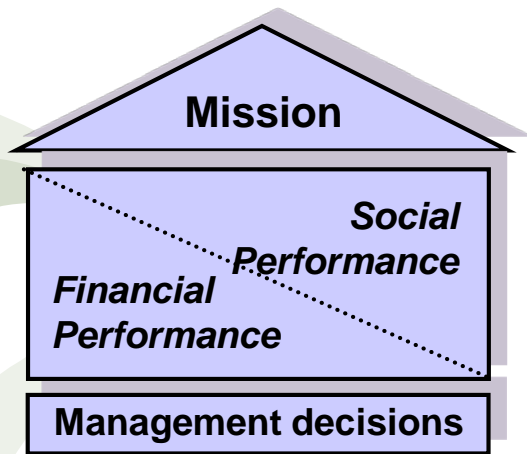
Risk Management is a dynamic and continuous process of identification and management of risks



Risk Management & Consumer Protection

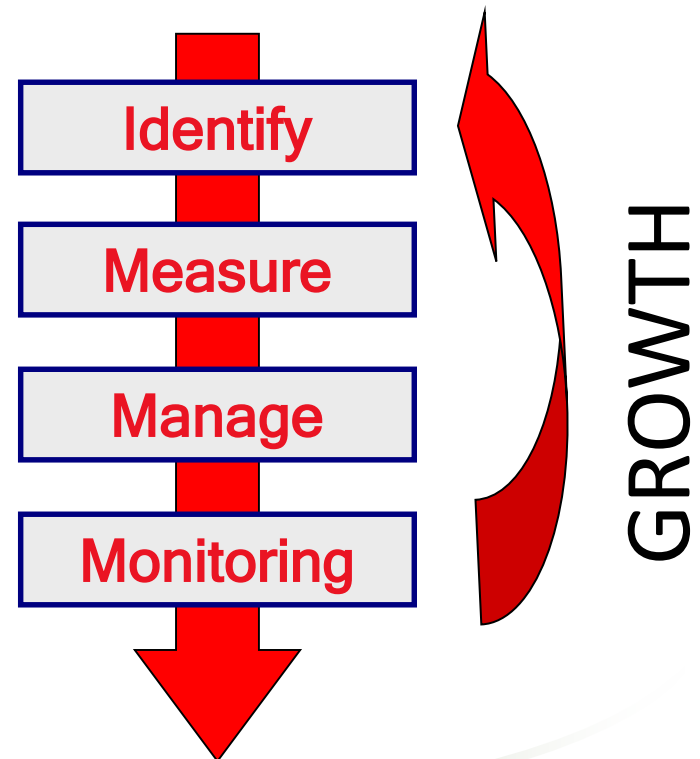
Towards positive impact on Risk Management and Consumer Protection:

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



**Risk Management
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Active Members



Aga Khan Agency for Microfinance



Graduation Model



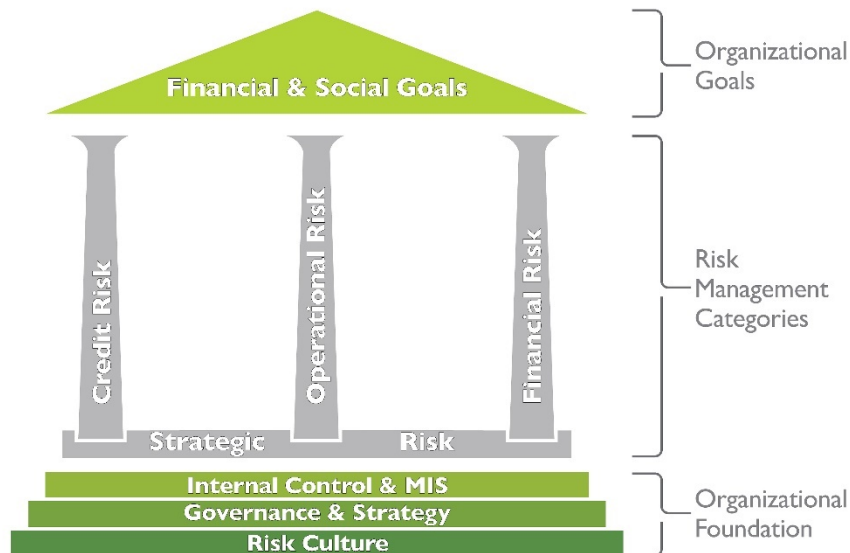
TIER III
Start-up MFIs or small NGOs that are immature and unsustainable.



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/>

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Microfinance Institution Tier Identification

Organizational Foundation

Strategic Risk

Credit Risk

[Mapping of foreign exchange risks \(at least every two years\)](#)

Financial Risk: Non Deposit-Taking MFIs

Financial Risk: Deposit-Taking MFIs

Operational Risk

Financial and Social Goals

Tier 2 Guidelines

[Mapping of foreign exchange risks \(at least every two years\)](#)

[Monthly currency volatility report](#)

[Quarterly foreign exchange risk exposure report, including:](#)

• [Net open position](#)

• [Stressed FX income sensitivity](#)

• [Limits comparison](#)

Tier 1 Guidelines

[Annual mapping of foreign exchange risks](#)

[Weekly currency volatility report](#)

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• [Net open position](#)

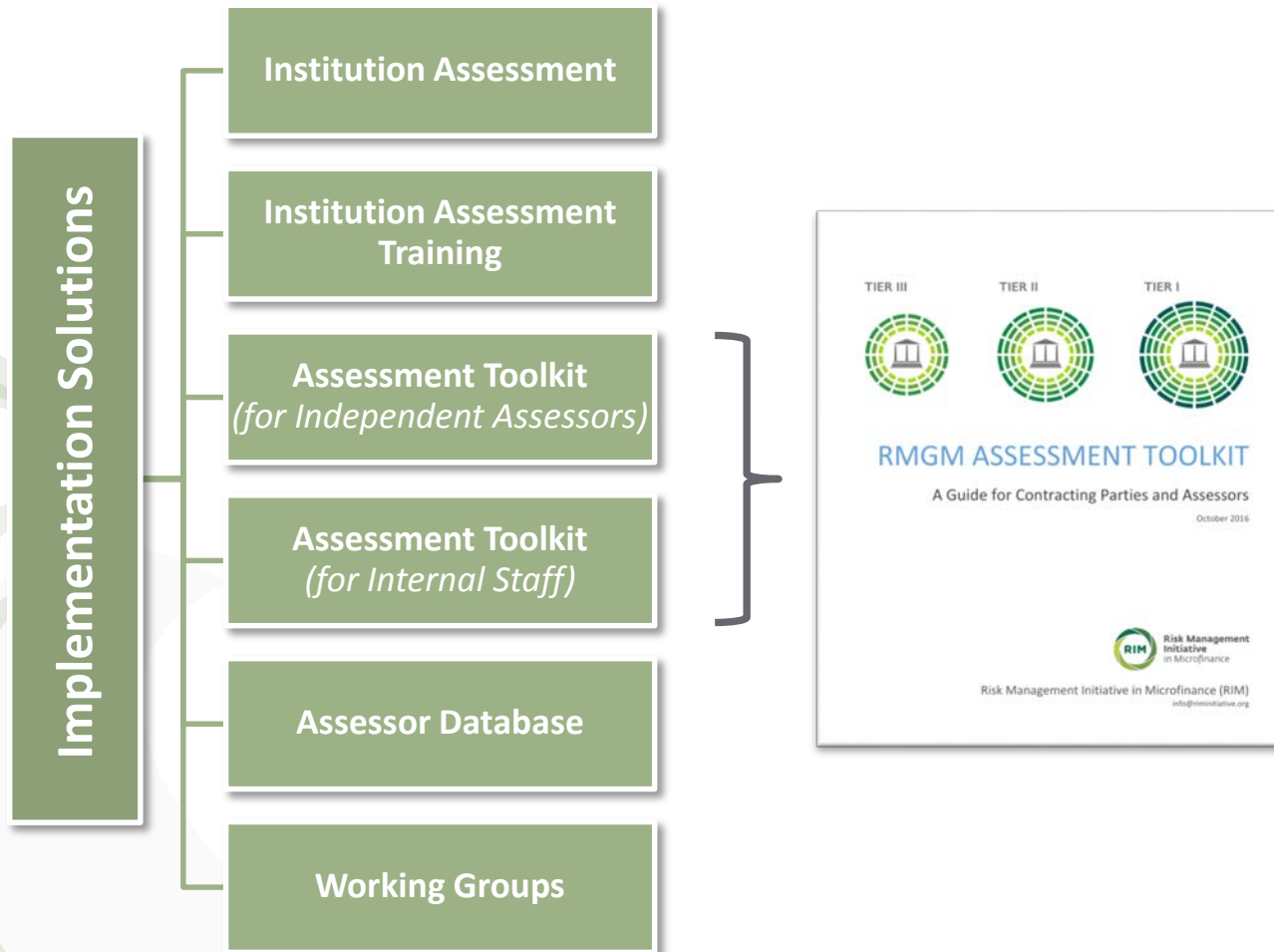
• [Stressed FX income sensitivity](#)

• [Limits comparison](#)

[Value at risk analysis](#)

[Quarterly foreign exchange stress-testing report](#)

Implementation Solutions



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Stressed FX income sensitivity

What is it?

Using the MF's net open position per currency, this report tracks the sensitivity of the MF's net income and/or shareholders' equity to the fluctuation of the value of the exchange rate for a given currency. This analysis can be done as a percentage of equity as well as net income per foreign currency.

Why is it important?

Key things to watch out for

How to calculate

Benchmarking

Resources

Evaluation

11 AS-201 RMT

Tier 3 Guidelines

[Mapping of foreign exchange risks \(at least every two years\)](#)

Tier 2 Guidelines

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Tier 1 Guidelines

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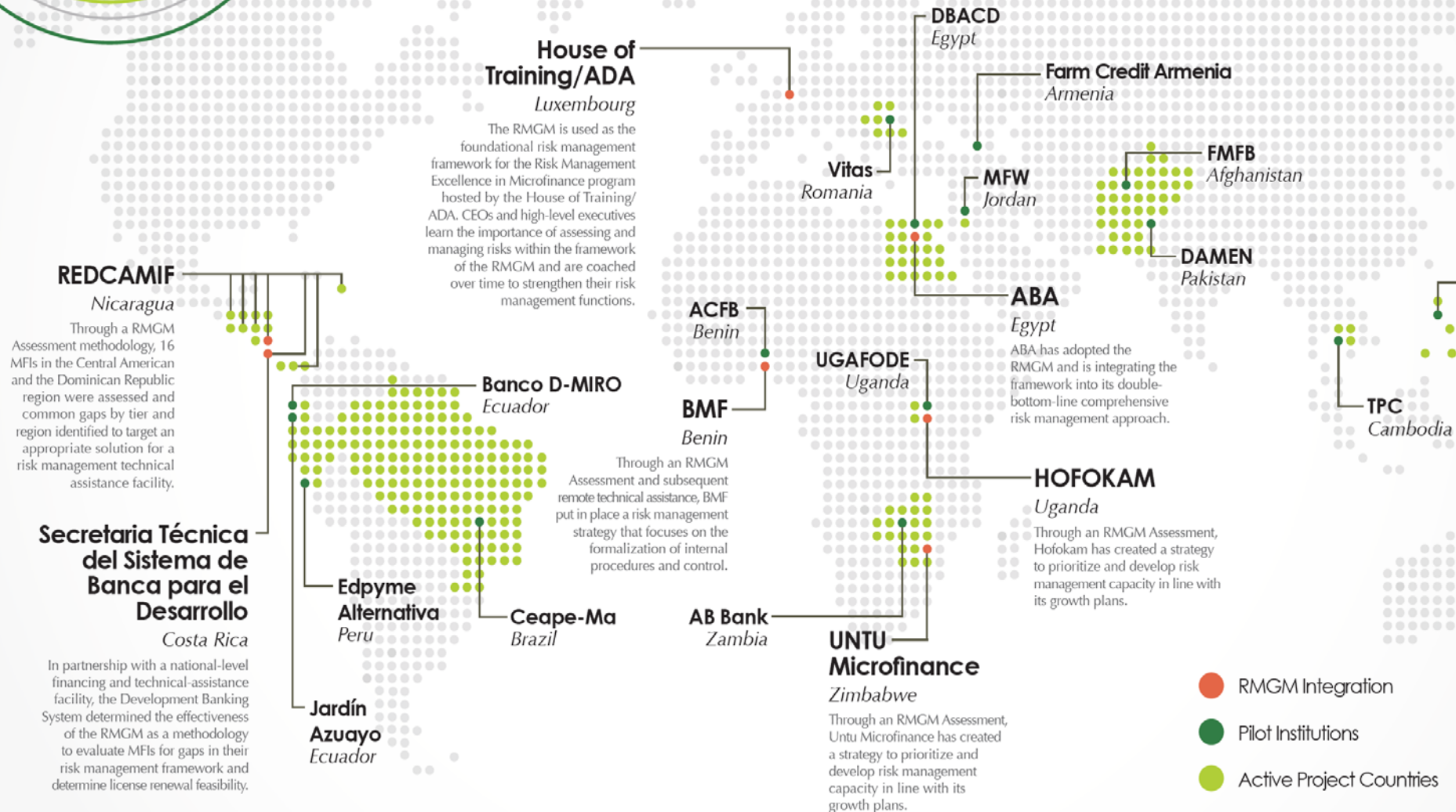


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Risk Management Graduation Model

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 themselves
- 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 <u>ALL</u> 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

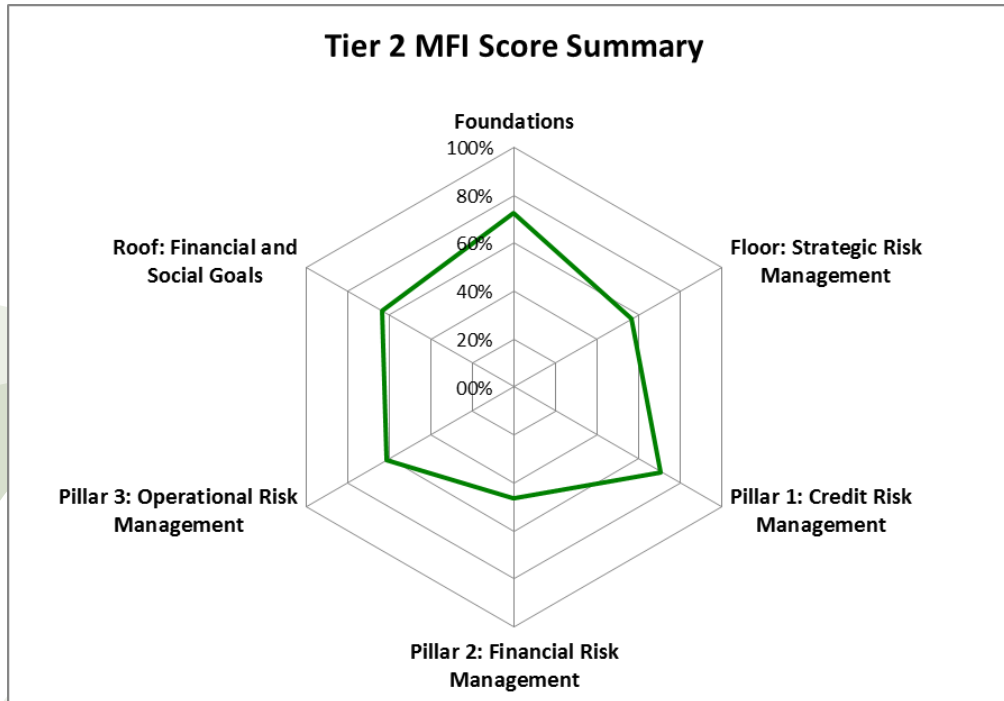


The MFI tier level is

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

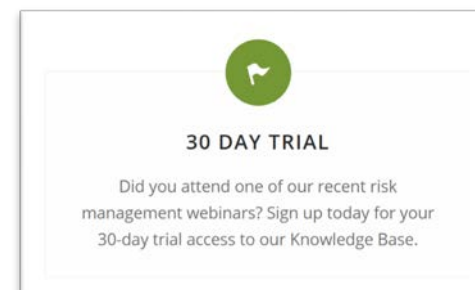


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Action Steps

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

Q&A Session