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# COVID-19 Impact on Financial Service Providers

ATLAS + CGAP survey, 2020  
June 2021

## **1. Impact of on Financial Service Providers (FSP) in 2020**

- a. Liquidity: Liquidity / total assets
- b. Portfolio quality: credit risk ratio, PAR 30, restructured ratio, write-off ratio
- c. Solvency: Equity to assets ratio, provision expense ratio, portfolio yield

## **2. FSPs solvency scenarios for 2021**

- a. Restructured portfolio
- b. COVID portfolio quality evolution
- c. Equity to assets scenarios

## **3. Appendix**

Definitions of indicators, number of FSPs with data available



CGAP Pulse survey of MFIs, 2020  
<https://www.atlasdata.org/results#>

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ATLAS data platform (post Mix)  
<https://www.atlasdata.org/>

Dataset: up to **225 financial service providers** (FSPs) with data available as of Q4 2020 (1,107 for baseline), including different charter types (Banks; Cooperatives; Non-Bank Financial Institutions; NGOs), broken down by:

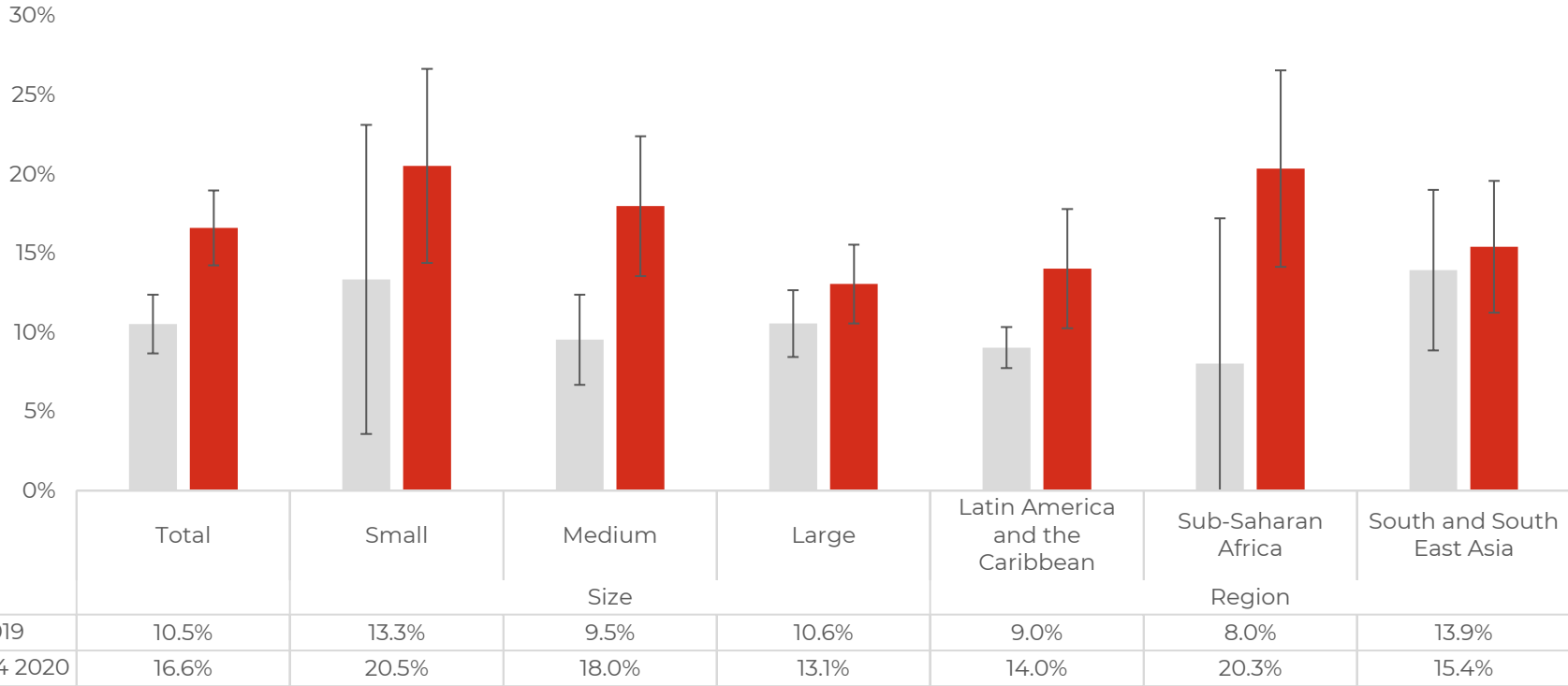
- **Region:** Europe and Central Asia (ECA); Latin America and Caribbean (LAC); South and Southeast Asia (SSEA); Sub-Saharan Africa (SSA)
- **Size** (total assets, USD): Small <10M; Medium 10-100M; Large >100M
- **Credit risk vulnerability:** if PAR30 > 8,5% at baseline
- **Solvency risk vulnerability:** if equity to assets < 12%, 15% and 18% (for large, medium and small FSPs respectively) at baseline

# Impact of COVID-19 on FSPs in 2020

# Result 1: Liquidity over total assets

## Liquidity over total assets (< 90 days) (mean)

(Cash, bank deposits, and short-term investments (<90 days))  
/ Total assets

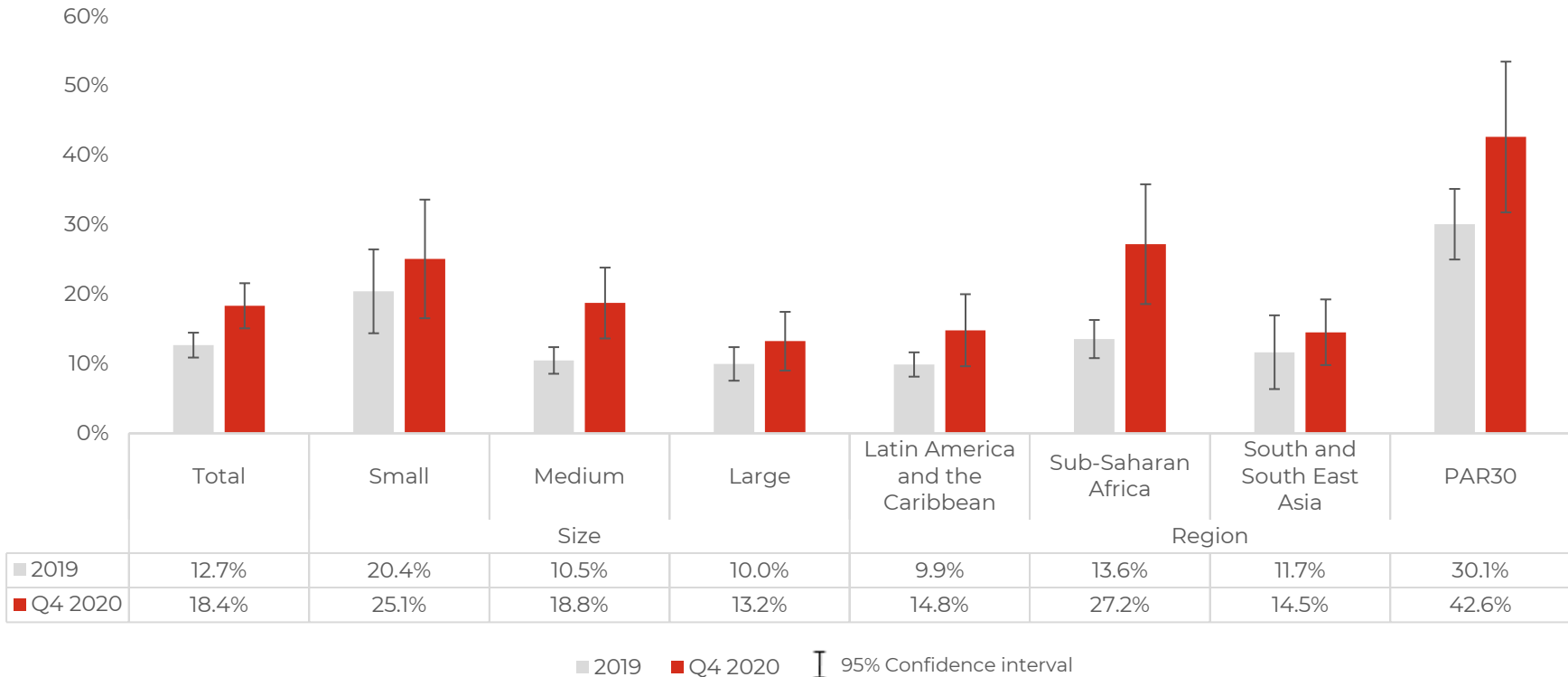


■ 2019 ■ Q4 2020 I 95% Confidence interval

# Result 2: Credit risk ratio

## Credit risk ratio (mean)

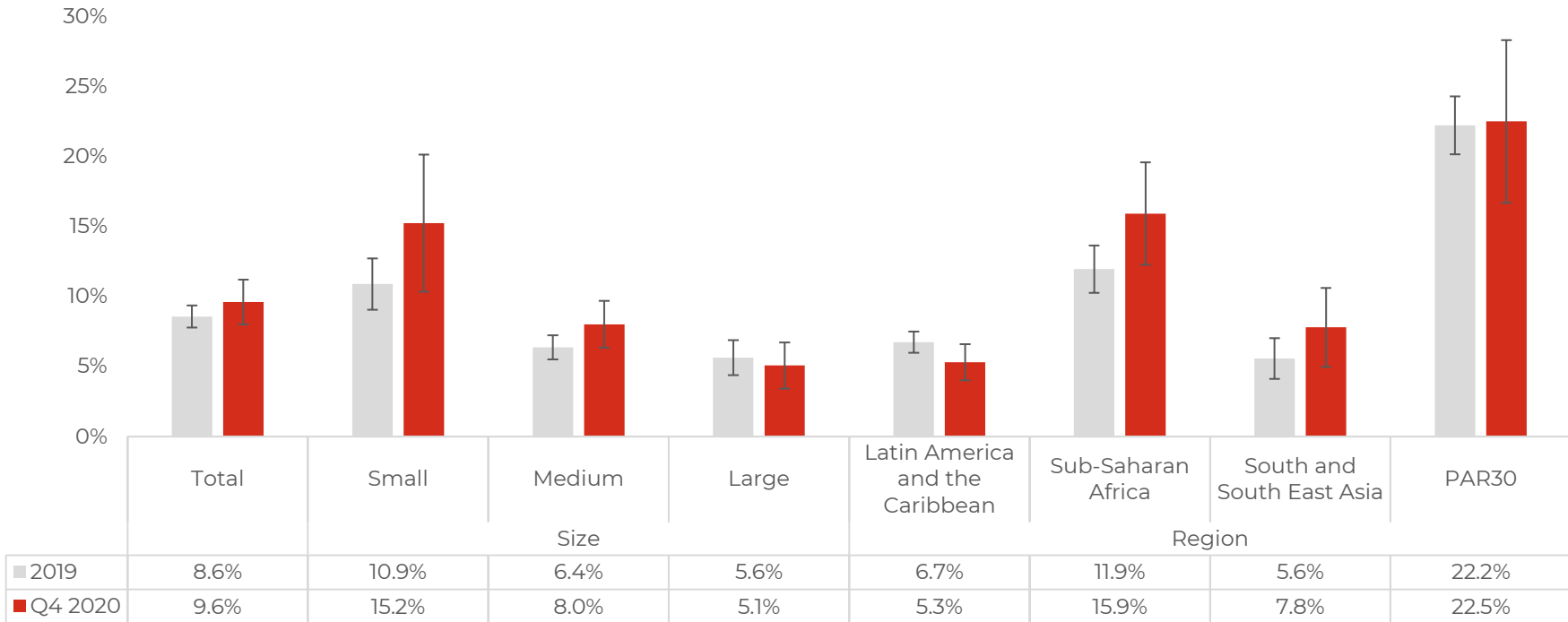
(Average values of: PAR30 + Restructured (0-30 days) + Write-offs)  
/ Average Gross Outstanding Portfolio



# Result 3: PAR 30

## PAR 30 (mean)

Outstanding principal amount of all loans that have one or more instalments of principal with 30 or more days of arrears / Gross outstanding portfolio



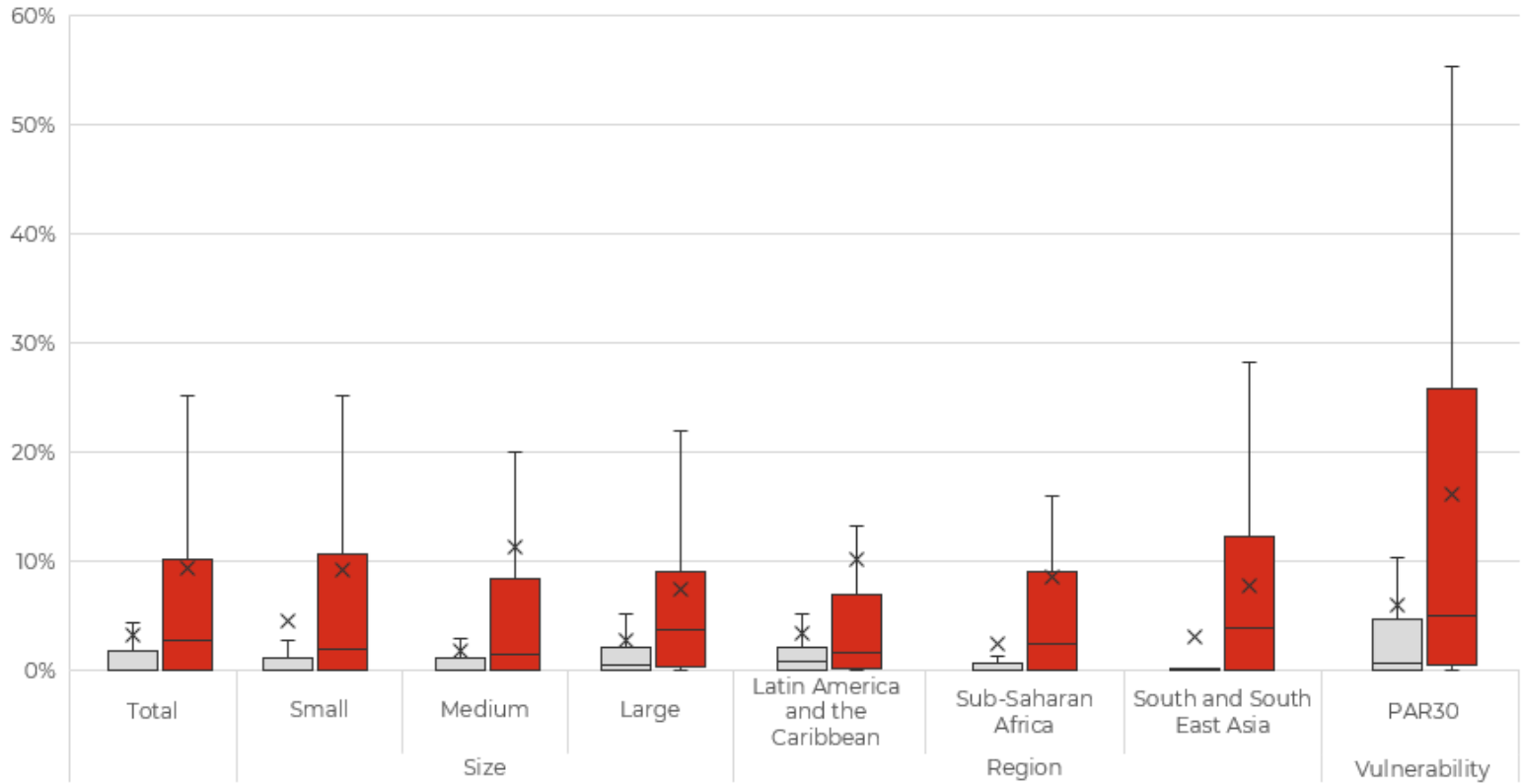
■ 2019 ■ Q4 2020 I 95% Confidence interval

# Result 4: Restructured ratio

## Restructured portfolio ratio

*Outstanding restructured portfolio (including COVID moratoria)  
/ Gross outstanding portfolio*

■ 2019 ■ Q4 2020

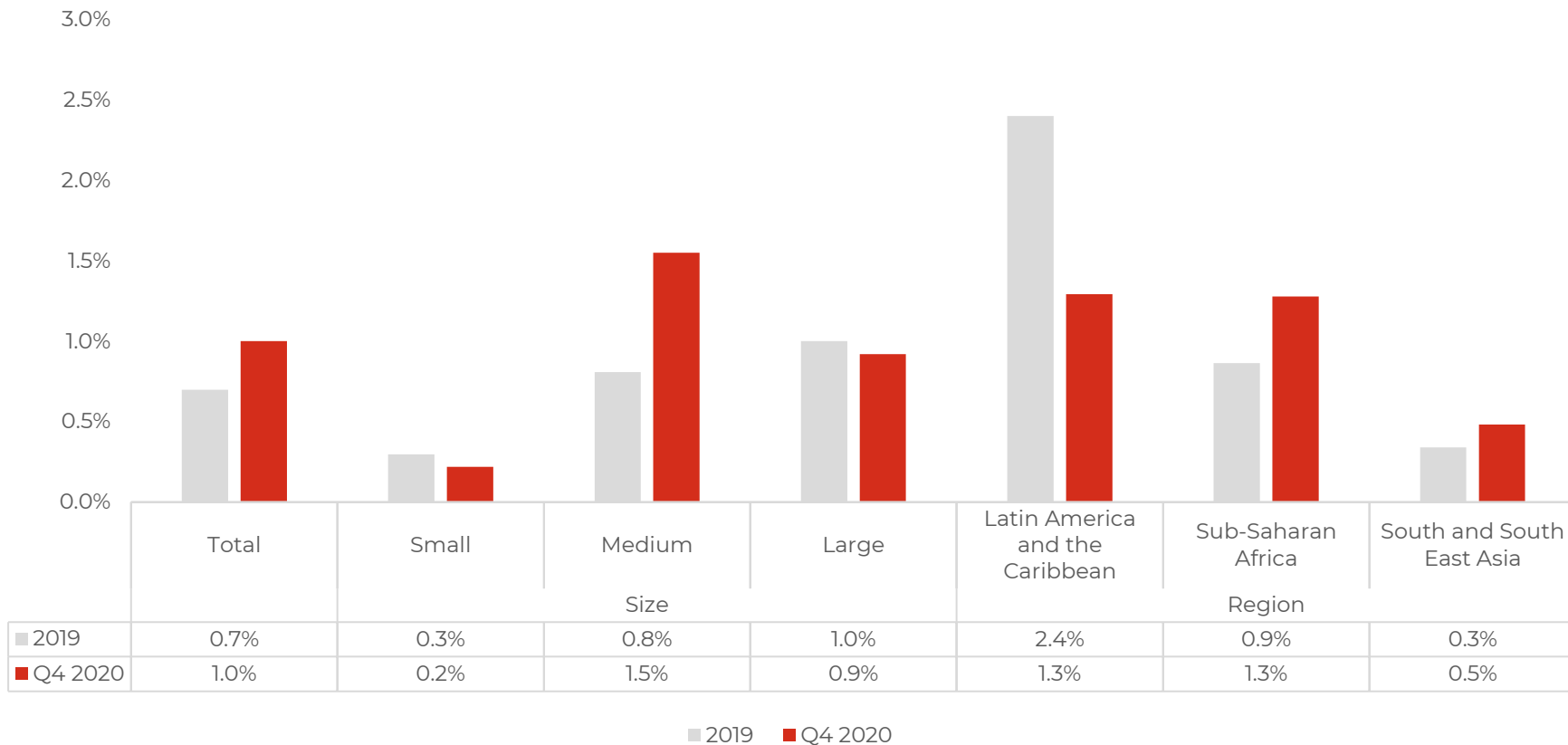




# Result 5: Write-off ratio

## Write-off ratio (median)

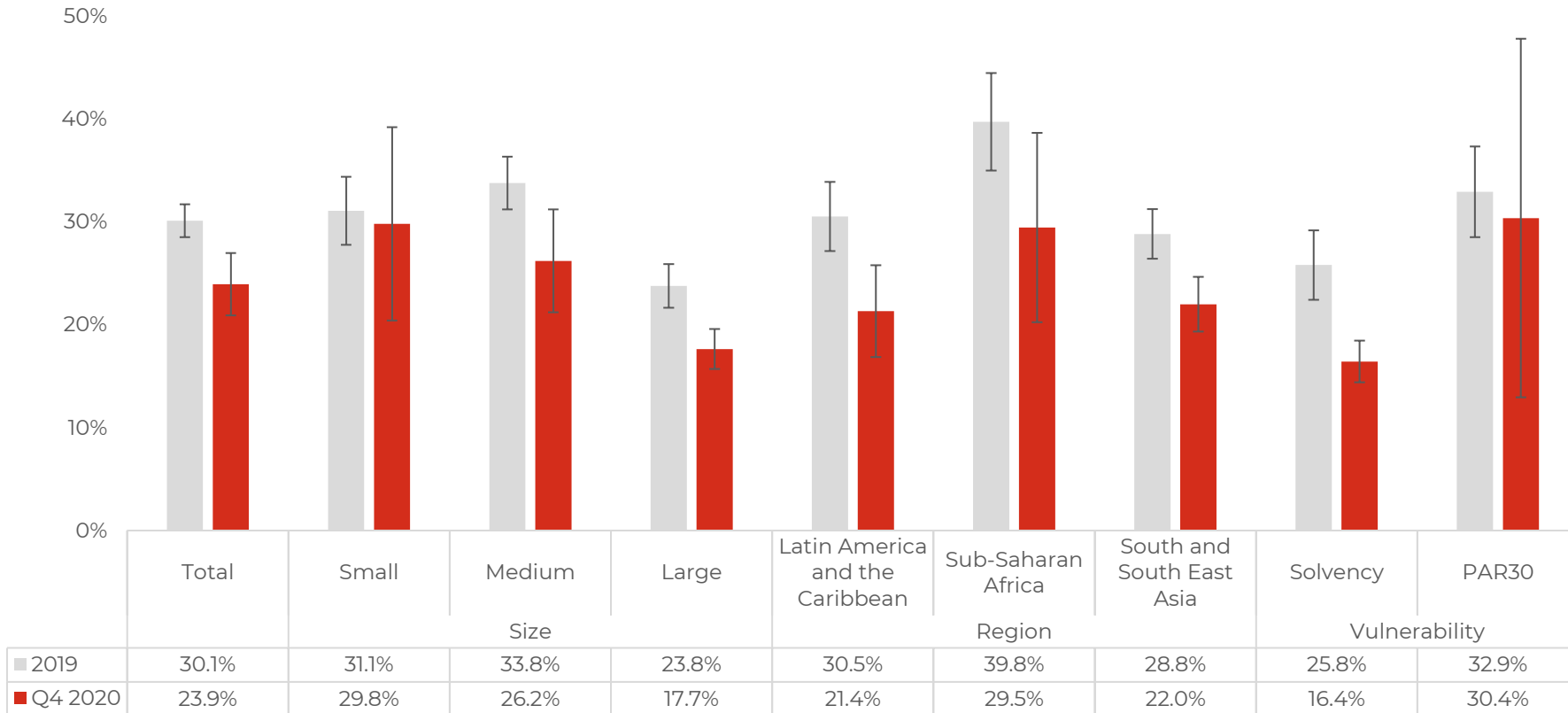
Value of loans written-off during the period  
/ Average gross outstanding portfolio



# Result 6: Portfolio yield (on gross portfolio)

## Portfolio yield (mean)

(Financial revenue from loan portfolio)  
/ Average gross portfolio

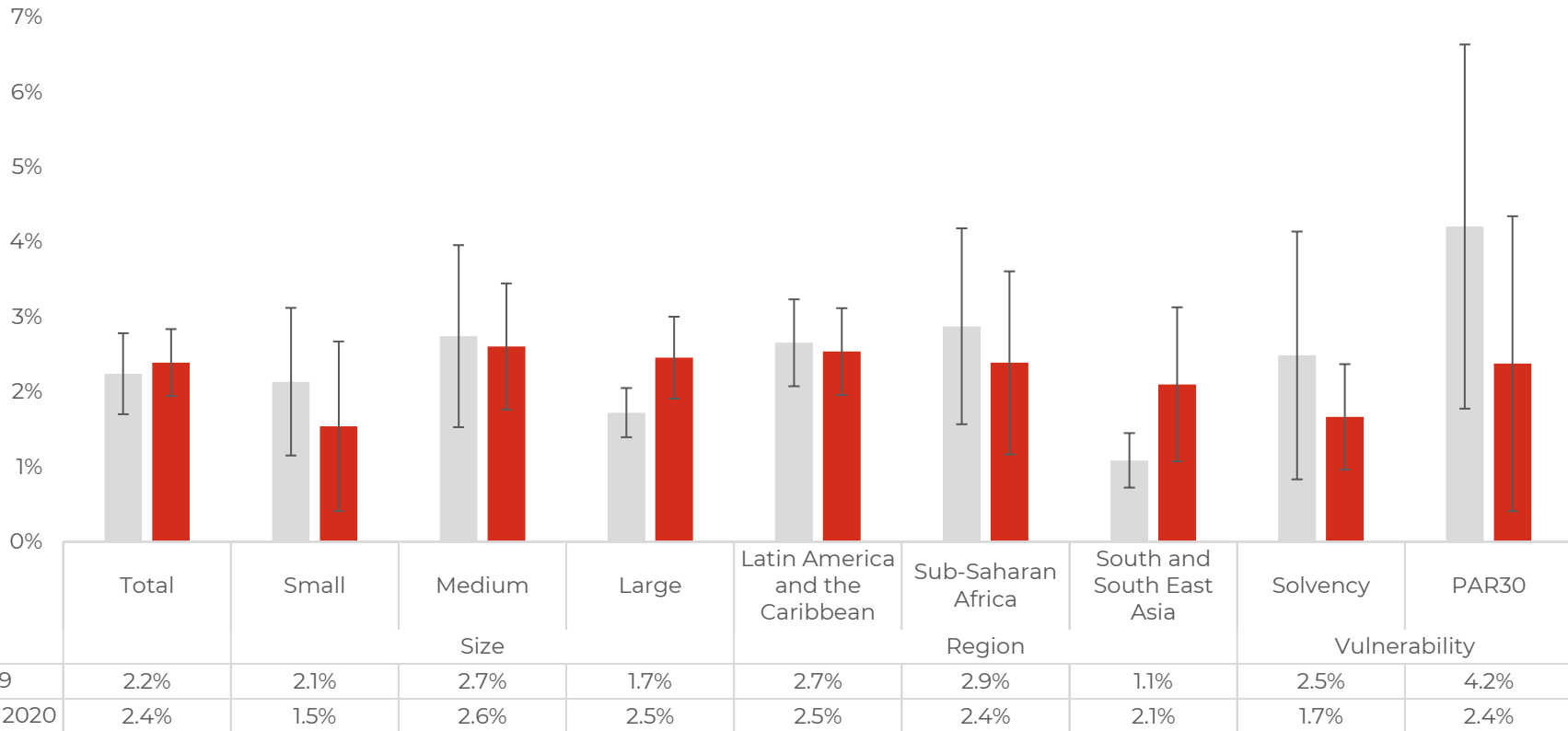


■ 2019 ■ Q4 2020 I 95% Confidence interval

# Result 7: Provision expense ratio (on gross portfolio)

## Provision expense ratio (mean)

*Net loan loss provision expenses  
/ Average gross loan portfolio*

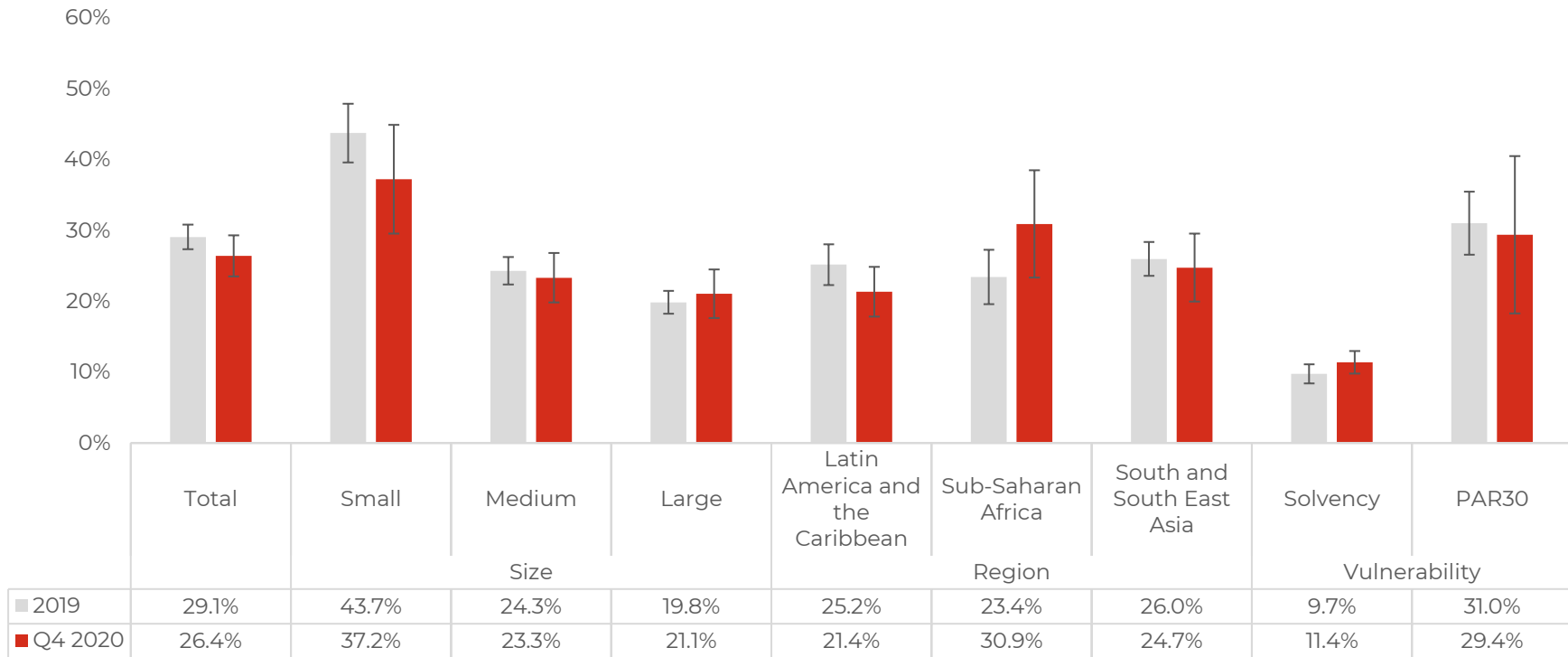


■ 2019 ■ Q4 2020 I 95% Confidence interval

# Result 8: Equity to assets

## Equity to assets ratio (mean)

*Total amount of equity  
/ Total amount of assets*

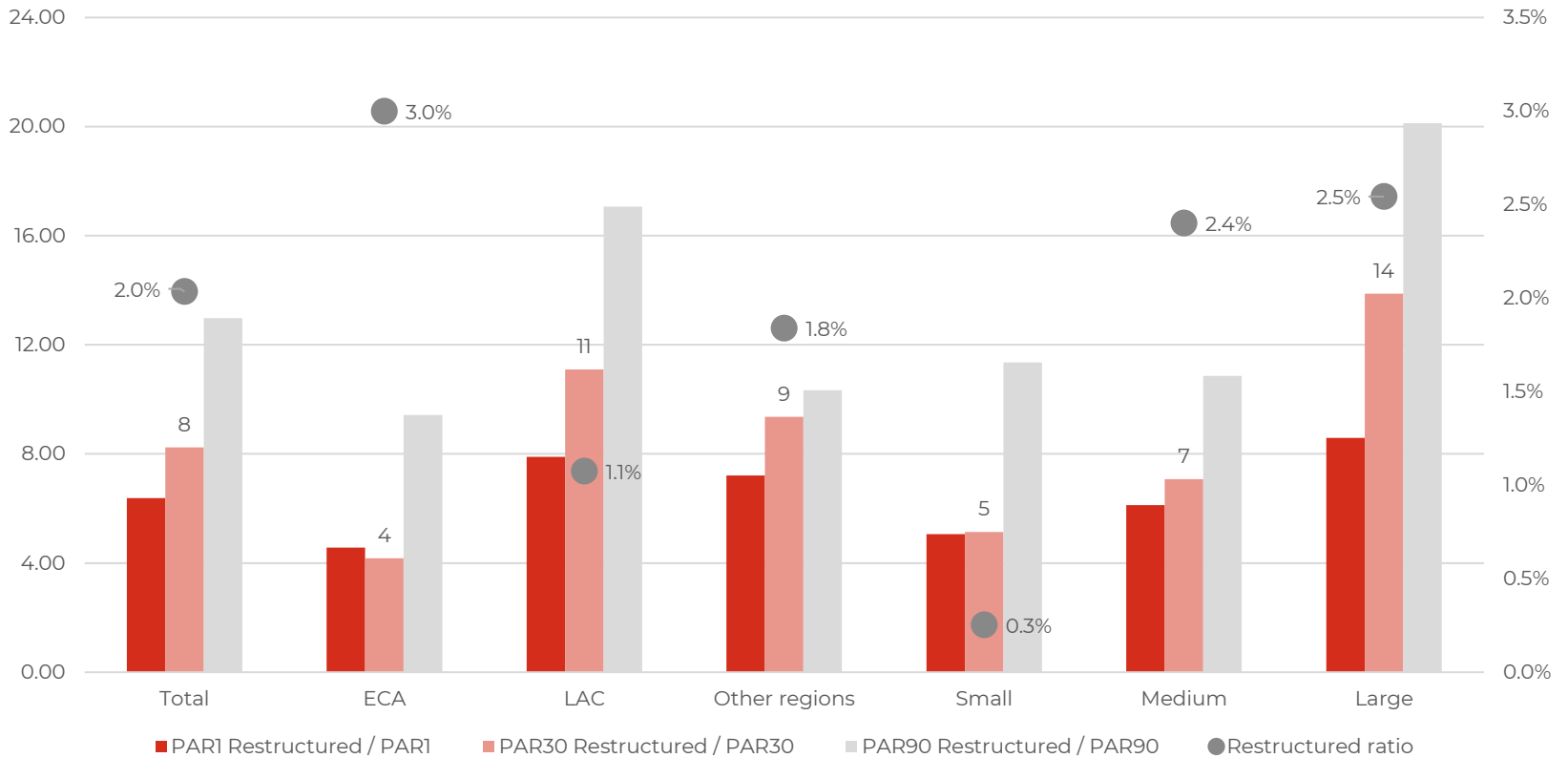


■ 2019 ■ Q4 2020 I 95% Confidence interval

# FSPs solvency scenarios 2021

# Restructured portfolio is usually higher risk

## PAR restructured compared to PAR of total portfolio



Average data from 2017 to 2019, sample of 22 FSPs that do restructuring, and track the restructured quality separately.

## Portfolio restructured and under moratorium, end of 2020

- In **normal times**, the restructured portfolio is riskier than the non-restructured portfolio (on average **8,3** times for PAR30 in a sample of 22 FSPs from 2017 to 2019). The restructured portfolio ration is usually very low (<1% or 2%).
- During COVID, the restructured portfolio increased to very high levels in 2020. Moreover, the restructured portfolio is likely to be under reported (some FSPs do not report in full and track separately).
- Initial data show that the **PAR30** of the restructured portfolio is **higher** than the PAR30 of the **total portfolio** (on average **2,4** times for a sample of 10 FSPs in Q4 2020). The **difference** between the total PAR30 and the PAR30 of the restructured portfolio is **lower** than observed in pre-COVID times.
- PAR30 is a useful metric, but it does not capture risk in full: moratoria keep portfolio quality at artificially high levels as frozen repayment can't show signs of deterioration. Therefore, the analysis shall be complemented by **forward looking** considerations.

# Factors influencing portfolio quality looking forward

## Positive

- **End** of «**blanket**» regulatory **moratoria**, unlocking the repayments of clients able to repay
- Possibility to offer clients **case-by case solutions**, different than moratorium, to repay in part or in full
- Concentration of the restructured portfolio in: less hit / restricted **regions** (e.g. provinces, rural); clients with **diversified revenue sources** (e.g. salary, rent, business, remittances)

## Negative

- Depth and scope of **health crisis, lock-down/restrictions** and economic shock (current and future **COVID-19 waves**)
- The **end** of regulatory **moratoria** may reveal a share of borrowers **unable to pay**
- Concentration of the restructured portfolio in **sectors** still severely affected (e.g. tourism, restaurants, hotels, transport), as opposed to any sector («blanket» moratoria); and in more affected and **restricted areas**

Depending on prevailing factors, the quality of the restructured portfolio may remain stable or worsen below the usual restructured portfolio quality.



## Simplified method

Important note: the following analysis is not a comprehensive projection of the income statements and balance sheets of the Financial Service Providers, with high prediction accuracy, but rather a *simplified approach* based on a rapid analysis and projection of trends employing relatively strong assumptions, meant to provide some high-level indication of possible outcomes under the scenarios considered.

**Scenarios** considered for **Dec-21**:

Scenario	Optimistic	Base	Pessimistic
Restructured portfolio moving to PAR30	<b>8%</b>	<b>12%</b>	<b>16%</b>
Current portfolio moving to PAR30	<b>-20%</b>	<b>0%</b>	<b>20%</b>

## Assumptions

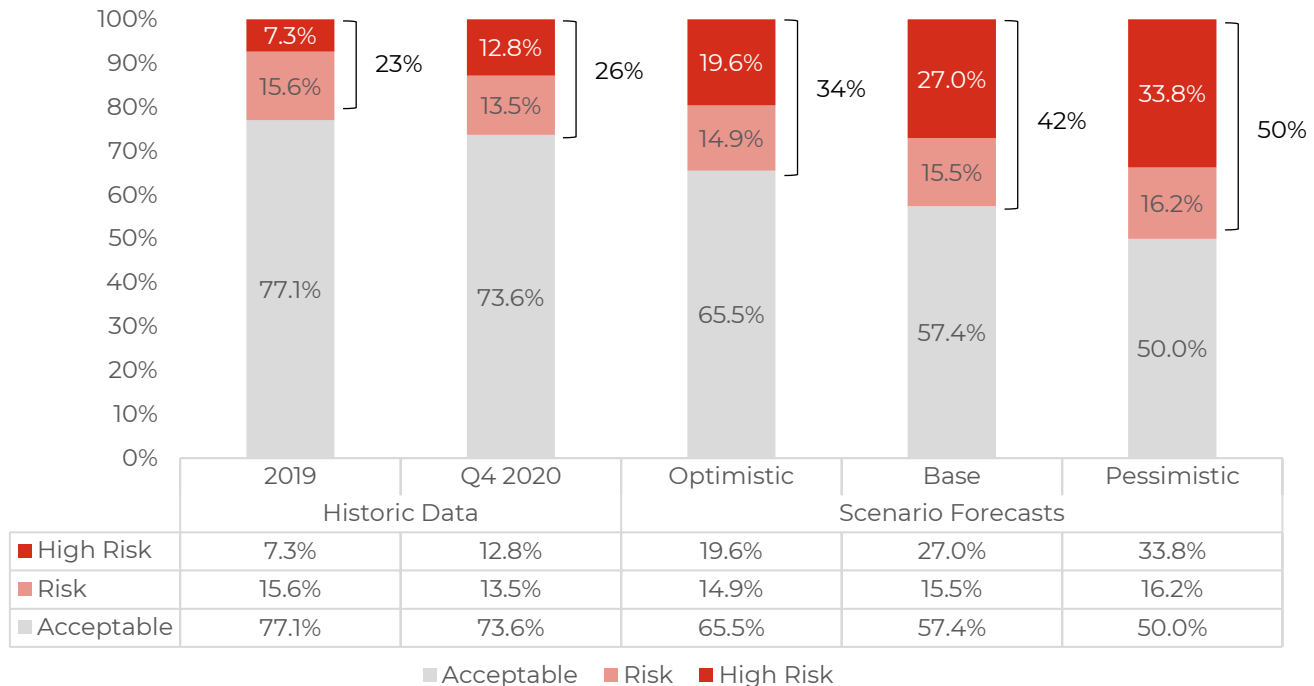
- **Provisioning** policy of Financial Service Providers: simplified to 30% on PAR30. Provision expenses are recorded in the period when risk increases (as opposed to spreading on an exceptional basis over a longer period of time).
- **Other income of FSPs** ignored (usually not material)
- **Restructured portfolio** not already included in PAR30
- **Equity injections and other recourse actions** not considered in 2021

# Equity to assets ratio

## Vulnerability thresholds

	Acceptable	Risk	High Risk
Small	>18%	14-18%	<14%
Medium	>15%	10-15%	<10%
Large	>12%	8-12%	<8%

## Vulnerability - Equity to assets

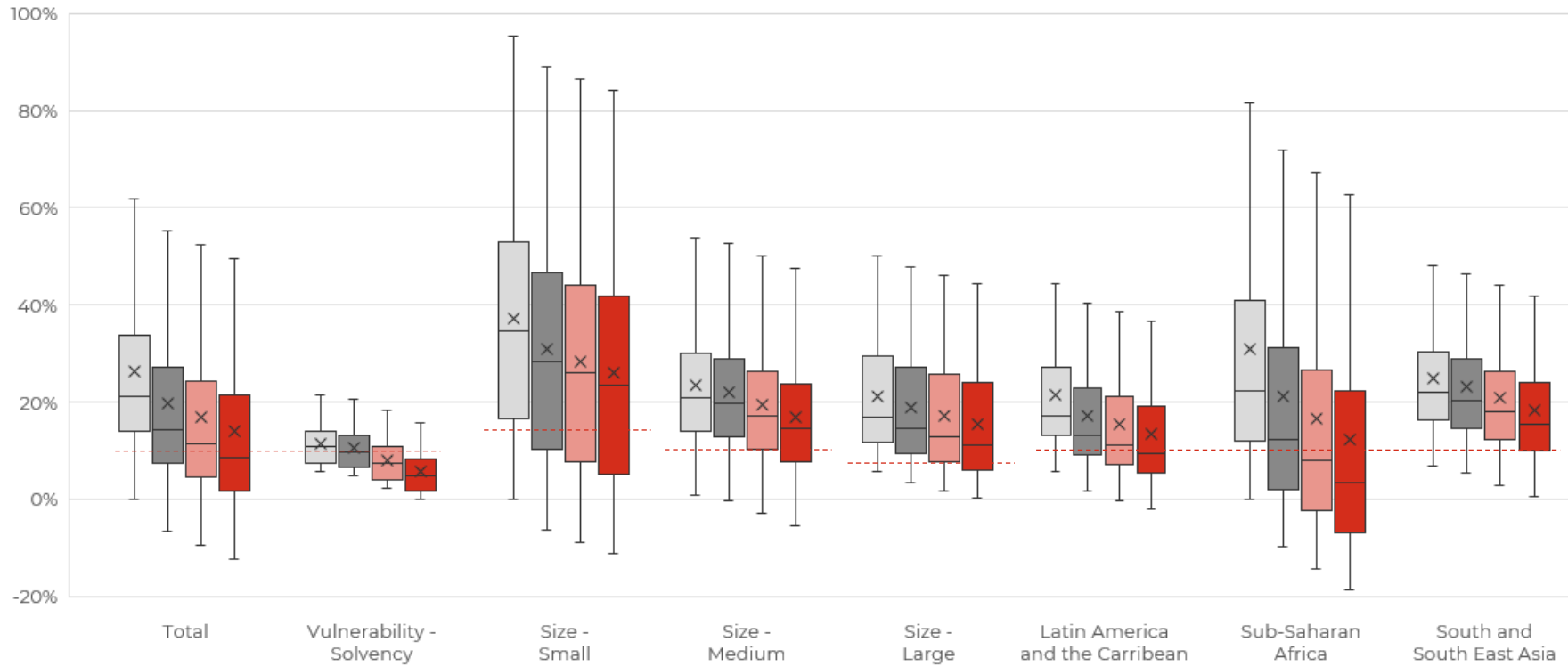


\* % defines the proportion of FSPs that are within each vulnerability threshold, depending on their size

# Equity to assets ratio

## Equity to assets ratio

■ Q4 2020   
 ■ Optimistic, Dec-21   
 ■ Base, Dec-21   
 ■ Pessimistic, Dec-21



# Appendix

# Definition of indicators

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Liquidity / total assets (<90 days) = (Cash, bank deposits, and short-term investments (<90 days)) / Total assets

Credit risk ratio = PAR30 + Restructured ratio + Write-off ratio

PAR 30 = Outstanding principal amount of all loans that have one or more installments of principal with 30 or more days of arrears / Gross outstanding portfolio

Restructured ratio = Outstanding restructured portfolio / Gross outstanding portfolio

Write-off ratio = Value of loans written-off during the period / Average gross outstanding portfolio

Portfolio yield (on gross portfolio) = (Financial revenue from loan portfolio) / Average gross portfolio

Provision expense ratio (on gross portfolio) = Net loan loss provision expenses / Average gross loan portfolio

Equity to assets ratio = Total equity / Total assets

# Number of FSPs with data available

Indicator	Time Periods	Total	Region			Vulnerability			FSP Size		
			Latin America and the Caribbean	Sub-Saharan Africa	South and South East Asia	Solvency	Liquidity over total assets < 10 % at baseline	PAR30 > 8.5% at baseline	Small	Medium	Large
Portfolio Quality											
Credit risk ratio	2019 Baseline	375	95	78	88	85	44	87	82	162	116
	Q4 2020	152	56	36	29	22	28	27	37	60	53
PAR 30	2019 Baseline	1000	273	249	299	148	49	279	300	314	197
	Q4 2020	218	61	75	48	33	29	32	53	85	64
Restructured ratio	2019 Baseline	457	114	104	103	95	44	116	118	176	128
	Q4 2020	158	57	38	31	23	28	27	41	60	55
Write-off	2019 Baseline	570	155	106	185	122	49	123	160	242	164
	Q4 2020	167	56	48	32	27	29	31	46	63	56
Liquidity											
Liquidity over total assets (< 90 days)	2019 Baseline	92	45	6	16	28	49	8	12	36	44
	Q4 2020	107	41	26	22	22	25	18	27	36	44
Solvency											
Equity to assets ratio	2019 Baseline	671	176	108	229	153	49	150	209	258	200
	Q4 2020	150	52	43	27	27	27	26	42	53	53
Portfolio yield (on gross portfolio)	2019 Baseline	632	138	115	238	145	49	134	198	242	187
	Q4 2020	95	38	23	18	23	27	11	21	30	42
Provision expense ratio (on gross portfolio)	2019 Baseline	217	57	48	21	54	49	43	74	75	64
	Q4 2020	91	38	22	16	23	27	11	20	29	40

# Solvency model formulas

Indicators	2019 baseline	Q4 2020 measure	Jun-21 projected
PAR30	ATLAS + Pulse Survey	ATLAS + Pulse Survey	$\text{PAR30 [2020]} \times (1 + \text{Share of current portfolio moving to PAR30 [monthly]} \times 6 \text{ months}) + \text{Restructured portfolio ratio [2020]} \times \text{Share of restructured portfolio moving to PAR30 [2021]}$
Restructured portfolio ratio		ATLAS + Pulse Survey	$\text{Restructured portfolio ratio [2019]} \times (1 - \text{Share of restructured portfolio moving to PAR30 [2021]})$
<b>Portfolio yield (assets)</b>	<b>ATLAS + Pulse Survey</b>	<b>ATLAS + Pulse Survey</b>	<b>Portfolio yield (assets) - (Growth in total PAR30 [2021] x PAR30 [2020])</b>
Provisioning expense ratio (assets)	ATLAS + Pulse Survey	ATLAS + Pulse Survey	$\text{Provisioning expense ratio [2020]} + (\text{PAR30 [2021]} - \text{PAR30 [2020]}) \times \text{Provisioning on PAR30 [2021]} \times \text{Portfolio to asset ratio (gross) [2021]}$
Operating expense ratio (assets)	ATLAS + Pulse Survey	ATLAS + Pulse Survey	Operating expense ratio (assets) [2020]
Financial expense ratio (assets)	ATLAS + Pulse Survey		Financial expense ratio (assets) [2019]
Profit margin (assets)	ATLAS + Pulse Survey		$\text{Portfolio yield (assets) [2021]} - \text{Provisioning expense ratio (assets) [2021]} - \text{Operating expense ratio (assets) [2021]} - \text{Financial expense ratio (assets) [2021]}$
<b>Equity to assets ratio</b>		<b>ATLAS + Pulse Survey</b>	<b>Equity to assets ratio [2020] + Profit margin (assets) [2021]</b>
<b>Additional indicators</b>			
Share of current portfolio moving to PAR monthly		ATLAS + Pulse Survey	ATLAS + Pulse Survey
Share of restructured portfolio moving to PAR30			$\text{PAR30 [2019]} - (\text{Growth in PAR30 [2020]} \times \text{Portfolio yield (assets) [2019]})$
Growth in total PAR30		ATLAS + Pulse Survey	$(\text{PAR30 [2021]} - \text{PAR30 [2020]}) / \text{PAR30 [2020]}$
Provisioning on PAR30		Defined	Defined
Portfolio to asset ratio (gross)		ATLAS + Pulse Survey	ATLAS + Pulse Survey





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# Thank you

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