

Problem Loan Recovery in Covid times

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Background

Current Context

- The pandemic has a strong effect on the growth of problem loan portfolios.
- Significant management attention and staff resources go into managing recoveries.
- Slow recoveries and cash-flow generation can put profitability, capital, and sustainability under stress.

Future Developments

- **Further impact** due to continuing pandemic and the aging of the restructured loans expected.
- Hard-hit institutions need to **reorganize** and treat recovery activities as a separate business line for the foreseeable future

Challenges for Financial Institutions

- How to **balance new business growth** and **recovery of problem loans**?
- Which **types of restructuring** can **maximize short-term vs. Long-term recovery**?
- How to drive **efficiency in recovery**? What are **reasonable benchmarks** to apply?
- When to use approaches like **soft, hard, legal, and collateral recovery**? And how to build this capacity?
- **How to ensure transparency for the board and management**?
- **Which reporting tools** make the process manageable?



Problem Loan Recovery in Covid Times

Our Solutions

Diagnostics

- On or off-site review and analysis of the problem portfolio and recovery organization
- **Output:** Short and long-term recovery action plans

Recovery Strategy

- Establishing steering committees to manage the process at branch and Head Office level.
- **Ringfencing “bad bank” portfolios** to avoid that recovery practice and mindset negatively affect day-to-day business
- **Collections scoring:** Statistical analysis to establish priorities for different loan categories to maximize fast recovery
- Establishing a balance between **proactive restructuring** (via call center or site visits) and **legal recovery** and foreclosures
- **Output:** Stronger organization-wide recovery management

Tools and Processes

- **Defining a recovery process**, with clear stages and criteria for transitioning from one stage to the next
- Defining permitted **recovery tools** – based on market context, priorities, and regulatory environment. This includes clear definitions of restructuring subsequent treatment for reporting and provisioning
- **Output:** Improved recovery capacity and manageability.

Staff Assessment and Training

- Recovery staff assessment and training
- Establish KPIs and motivation systems
- **Streamlining of responsibilities** of recovery officers
- Coaching recovery managers, jointly identifying and addressing problem areas.
- **Output:** Higher staff caseloads, improved recovery volumes, lower cost of recovery.

System Support

- Implementation of recovery CRM, collections scoring and call center solutions.
- Establishing **standardized reporting** on recovery activities (inputs) and results (outputs)
- **Output:** Improved efficiency at a lower cost, increased transparency for management.

On-site Recovery Management

- Secondment of a qualified recovery manager to implement recovery action plans.
- **Output:** Jump starting recovery work in case local capacity is not available.



Our Approach and Outcomes

Our Approach

- **Pragmatic**, result-oriented solutions
- **Structures** that are adjustable and efficient
- **Definitions and methodologies** that are clear, comprehensive, understandable and easily applicable
- **Accountability** – input that leads to measurable improvements and results
- **Experienced** recovery consultants and managers
- **Local context** matters
- **Integrated recovery approach**: leadership, organization, people and technology.

Outcomes

- **High recovery rates**: Effective recovery organization and management combined with a high degree of automation allow our clients to substantially increase recovery rates.
- **Fast portfolio workout**: Problem loans systematically transition between restructuring, soft and hard recovery, legal and collateral workout, allowing for faster processing and cleanup of the problem loans portfolio.
- **Lower cost of recovery**: High quality of recovery management, monitoring and reporting allow our clients to build effective recovery systems with the low cost-to-recovery ratios.
- **Improved transparency for top Management and Board.**
- **Staff capacity and performance**: upgraded skills of recovery staff, key performance indicators and incentive structure yielding measurable results
- **Flexibility**: Scaling up and down institutional capacity to adjust to the magnitude of required recovery activities.



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Example Project

Problem

- A leading MSME bank saddled with over 20k problem clients in the aftermath of an economic crisis and devaluation.
- Large problem portfolios in all customer segments: retail, micro, SME
- Problem portfolios handled by a mix of regular loan officers, recovery staff, lawyers, partially outsourced.

- **Low recovery rates** below 1.5% of problem loan portfolio per month.
- **Few regularly paying clients** only 11% of problem clients
- **Low per employee case load** 280 clients
- **High cost of recovery** over 30% of recovery cash flow.

Solution

- ID conducted a **portfolio evaluation**, separated problem clients into a **bad bank** and built a **fully fledged recovery function**.
- Provided on-site **Senior Recovery Manager**.
- Organized **Board Recovery Steering Committee**.
- Conducted **institution-wide recovery staff assessment, rotation and training**.
- Implemented **recovery KPIs** and **performance-based bonus** scheme.
- Strengthened **legal, collateral and outsourced recovery** functions.
- Implemented **Recovery Call Center** supported by **recovery CRM**.

Outcomes

- **Within 6 months, all problem portfolios firmly under control**
- **Recovery rate** more than doubled to 3.5% per month.
- **Share of regularly paying clients** increased by 65%
- **Per-employee caseload** reached 1,200 clients in soft and 350 clients in hard recovery.
- **70% lower recovery costs** from collections.



Our Resources

Experienced managers with professional knowledge of recovery activities in banks and MFIs. As current and former executives of MSME banks, our team is able to develop and implement practical solutions with strong impact on FI effectiveness and profitability.

Recovery Managers

- Senior management backgrounds and operational recovery experience in MSME banks and MFIs in various markets
- Deep understanding of recovery management in difficult environments
- Extensive experience in managing problem portfolios in crisis situations, both during global financial crisis in 2008 and in subsequent, more localized crises.
- Management experience to support teams on the ground in implementing recommended solutions

Recovery Team

- Extensive operational experience in problem portfolio and team evaluation.
- Experience in managing problem portfolios in major crisis situations in different markets in CEE, Africa and Latin America.
- Designing effective recovery action plans.
- Guiding and supporting institutions under stress in swift implementation of the recommended solutions.
- Conducting accurate recovery planning and budgeting.
- Effective communication with management and boards, getting agreement on required action plans.

Data Team

- Highly analytical approach and high level of technical expertise
- Unique track record in portfolio analysis, the classification of problematic loan portfolios and recovery performance evaluation.
- Statistical analysis tools for identification and further analysis of problem loan hot-spots.
- Cost-benefit analysis of the recovery activities.
- Designing and implementing high quality operational reporting.



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Please contact us for:

- Further information on our services and our approach
- Possible packages or specific needs
- Information needed to be able to provide an individual offer



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