DFIs Best Practices: “Credit Risk Management in SME Lending”

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Why SMEs are so important

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**OPPORTUNITIES IN ASEAN**

- **USD 2.5 Trillion** combined GDP
- **6th largest economy**
- **630 Million** population
- **3rd largest labour force** behind China & India
- **60%** population below age of 35

**POINTS OF CONTENTION**

- Broad Disparity on Economic Growth
- Singapore GDP is 50x higher than Cambodia and Myanmar
- 7x Variance in Average Earnings
- Only 25% Intra-Regional Trade

*Source: APEC*
Why SMEs are so important

97.3% (645,136) Business Establishments in Malaysia are SMEs

SMEs cut across all sectors of the Economy

- 90%: Services
- 5.9%: Manufacturing
- 3%: Construction
- 1%: Agriculture
- 0.1%: Mining & Quarrying

SMEs Contribution to the Economy 2014

- 35.9% GDP
- 65.0% Employment
- 19.7% Exports

Credit Risk Management in SME Lending

- Appropriate overview by the Board of Directors and Management
- Adequate infrastructure for credit risk management
- An integrated risk management process
- Comprehensive internal controls and audit procedures

Credit risk continues to remain the largest source of risk for DFIs.
Components of Sound Credit Risk Management Process

- Risk Identification
- Risk Measurement
- Risk Control
- Risk Monitoring

- Credit granting criteria
- Risk measurement, evaluation and review
- Management information system
- Structure of limits
- Collection and problem credit management process
RISK MANAGEMENT IN DFIs
Main Role of DFIs – Beyond Financing

Financial assistance serves as enabler for SMEs, as engine of growth, to move up the value chain and create viral effect to the economy.

High Impact Developmental Program Through Synergized Approach of Financial Assistance and Intervention

Small Medium Enterprises (SMEs)

FINANCING

INTERVENTION

Banking

Development

Hand-holding approach from the entry point to inculcate business acumen and propel SME business to the next level.
Approach to SME Banking

Risk Mgmt approach in DFIs is different from commercial banks
DFI’s Roles are Beyond Financing

Developmental Role

Hand-holding approach from the entry point to inculcate business acumen and propel SME business to the next level

DFIs

(Fulfilling National Agenda & Growth)

Fulfilling Shareholders’ Interest

CREDIT RISK SCORECARD
1. Financial assessment – credit strength, cashflow, audited accounts and etc
2. Industry analysis & exposure
3. Business case
4. Assessment on management strength and competencies

Commercial Banks

(Fulfilling Shareholders’ Interest)
Intervention Mechanism & Approach

1. TYPE
   - GENERAL: Account management
   - SPECIFIC: Upward Migration

2. TARGET
   - All existing clients
   - Pool of identified clients

3. TOOLS
   - Relationship Management
   - Specific initiatives & action plan

4. GOALS
   - Efficient & effective delivery
   - Quality Portfolio
   - Upward migration
     - Improve risk & score rating
     - Delinquent to performing
     - Domestic to export
   - Quality Portfolio

7 intervention steps
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Thank you