Part 3

RISK AND STRATEGIC PLANNING

July, 2011
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Microfinancing industry attractiveness

Before the crisis (2003 - 2008):

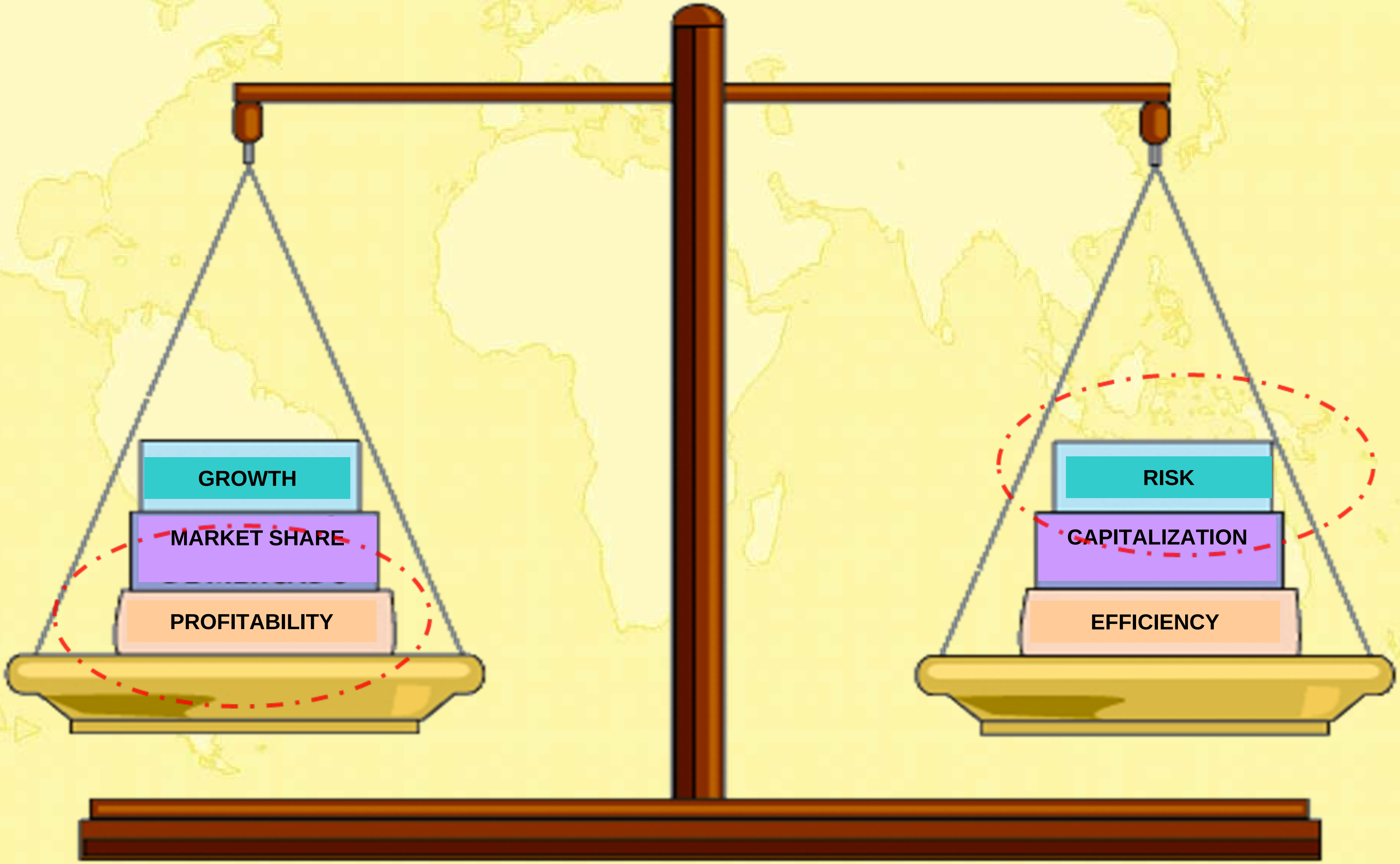
The business had been attractive over the last 5 years:

- Profitable average ROE: Between 8% and 15% a year.
- High credit growth: Over 15% a year.
- Below normal risk: Between 3% and 5%
- **% of MFI that lose money: Between 10% and 20%**

After the crisis (2008 – 2010):

- Profitable ???: average ROE: Between -5% and 10 % a year.
- Credit growth ??: Between -15% and 10 % a year
- Risk Level: Between 7 % and 20 %
- **% of MFI that lose money: Between 20% and 40%**

Creating value requires balancing growth, profitability and risk



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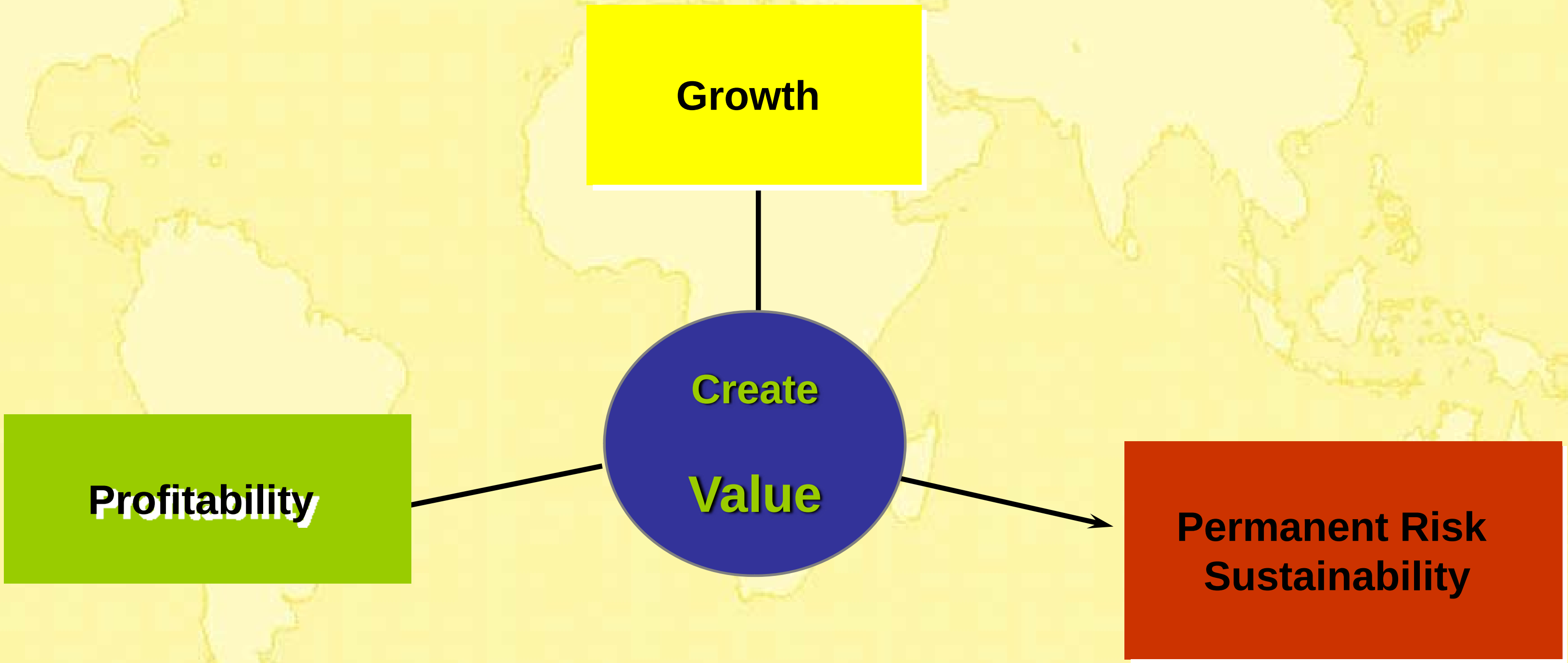


What distinguishes profitable MFI’s from unprofitable MFI’s?

Good strategy design and implementation

Good Risk Management Process…

Context and goals of risk management

Integrating planning with management processes

- EXTERNAL THREATS
- INTERNAL WEAKNESSES

STRATEGIC PLANNING

- OBJECTIVES
- STRATEGIES

RISK MANAGEMENT

- BUSINESS 1
- BUSINESS 2
- BUSINESS N

INCENTIVE SYSTEM

- PLANS
- ACTIONS
- OBJECTIVES

MANAGEMENT CONTROL

- REWARDS FOR MEETING TARGETS

- RESULTS ANALYSIS
- DEVIATIONS

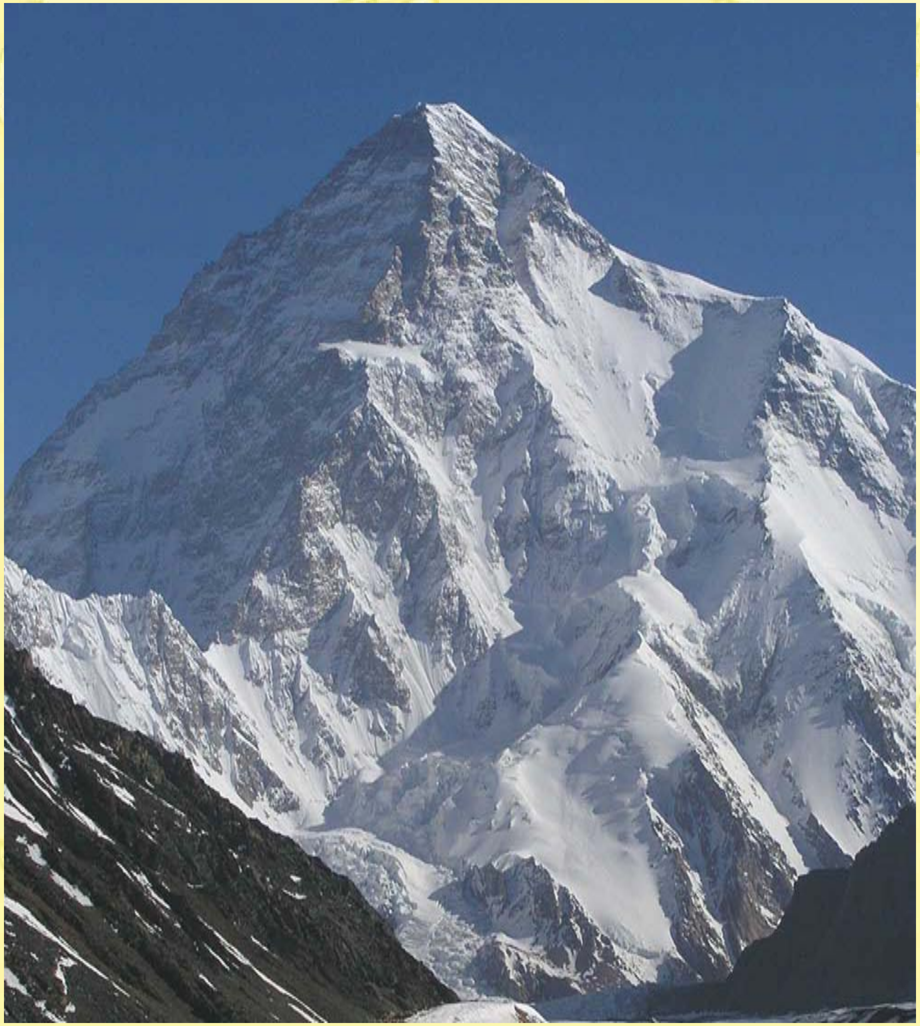
The strategic planning process

S.W.O.T. Analysis

	Strategies	*Risk management*
Internal analysis	**Strengths**	**Weaknesses**
External analysis	**Oportunities**	**Threats**

Strategy determines risk level

EVEREST



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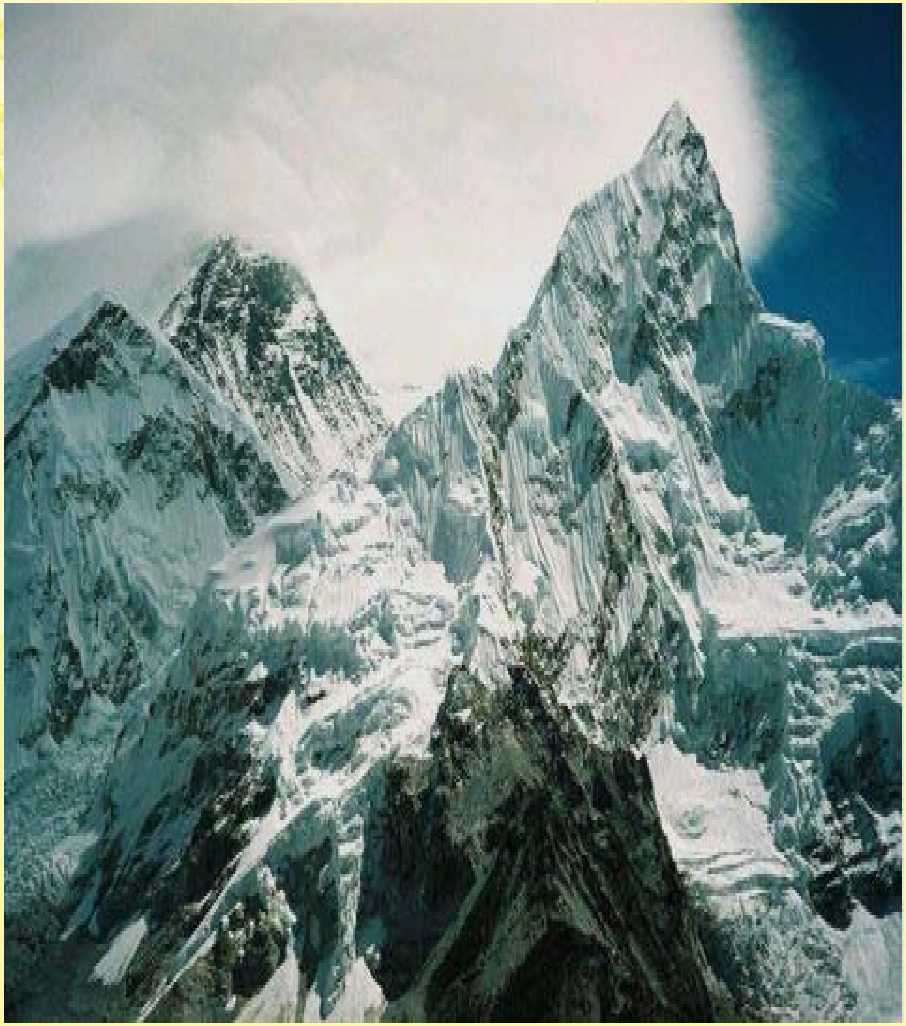


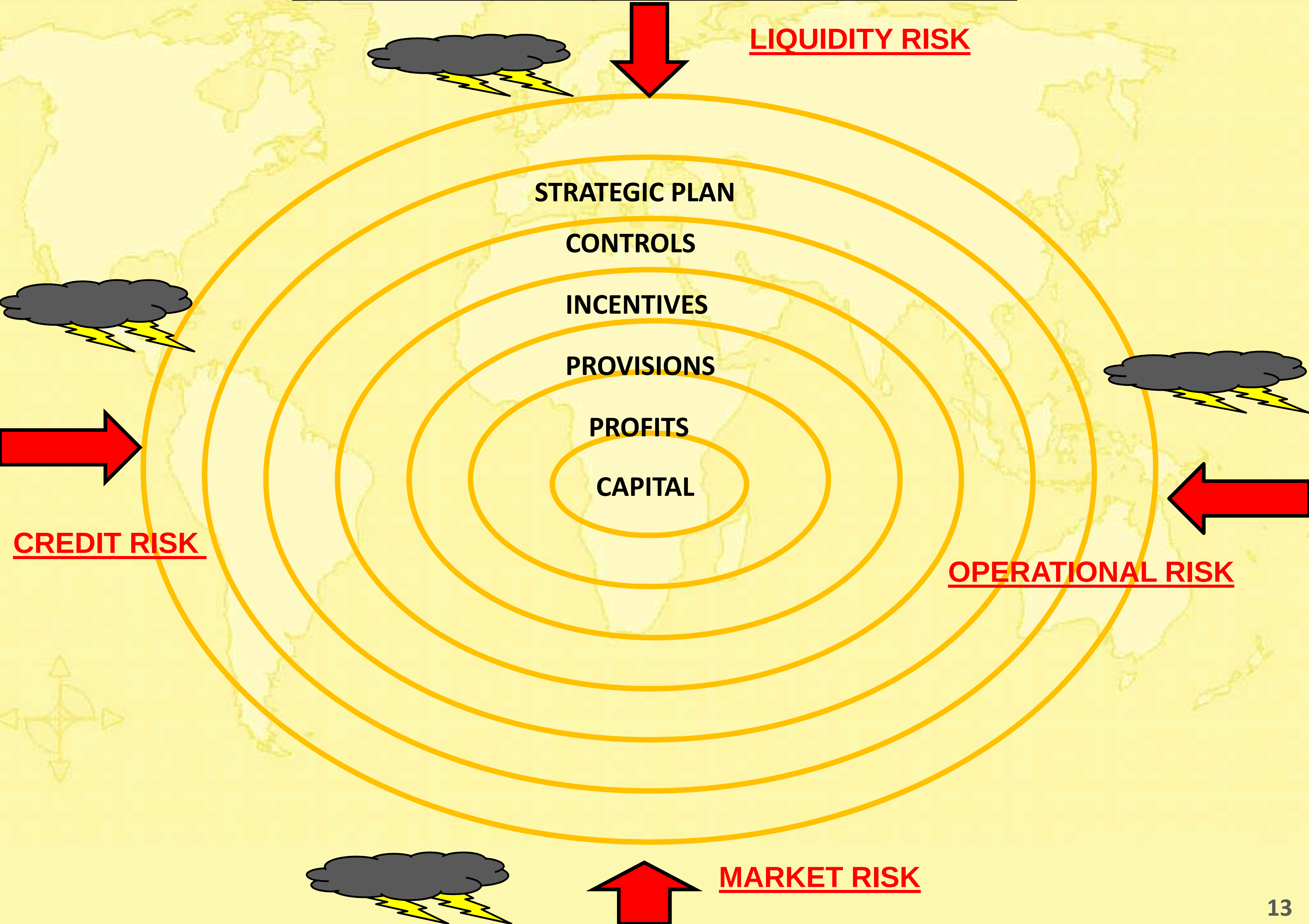
POSSIBLE GOALS AND STRATEGIES

CURRENT SITUATION

NOT IMPROVED SITUATION

IMPROVED SITUATION

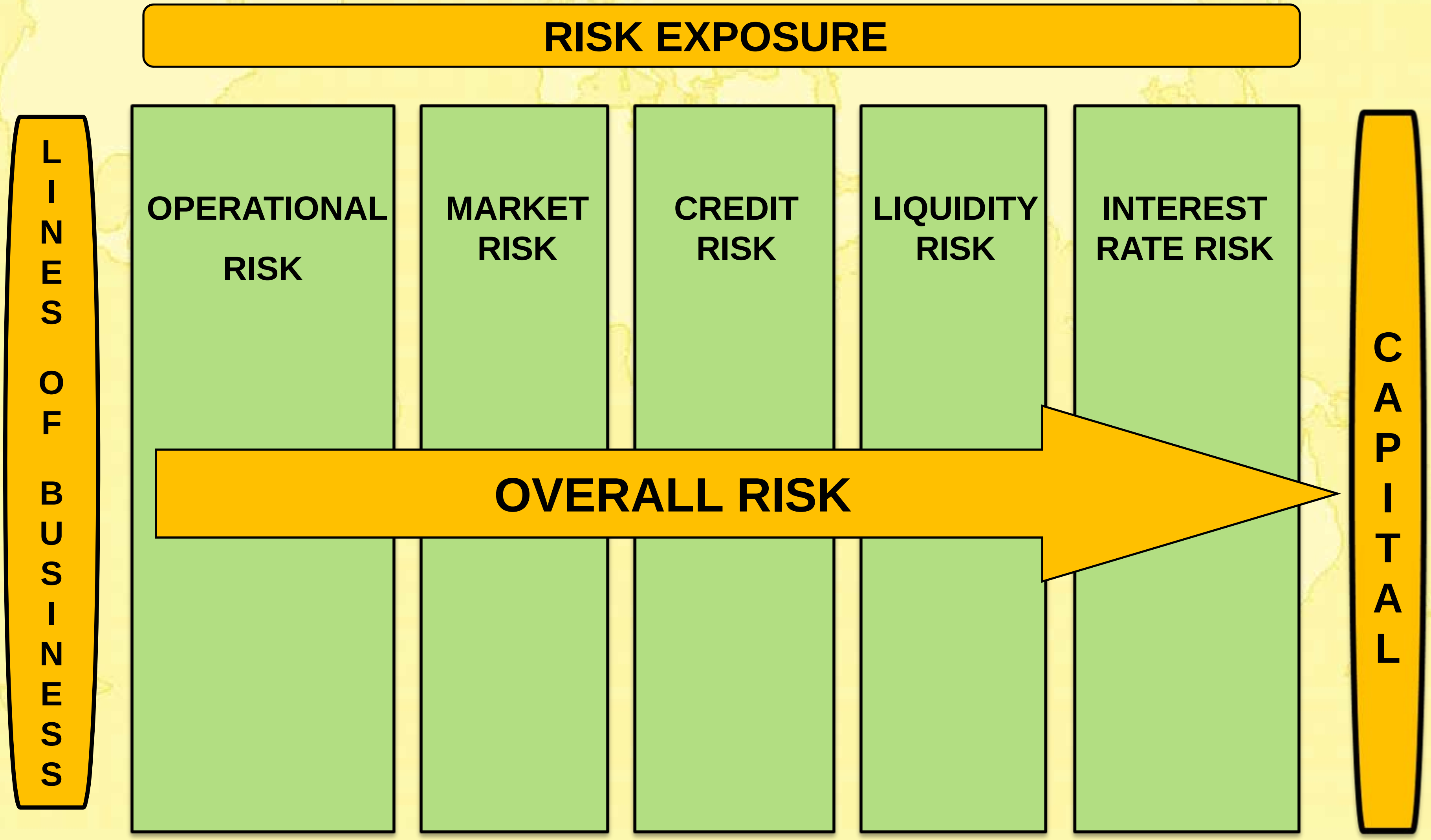
Risk management defense barriers



How to deal with risk consequences?

- Losses:
  - Expected
  - Or Inexpected
- How are those losses absorbed?
  - With provisions.
  - With price margins that include risk.
  - With profits
  - **With capital**

Risk and capital management



Final conclusion… The Bottom Line: Risk level and capital

- "Level or size of capital"
  - Allows one to assume more risk.
  - Allows one to assure survival and solvency of the signature.

- "Less capital, more leverage"
  - Higher receipts and lower risks.
  - Determine needs for an adequacy of capital.
  - Plans for increasing or releasing capital.
  - Strategy for efficient use of capital.