



**Asia-Pacific  
Economic Cooperation**

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**2013/SMEWG36/016**  
Agenda Item: 10.2.1

## **SBC's Risk-Based SME Lending (Financing Best Practice)**

Purpose: Information  
Submitted by: Philippines



**36<sup>th</sup> Small and Medium Enterprises  
Working Group Meeting  
Manila, Philippines  
14-15 March 2013**

**RISK-BASED LENDING MOVEMENT**


## SBC's RISK-BASED SME LENDING Financing Best Practice

Benel P. Laguna  
President and COO


Agenda Item 10.2

36<sup>th</sup> APEC SME Working Group Meeting  
New World Makati Hotel  
March 11, 2013

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## SB Corporation's Commitment to Reengineering The Credit Process Through Modern Credit Risk Analysis Tools



**RISK-BASED LENDING MOVEMENT**

- ◆ Portfolio Approach → Risk reduction through diversification
- ◆ Program Lending → Cluster approach to risk reduction
- ◆ Cash Flow Lending → Search for alternative collateral
- ◆ Credit Scoring Models → Use data on observed borrower characteristics to either calculate probability of default or sort borrower into different risk classes, e.g. BRR

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- Risk measurement is admittedly a new science, an approximation and imperfect...

But,

“It is better to be approximately right than precisely wrong.”

- Acknowledgments—Technical Assistance from ADB, KfW and later on, InWent.

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The 3A Objective:

Credit at Lower Cost

**AFFORDABILITY**

Increase bank reach, geographical distribution


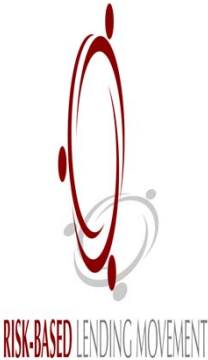
**ACCESSIBILITY**


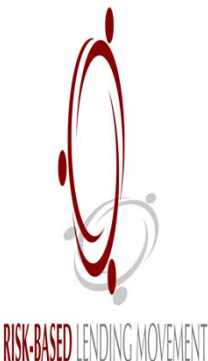
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**AVAILABILITY**

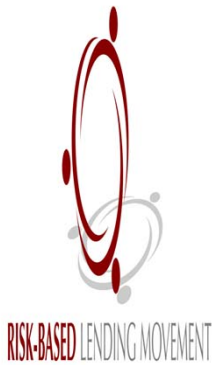
Loans Available at Right Quantity at Right Time

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	<h3>Main Features of SBC's BRR System under its Retail Lending Program</h3>	
	<ul style="list-style-type: none"> <li>◆ SBC's BRR system covers all its direct mSME borrowers, regardless of type of business registration and asset size. <i>(What commercial banks have now is limited to medium-sized corporations.)</i></li> </ul> <p>66% of SBC's BRR-scored retail borrowers are not incorporated and only 32% are medium-scale. Loan size ranges from P200.0 thousand to P5.0 million.</p> <ul style="list-style-type: none"> <li>◆ The BRR scorecard has a passing mark of 55 out of 100 total score. This is equivalent to BRR-5. BRR-1 represents the lowest risk level, while BRR-10 represents bankruptcy.</li> </ul>	<p>30 781 28 728 29 212 26 639 24 391</p> <p>25 249 26 648 27 353 28 310 31 050 31 593 32 458 34 073 32 223 38 226 34 710 27 452</p> <p>32 085 34 287 34 171</p> <p>27 771</p> <p>32 553</p>

	<h3>Main Features of SBC's BRR System under its Retail Lending Program</h3>	
	<ul style="list-style-type: none"> <li>◆ Debt-servicing capacity (DSC) is given the highest weight. It is strictly based on actual earning capacity, and gives no value to projections.</li> </ul> <p>Drawings made by the mSME from the business and all credits, both existing and pending, are made part of the calculation.</p> <ul style="list-style-type: none"> <li>◆ Reliability of financial information is given premium thru SBC's FS-based working capital facility for mature enterprises that have fully-working accounting systems.</li> </ul>	<p>30 781 28 728 29 212 26 639 24 391</p> <p>25 249 26 648 27 353 28 310 31 050 31 593 32 458 34 073 32 223 38 226 34 710 27 452</p> <p>32 085 34 287 34 171</p> <p>27 771</p> <p>32 553</p>

## Main Features of SBC's BRR System under its Retail Lending Program



- ◆ Credit supervision is risk-based. High risk borrowers are visited more often, during which review of the BRR score is made. This serves as a timely basis for credit line suspension or loan work out.
- ◆ Credit investigation inclusive of trade and inventory checking is conducted very often, notwithstanding the presence of collateral.
- ◆ Pricing is a product of both BRR (*borrower risk*) and FRR (*availability of collateral cover and repayment term of loan*).

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## Initial Results of SBC's BRR System under its Retail Lending Program



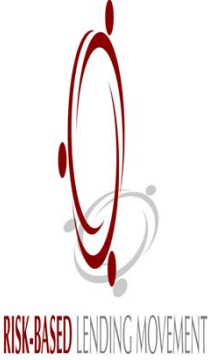
- ◆ From August 2006 to June 2008, SBC has scored 231 mSME borrowers (*unique count*) under its Retail Lending Program (*Credit Guarantee borrowers not included*).
- ◆ The profile of frequency of scoring is as follows:

Scored once (1 year under BRR system)	175 borrowers
Scored at least twice (2 years under BRR system)	56 borrowers

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## Initial Results of SBC's BRR System under its Retail Lending Program




- ◆ Excluding the first 5 months of the BRR experience (for a remaining period of 18 months) loan default incidence has been as follows:

Scored once (1 year under BRR system)	4 out of 146 borrowers (2.74% p.a.)
Scored at least twice (2 years under BRR system)	Zero out of 56 borrowers (0.0% p.a.)

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## Initial Results of SBC's BRR System under its Retail Lending Program



- ◆ For conservatism, SBC's present pricing provides for a relatively high probability of default in consideration of the agency's target market of pre-bankable mSMEs.
- ◆ The resulting PDR of the BRR-scored portfolio is more than adequately covered.
- ◆ During the 4 years prior to the BRR system, PDR under the Retail Lending Program was significantly much higher.

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## Risk-based Lending Consultancy for Rural Banks

Provides 37-day consultancy days for a rural bank or its core team to be coached and handheld on the basics of risk-based SME lending, best banking practices and credit risk management (*highlight of which is an internal risk rating*)

- ◆ Its results will be delivered under five (5) Key Result Areas: Change in mindset, SME Lending Plan, Internal Risk Rating, Organizational structures, and Database development


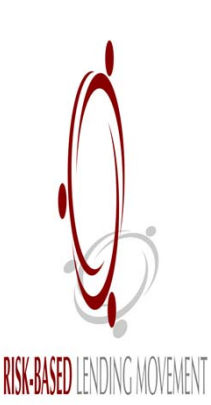
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## Approach to Risk

- ◆ Risk by choice, not by chance
- ◆ Alternative to risk management is crisis management
- ◆ Integrated Approach
- ◆ Increased use of information technology
- ◆ Continuous learning and stress testing

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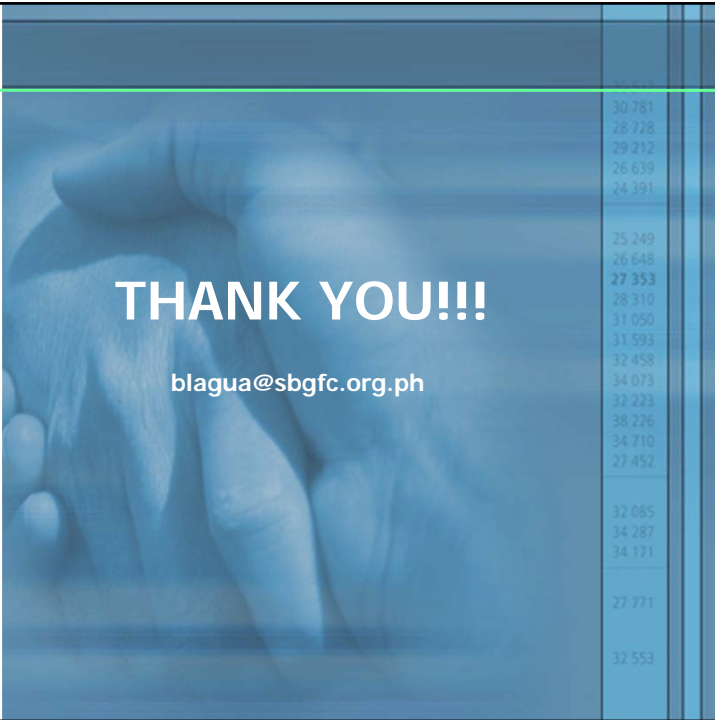
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**RISK-BASED** LENDING MOVEMENT



**THANK YOU!!!**

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