





Introductions

AACU 2015 Forum Panel
Discussion
Nailing the Problem

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"Nailing the Problem" solution: Lending Supervision by the Federation

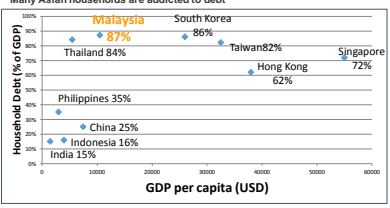
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The Lending Environment: High Debt in Asia

Many Asian households are addicted to debt



Country	Household Debt (% of GDP)	GDP per capita (USD)
Malaysia	87%	~10,000
South Korea	86%	~25,000
Taiwan	82%	~20,000
Singapore	72%	~45,000
Hong Kong	62%	~35,000
Philippines	35%	~10,000
China	25%	~10,000
Indonesia	16%	~10,000
India	15%	~10,000

Source: Central banks, World Bank report

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The Lending Environment: High Debt in Asia

Many Asian households are addicted to debt

- Malaysia, Thailand and Korea's consumer debt levels are very high.
- Resulting in high levels of prescriptive regulation
 - MUE caps
 - LTV caps on home loans
 - Restriction on minimum monthly income for credit card
 - Income tax on property sales
 - Increase in down payment



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The Lending Environment: High Debt in Asia

Many countries have positive bureau data

Country	Credit Bureau
Thailand	Positive bureau
Malaysia	Positive bureau
Singapore	Positive bureau
Hong Kong	Positive bureau
Korea	Positive bureau
Taiwan	Positive bureau
India	Positive bureau
China	Positive bureau
Indonesia	Negative credit bureau

*However:
Unbanked and
underserved customer
groups are not in these
bureaus*




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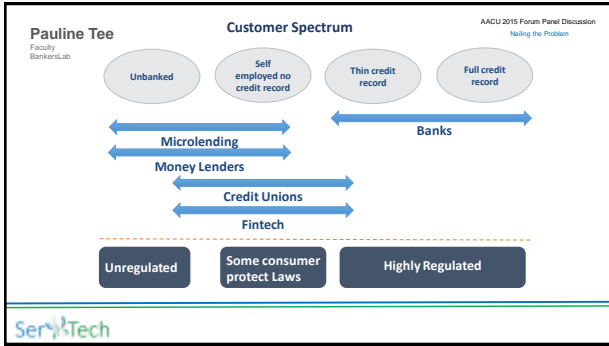
Some Customer Groups: Highly Indebted Some Customer Groups: Underserved

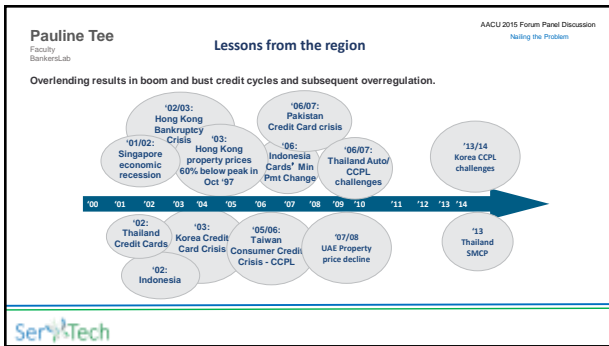
The use of alternative data now on the rise by FinTech, especially for underserved customers



- Informal credit accounts for up to 30% of total outstanding credit in Vietnam
(Source: Central Institute for Economic Management)
- The high ratio of unbanked/non-traditional banking customer profiles can invite aggressive lending on the part of money lenders







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Lessons from the region

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Prescriptive regulations in the traditional banking sector:

- India:** LTV cap (75%) on home loans
- China:** Increase income tax from property sale. Interest rate and down payment increased for second home
- Indonesia:** LTV cap (70%), regulations on credit card on minimum income, exposure, and number of issuers

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The way forward

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Industry self-monitoring can ensure best practices, safe and sustainable lending and prevent future over-regulations.



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Introduction

Federation Structure:

- National Federation (CUCO-Indonesia)
- Chapter at Province Level
- Primary Credit Unions

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Supervision

Chapter by National Federation (CUCO-Indonesia):

- By request from board of the chapters (if any)
- On-site supervision to find real problems faced by the chapter. Very often is about liquidity crisis, governance crisis, and delinquency crisis.

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Supervision

Primary Credit Unions by Chapter:

- Off-site supervision (every month)
 - Accuracy of financial statement
 - Gap between Planning/Budgeting and the execution
- PEARLS ratio analysis: P1, P2, E1, E5, E5, E9, A1, A2, A3, R1, R2, R3, R5, R7, R9, L1, L3, S10, & S11
- On-site supervision
 - Mid-term evaluation
 - Audit from Chapter auditor




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Federated Network at CUCO-Indonesia


5 Mandatory:

1. DAPERMA (Saving & Credit Insurance)
2. Education
3. Audit
4. Iuran Solidaritas (Dues)
5. SPN (Interlending)



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CREDIT MANAGEMENT CARCINOGENS

WHAT AND HOW TO TREAT & PREVENT:

8/10/2015 to 8/14/2015

NATCCO - Consultancy Unit

CREDIT MANAGEMENT CONSULTING



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Objectives:

- To understand how the coop is affected by these carcinogens
- To suggest practical remedies that would help the cooperative eliminate these carcinogens
- To prescribe medicines that would sustain and maintain better loan portfolio health



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CARCINOGENS

- Cancer-causing substance, organism or agent

CANCER



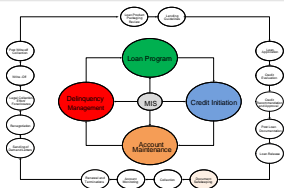
- is not just one disease, but a large group of almost 100 diseases; its two main characteristics are uncontrolled growth of the cells in the human body and the ability of these cells to migrate from the original site and spread to distant sites. If the spread is not controlled, cancer can result in death.



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The Credit Cycle



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Top 10 PARcinogens

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Top 10: Loan Portfolio Health Monitoring

Root Cause

- Manual Account Ledgers and Aging of Receivable Generation
- Reporting is only on a as per need basis, not by monthly schedule
- System is not capable of extracting daily collection schedule
- Not all collections for the day are visited
- Only the convenient accounts are being visited

Initial Remedy	Strategic Remedy
<ul style="list-style-type: none"> Upon payment, update Account Ledger and Aging Have an LPAT (available to consultancy coop partners) A week before, review amortization schedule and plot it into table form with: <ul style="list-style-type: none"> Name Amount of collection Signature of borrower 	<ul style="list-style-type: none"> Have a good IT system Conduct reporting of receivable every month Discuss and find solution on the top 20% delinquent accounts Have a good IT system capable of extracting amortization schedule into daily collection schedule Enforce collection reporting particularly on new delinquent borrowers

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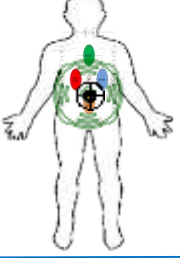
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Top 6: Value & Condition Collateral Being Accepted is Questionable

Root Cause

- No appraisal, just accepting the collateral
- Sometimes on sight of asset
- Sometimes property was already encumbered
- Limitation in liquidating the asset

Initial Remedy	Strategic Remedy
<ul style="list-style-type: none"> Enroll and acquire tools in training of appraisal Apply what was given in the training 	<ul style="list-style-type: none"> Have a specialized person to deal with Appraisal of collateral Have a policy on these (acceptable collateral, how to identify the value, Loan to value EXPOSURE)



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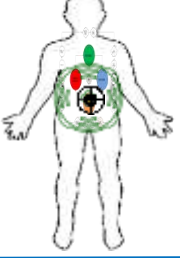
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Top 5: Share Capital Leveraging

Root Cause

- Loan Amount = times "x" of share capital (sometimes 2.345.6.7.8.9.10 or even more)
- Result = Rampant disengagement resulting to high membership turnover and eventually decreases membership in area of operation

Initial Remedy	Strategic Remedy
<ul style="list-style-type: none"> No Initial Remedy... Adopt Capacity Based Lending 	<ul style="list-style-type: none"> CAPACITY BASED LENDING--- Gather Cashflow to determine if the MB could really pay



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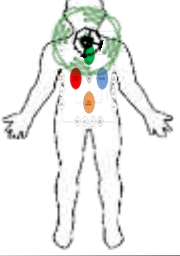
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Top 4: Restructured Accounts are still contributory to PAR

Root Cause

- "If card collect, RESTRUCTURE" remedy
- Several restructuring in single borrower
- Weak Policy in Restructuring

Initial Remedy	Strategic Remedy
<ul style="list-style-type: none"> Bargain initial payment Establish a stricter compromise agreement in restructuring Meet halfway in the new repayment plan Higher level of monitoring activity 	<ul style="list-style-type: none"> Review and construct a stricter borrower qualifier in restructuring How the account audited and learn from it Include in the policy that restructuring is only once



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Place the best people you have in critical functions and specialize

Take a dose of comprehensive but simple to understand policy and procedures

Invest in good IT system, manpower and guidance from the experts

Review the forms and tools used in the process

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coop Philippines

Adopt the CBL Program and have a regular check-up

9/3-9/9/2015

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CBL Principles

The cooperative shall deliver effective and sustainable financial services to its members with the end in view of developing the socio-economic condition of the community at large. To ensure this, the cooperative shall subscribe to the following guiding principles:

- The security of the cooperative is more important than the justified credit needs of any individual member.
- To answer the needs of a borrower-member, the cooperative needs to evaluate the risk involved in lending and identify the limit that the cooperative is willing to assume.
- Loans are granted to members based on capability of repayment and to members of good standing only. Each loan necessitates a thorough credit evaluation.
- The protection of savings deposits and share capital of all members and the credibility of the cooperative are more important than the increase in the volume of transactions and operations, and/or growth of assets.
- A loan to members is a privilege rather than a right inherent to membership.
- The cooperative has to prove its financial security and ensure balance between risk, diversification and profitability.
- In order to limit the risk of lending and to diversify the loan portfolio, the cooperative has to limit loans to members who are within the geographic area stated in the by-laws.
- The loan portfolio is limited by type of loan.

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With **PARomogens**

Under **CBL** Program

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We listen to serve you better!

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Governance and the Role of the Federation

Issues:

- Federations do not have a supervisory role
- Multiple financial backstops diminishes Federation's role in ability to competitively serve liquidity needs, which in turn compromises the Asian CU model




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- Guiding Principles – Improving Lives
- Observations: Delinquency, Reputational Risk, CU Sustainability, Inefficiencies
- Governance within the CU
 - Board Commitment and Direction
 - Leadership Execution and Compliance
 - Frontline Representatives Policies
 - Formalized Internal Documentation
 - Consistent Business Practices
 - Operate profitably, manage risk, and create sustainability to support mission



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- Governance within the Network
 - Self-regulation requires collaboration and specialized expertise
 - Potential for inefficient and vulnerable model without a high level of integration
- Federation's Governance
 - Collaboration and definition of lending standards
 - Network engaged in discussion
 - Broader brand management and recognition
 - Resources at Network / Credit Union level are redirected to service and member engagement
- Pro-active collaboration vs reactive response to market conditions




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Best Practices

- Board Dynamics and Lending Guidelines within Federation standards
- CU*Answers Network Model - efficiencies and scale w/small credit unions
- Shared Branching Networks – compliance support through a systematic, consistent business practice.
- Credit Union Direct Lending – product development, sales tools, drives lending growth, compliant, multi-tiered lending programs, efficiency.



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Q & A



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