

Branch Performance Scorecard for a Large Micro-lending Bank

• Situation & Challenges

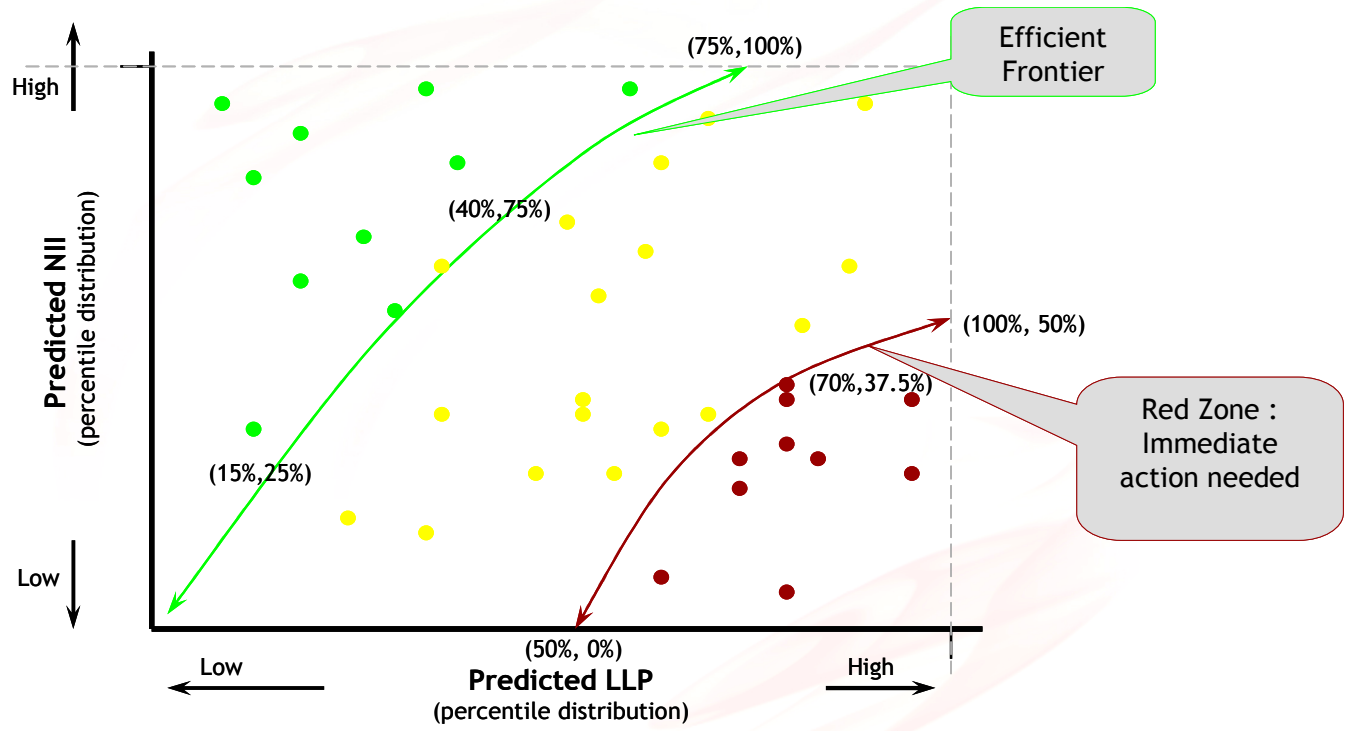
Our client, a leading regional bank, was experiencing extraordinary growth mainly fueled by their pioneering foray into the Micro-finance segment. This rapid growth was attributed to the decentralized nature of its business which ensured loan approval within 2 days of application! The incentive system was aimed at rewarding profitability at the branch level and it was believed that it would also help in keeping a tight lease on the Net Credit Loss (NCL). Though, this business model proved to be a cash cow for the bank, the unprecedented power it gave to its far-flung branches also meant that a blow was always round the corner. Sales officers, guided by short term gains started pushing the profitability envelope by driving massive growth in revenues while giving a blind eye to impending credit losses. They took full toll of a reactive incentive system which had no way to estimate and penalize for future credit losses that may arise from booking obligors who may go “bad” in future. Result was an ever spiraling NPL.

RedPill was engaged to provide a comprehensive solution which could help the central business team to exercise the much needed control on the branches thereby helping the bank to grow in the “right” manner

• Our Approach

In our internal white-board meetings we decided to provide a proactive solution which would give enough lead time to the client to react to any impending crisis identified at a particular branch. Since there was still a large untapped market to be had, the idea was to educate branches on how they can attain an optimal risk-return tradeoff given the current state of their portfolio. We built predictive models for Loan Loss Provisioning (LLP) amount that each of the branch would have to keep aside. A Markov transition matrix was built to estimate future account flows between different delinquency buckets.

We then mapped LLP with revenue (NII) on a risk-return chart (refer chart below). This helped client in identifying branches who were doing OK then but could go “Red” in next couple of months. Based on the exact location of the branch on this chart it was also easy to identify the the most efficient & the fastest way to prevent these branches from going in to “Red”



• **Result**

This tool is now being used every month and is helping client proactively initiate action against 10-15% of branches who are in danger of going “Red” in future