Financial Inclusion

Financial Institutions' portfolio quality, growth and financial performance after COVID-19

2018-2022

March 2024

Disclaimer

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Database

MFR

Database

ATLAS
Benchmarking across Borders

Source: ATLAS www.atlasdata.org

Dataset: up to 571 Financial Institutions (FIs) with data available as of 2022 (1,657 in 2019, 1,626 in 2020, 1,375 in 2021), including different charter types (Banks; Cooperatives; Non-Bank Financial Institutions; NGOs), broken down by:

- Region: Europe and Central Asia (ECA); Latin America and Caribbean (LAC); South and Southeast Asia (SSEA); Sub-Saharan Africa (SSA)
- Size (total assets, USD): Small<10M; Medium 10-100M; Large>100M
- Solvency risk vulnerability: if equity to assets < 12%, 15% and 18% (for large, medium and small FSPs respectively)

The analysis includes median, first quartile (Q1) and third quartile (Q3). Q1 and Q3 are referred to as **best quartile** and **worst quartile** depending on the nature of the indicator, e.g. best quartile for ROA is Q3, because higher levels of ROA are better, and best quartile for PAR30 in Q1, because lower levels of PAR30 are better.

Analyzing data by quartiles involves splitting the data set into four equal parts via three dividing lines (Q1, Q 2 and Q3). Q1, the first quartile represents the 25th percentile, in other words 25% of the data falls below this value. Q2 or the median value is where 50% of the data points fall below it and 50% above. Q3 is the 75th percentile – ie 75% of the data falls below this value. This type of analysis provides very helpful insights into the nature of the data set – the median (Q2) shows the typical value and can be useful when the data set is skewed. The difference between Q1 and Q3 shows how spread out the data set is and looking at points that fall far below Q1 or above Q3 can help identify outliers that warrant further investigation.

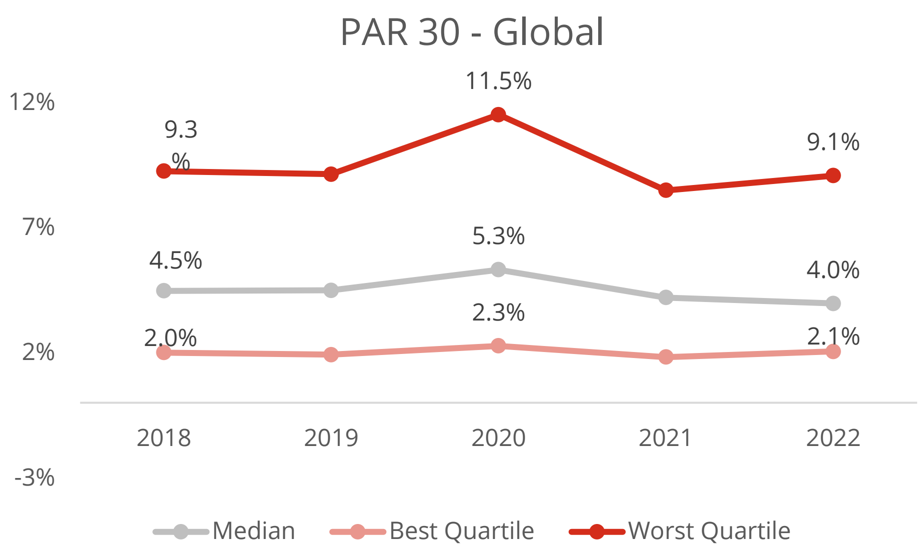
02

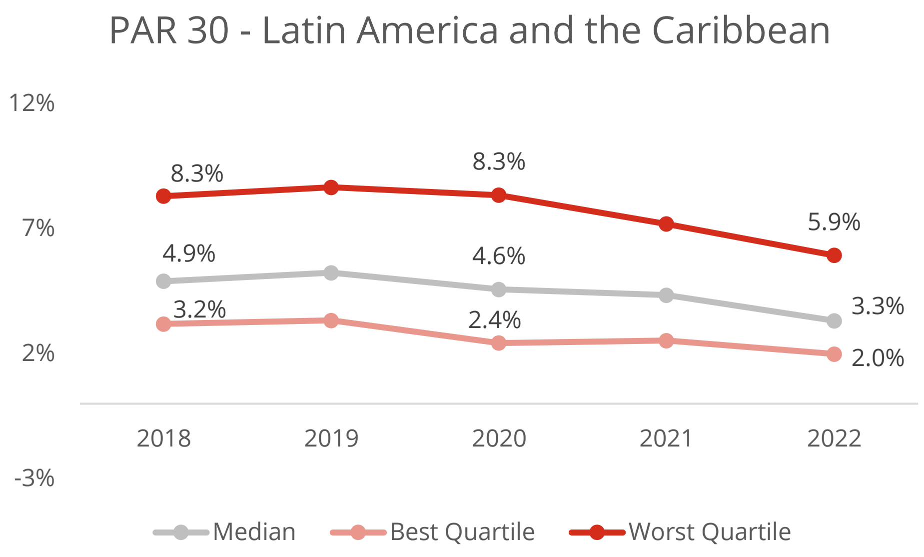
Portfolio Quality

PAR30

PAR30 showed overall **stability** in 2022 compared to 2021 for the **majority** of FIs **globally**, with early data suggesting a slight improvement in 2022. However, the segment of **FIs with higher PAR30** (worst quartile, Q3) displayed an **increase** in PAR30 **in 2022** after the significant improvement in 2021, indicating higher volatility of credit risk. Conversely, the segment of **FIs with lower PAR30** (best quartile, Q1) have **consistently performed well**, with PAR30 standing at 2,1% in 2022 (marginally higher than pre-COVID levels).

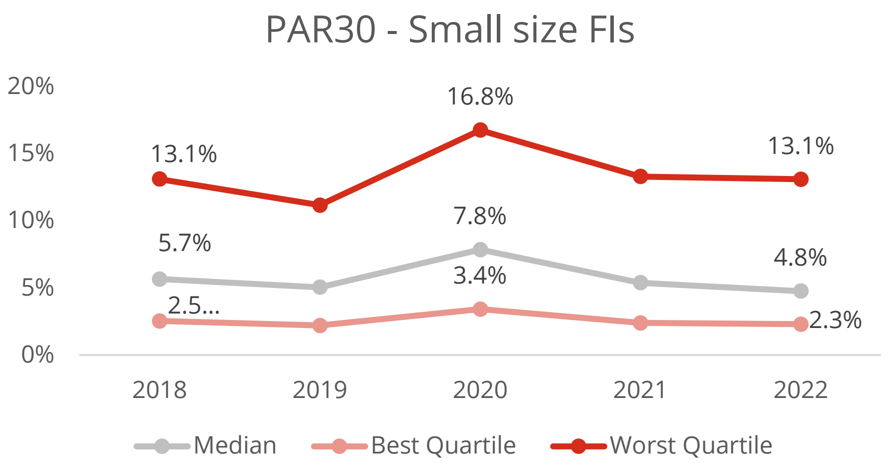
PAR30 showed a positive trend in in **Latin America and the Caribbean** (LAC), **declining** in **2022** compared to the overall stability at global level. PAR 30 did not increase in LAC in 2020 due to particularly significant restructuring of portfolios in this region, encouraged by regulators and enabled by operation FIs capacity. Please refer to Restructured portfolio ratio analysis in the following slides.

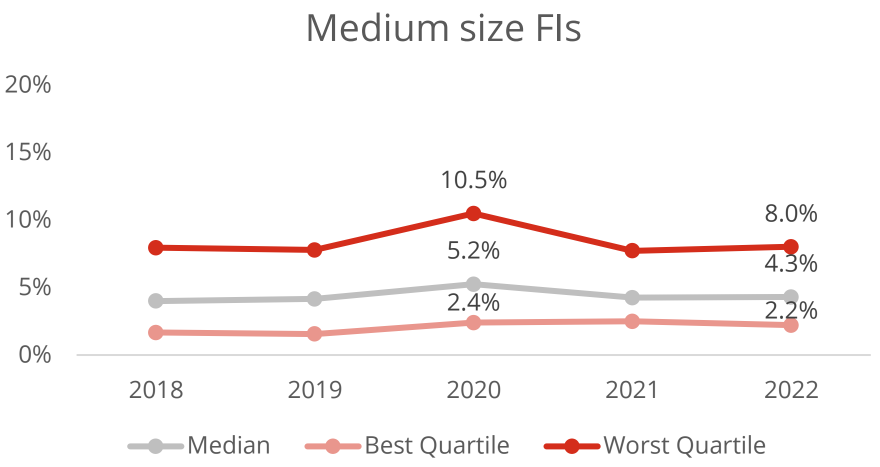




PAR30

Small size FIs presented **higher** levels of **PAR30** compared to medium and large FIs, in all periods of analysis, with an especially elevated level of PAR30 for the worst quartile (Q3) of **13,1%**. In 2022, the worst quartile PAR30 is 2,7 times higher than the median in small size FIs (largest distance observed), indicating that within this segment there are **large differences** in performance between FIs with typical credit risk level (median) and FIs with elevated credit risk levels (worst quartile, Q3).

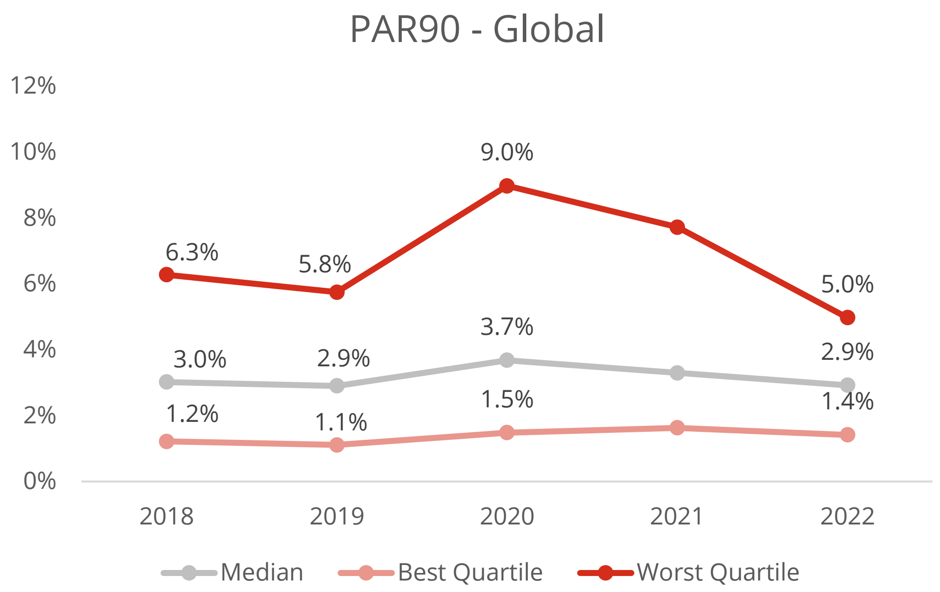


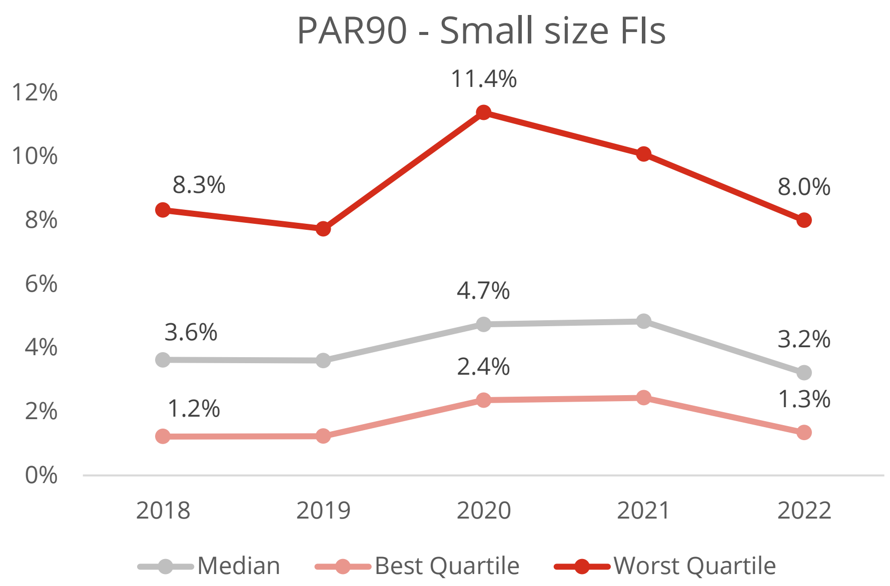


PAR90

PAR90 rose substantially due to COVID, but **returned to pre-pandemic levels** in 2022 for all segments (median, best and worst quartile). The median PAR90 displayed overall **stability** or **slight decline globally**, standing at **2,9%** in **2022**.

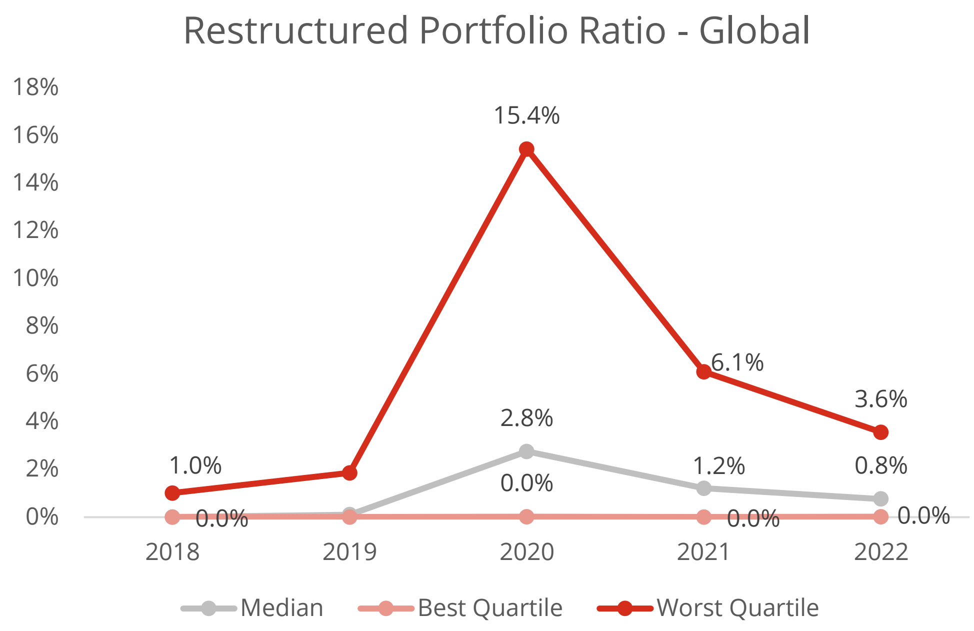
PAR90 confirms PAR30 result in indicating that small size FIs have consistently displayed **significantly higher credit risk** than medium and large size FIs, over all periods.





Restructured Portfolio Ratio

After unprecedented levels in 2020, the **restructured portfolio ratio** showed **significant decrease** in 2021 and continued reabsorption in 2022, displaying overall success in being a **temporary measure** to **mitigate risks** in times of crisis. The decline in the Restructured portfolio ratio is higher in magnitude than the Write-off ratio (see next slide), indicating that the reabsorption of the Restructured portfolio happened with both Write-offs and client repayments.

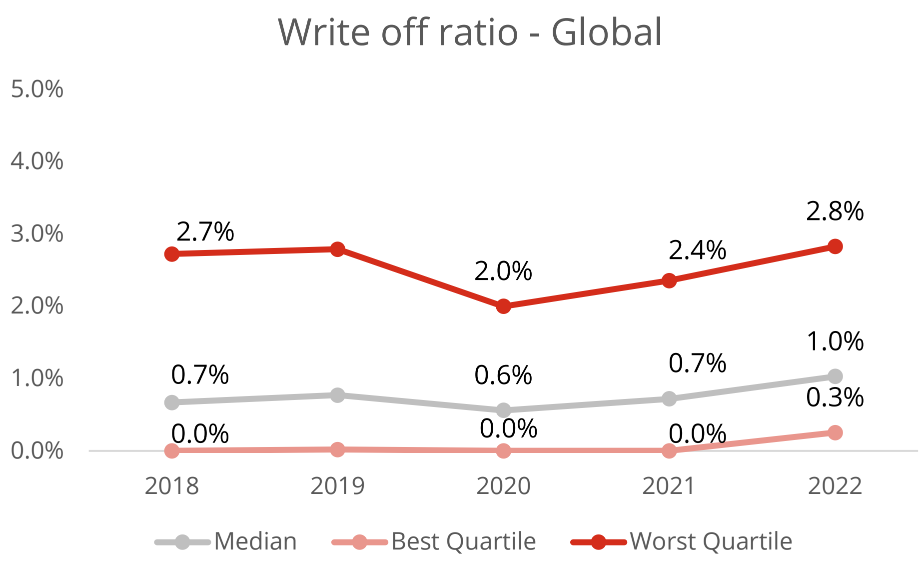


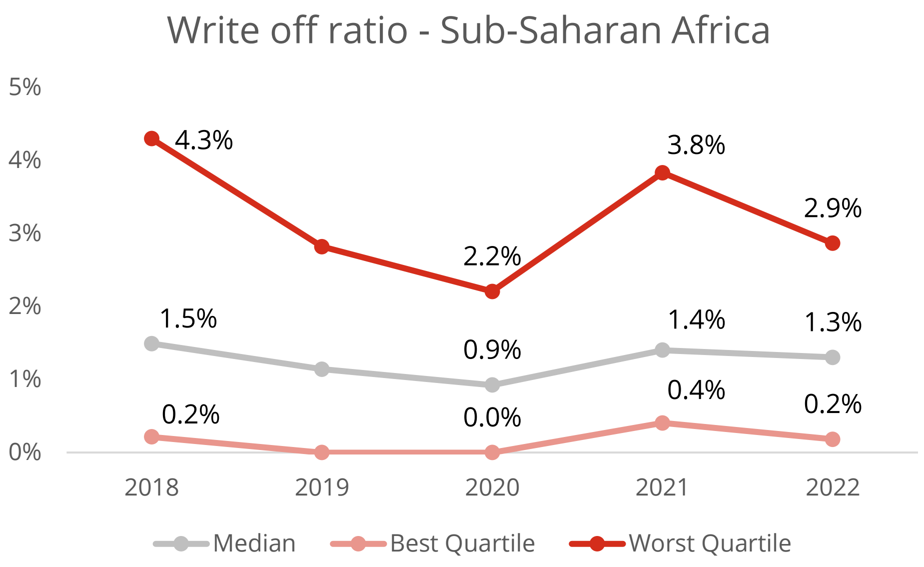
Solvency risk in financial inclusion

Write-off Ratio

The accounting practice of **writing-off** loans in default appears to have been **put on hold in 2020**, also thanks to regulatory tolerance in times of crisis, with similar or lower levels than 2019. Partly as a result, the write-off ratio increased in 2021 and 2022: a strategy to spread over time the cost of the credit risk generated by the pandemic. The write-off ratio shows overall stability from 2021 to 2022, except for the **significant increase** in the **worst quartile**, indicating a subset of FIs with significantly higher and growing levels of defaults being removed from loan books.

The **worst quartile** (Q3) of **write-off ratio** displayed **high** values in 2021 in **Sub-Saharan Africa** (SSA), higher than the global level, but showed an **improvement** in **2022** in SSA compared to the worst quartile globally, which showed an increasing trend.

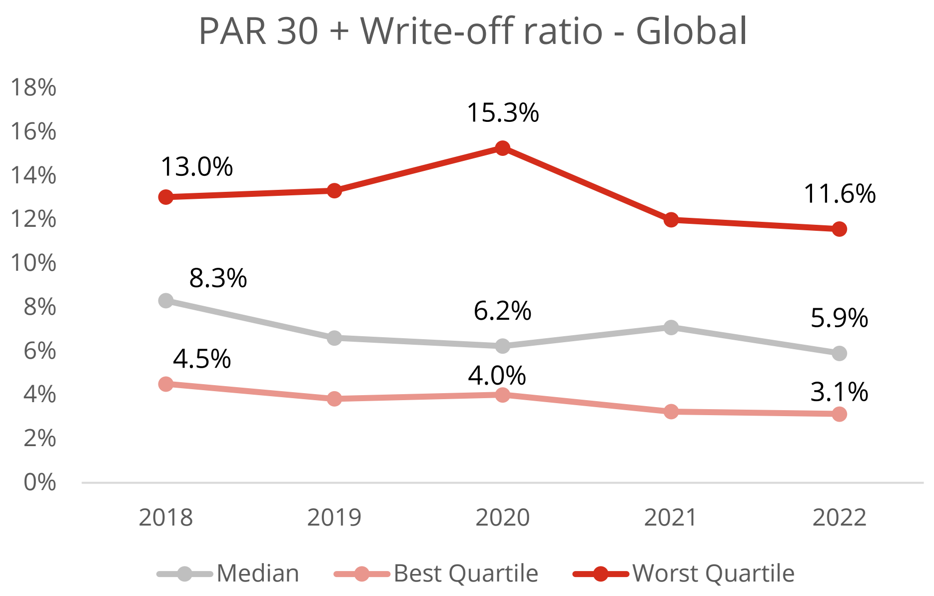




Solvency risk in financial inclusion

PAR30 + Write-off ratio

In spite of the increase in credit risk, the combined **PAR30 + write off ratio** increased in 2020 only for the worst quartile (Q3), and not for the median and best quartile (Q1), thanks to the large portfolio restructuring. After an increase in 2021, the combined ratio **decreased** in **2022** for the **median**, mainly due to the decrease in **PAR30**, having stronger effect over the stability or slight increase in the write off ratio. PAR30 was the largest component in the PAR 30 + Write-off ratio across all periods. However, the weight of the Write-off component in the combined PAR 30 + Write-off ratio increased in 2022, due to the increase in the Write-off ratio (see previous slide)



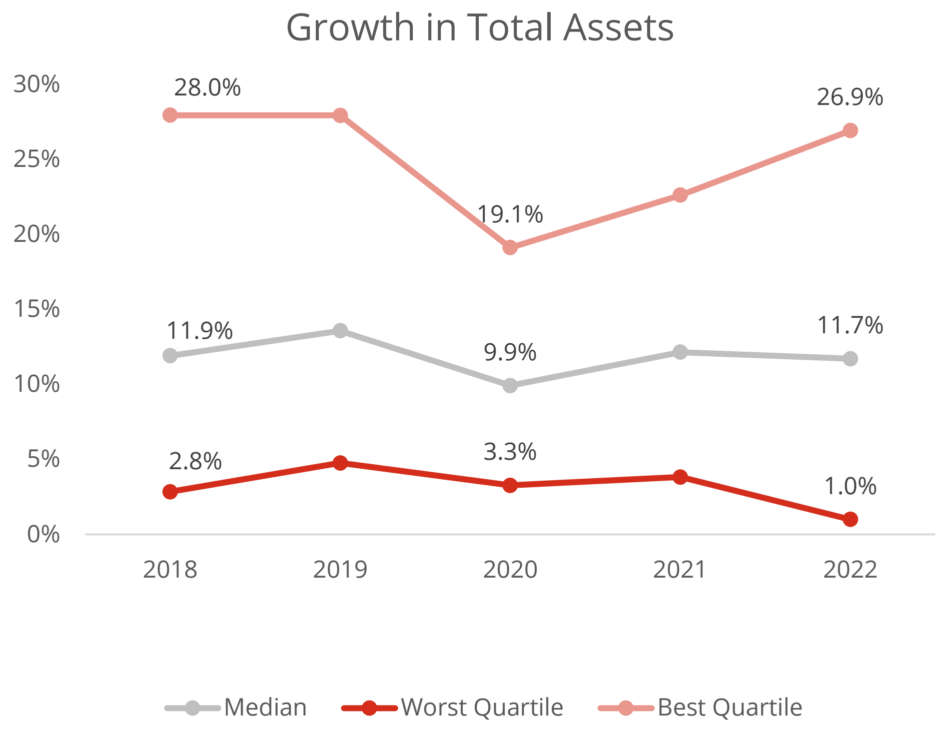
Solvency risk in financial inclusion

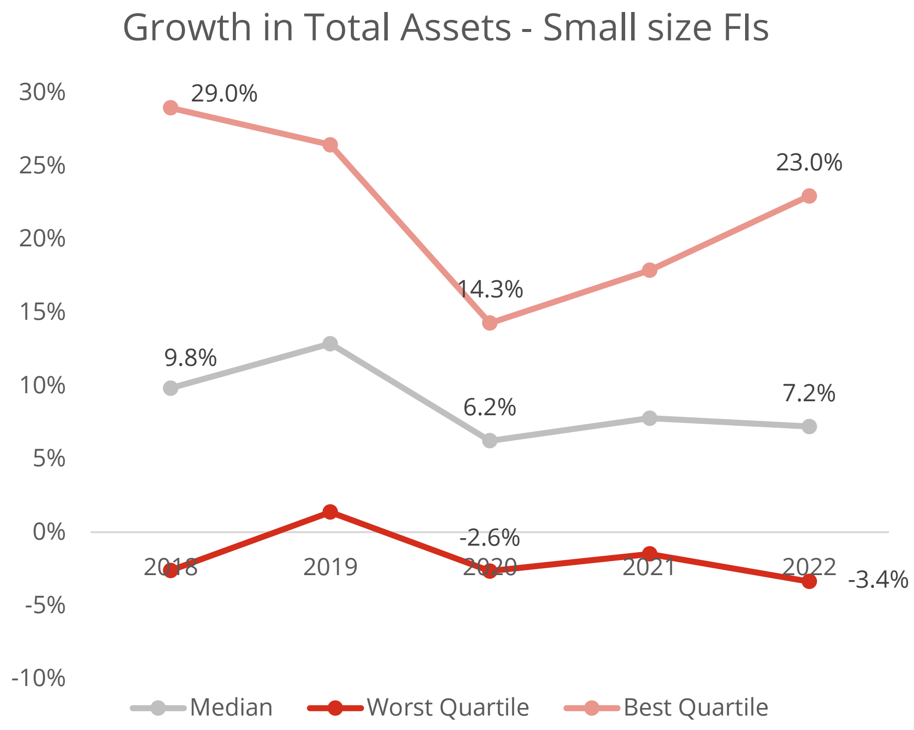
03

Growth

Growth in total assets

The majority of FIs displayed **positive** and **increasing growth** in 2021 and 2022, with a median of 11,9% and a best quartile (Q3) of 27.5%. However, the slowest growth segment of FIs (worst quartile, Q1) continued slowing down growth since 2020, displaying 1% Growth In Total Assets in 2022. The **lowest growth** segment (worst quartile, Q1) of **small size FIs** was **negative** in almost all periods, with a slight decreasing trend in 2022.





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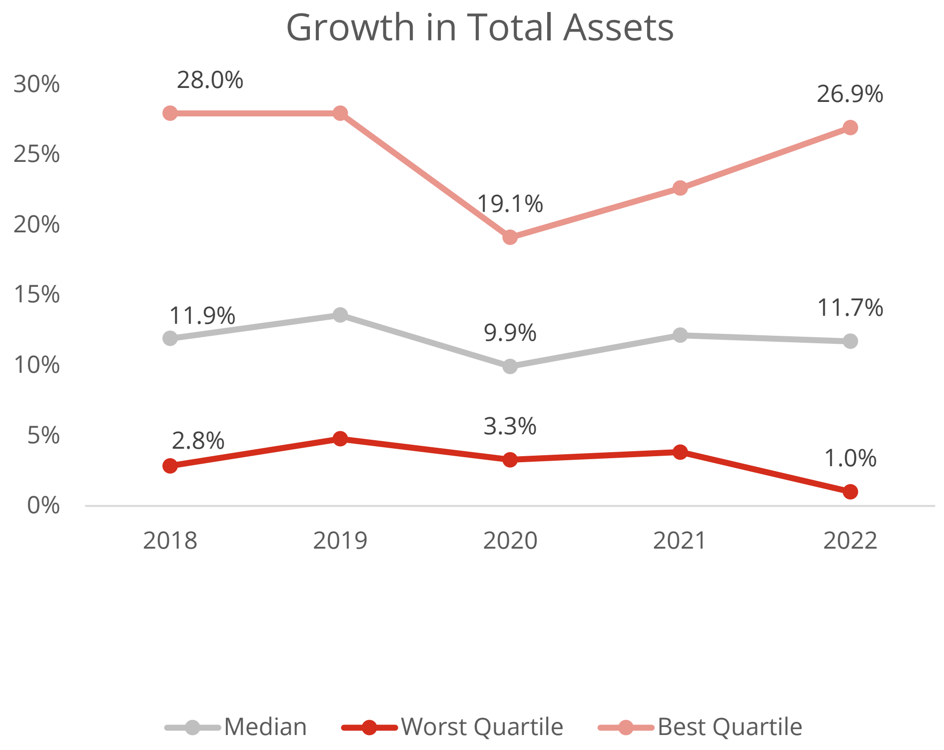
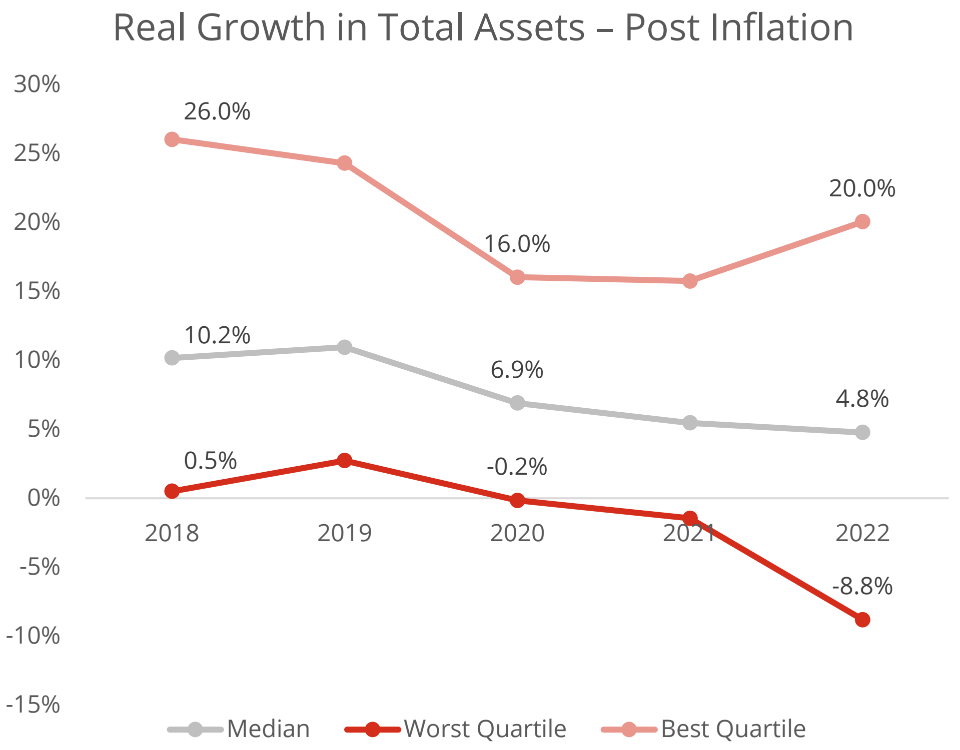
Growth in total assets

Nominal and Real (adjusted for inflation)

The analysis of **Real growth in total assets** (deducting **inflation** from the growth rate) revealed that the difference between Real growth and Growth in total assets was **larger** in **2021** and **2022** compared to previous years, with **11,9%** median **nominal Growth** and **4,8%** median **real growth** in 2022. Adjusting for inflation also revealed **negative Real growth** in total assets in the **worst quartile** in 2021 and 2022, down to **-8,8%** in 2022.



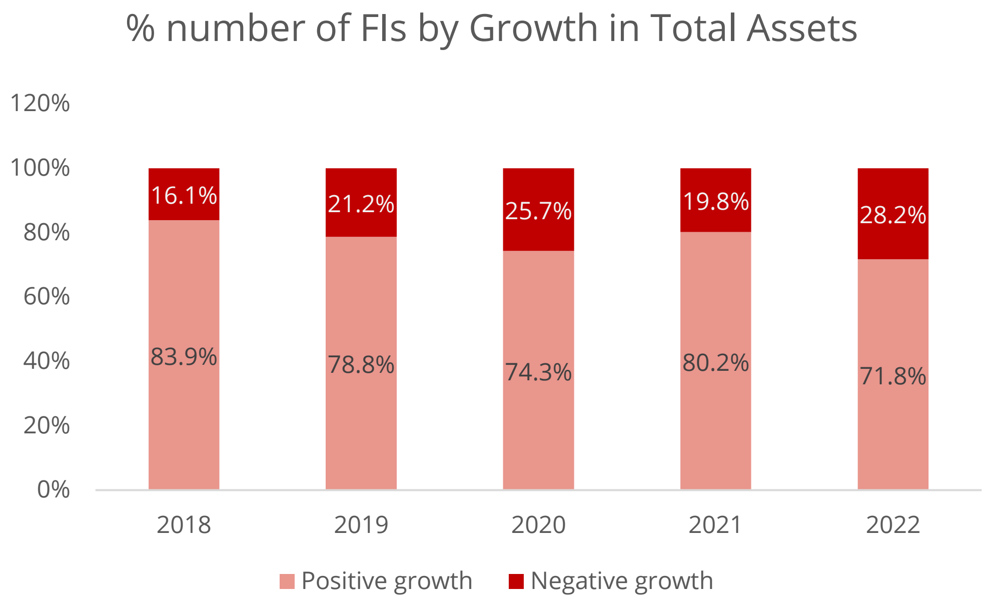


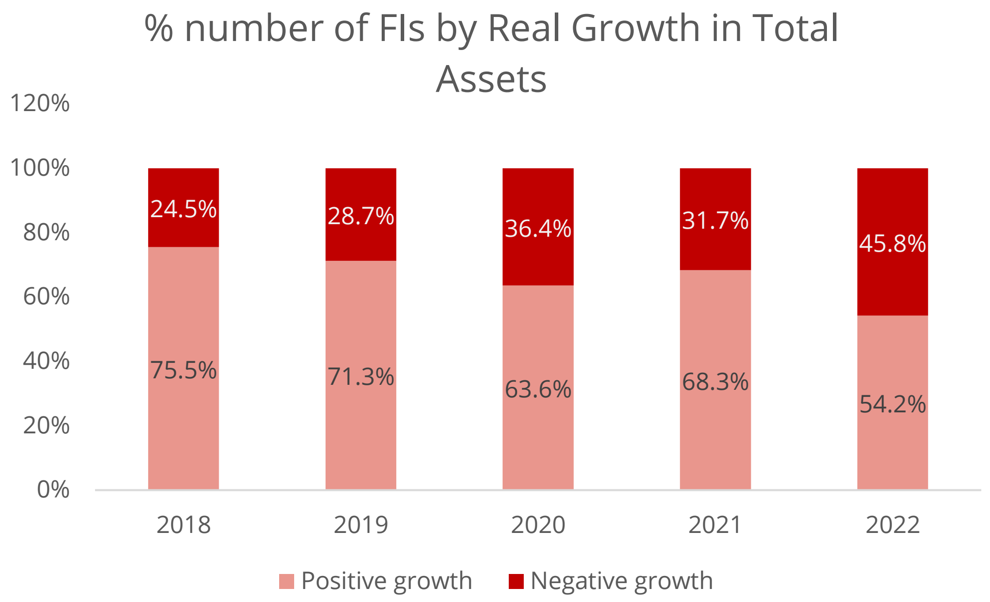
Solvency risk in financial inclusion

Growth in total assets

% Number of FIs by positive and negative growth

The share of **FIs** with **negative Growth** in Total assets was significantly **higher in 2022** (28,2%) than in 2021 (19,8%). The share of FIs with negative growth was even higher **after adjusting for inflation** (Real growth), with **45,8%** of FIs **decreasing their assets base in real terms in 2022**, the highest rate observed in the period 2018-2022. Of the FIs with negative real growth, some displayed only slightly negative rates, while others had more significant negative growth rates, as illustrated by the worst quartile (Q1) of 8,8% Real Growth rate in 2022 (see previous slide). The difference between the shares of FIs with negative growth in Real and Nominative terms was increasing since 2021, due to the higher inflation in 2021 and 2022.





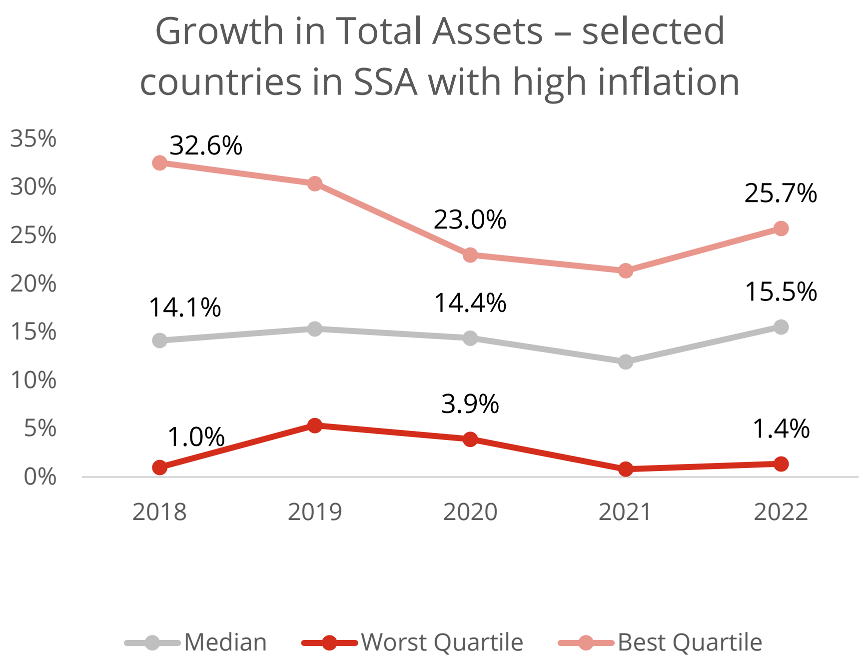
Growth in total assets

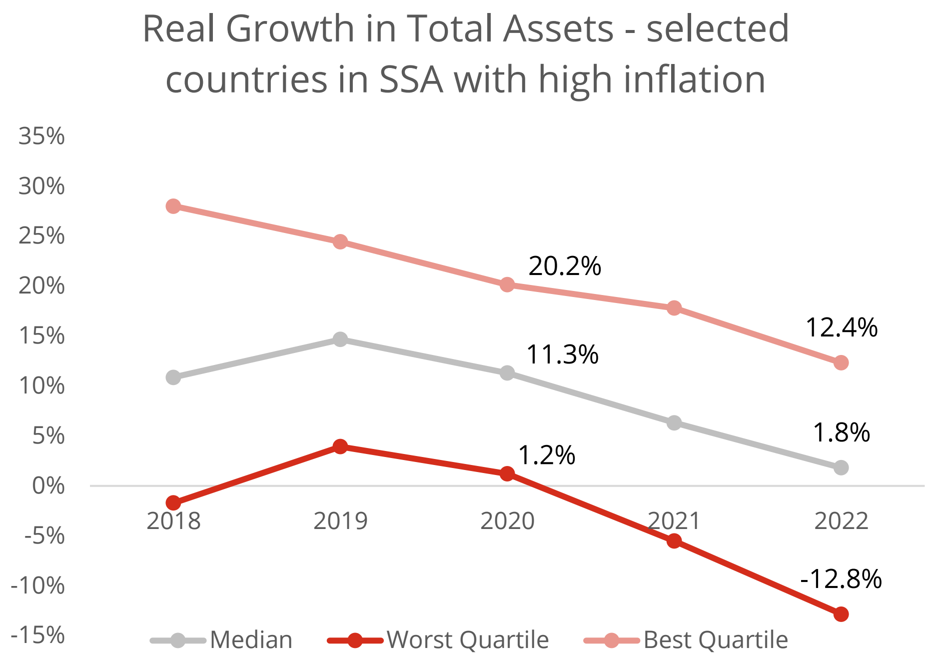
Selected countries in Sub-Saharan Africa with high inflation

The median Growth in Total assets (15,5%) in **10 countries in Sub-Saharan Africa (SSA) with high inflation** was similar to median Growth in Total assets in SSA (14.6%). High inflation in 10 African markets has eroded real growth in assets across all segments. The **median** FI has managed to maintain positive real growth (**1,8%** in **2022**), but the **weakest quartile** saw its **portfolio shrink** by **1/8** in **real** terms in **2022** alone.

10 countries of SSA selected: Burkina Faso, Ghana, Kenya, Madagascar, Mozambique, Nigeria, Rwanda, Sierra Leone, Togo, Uganda.

Average inflation rate in 2022 in the 10 selected countries: 15.1%





Solvency risk in financial inclusion

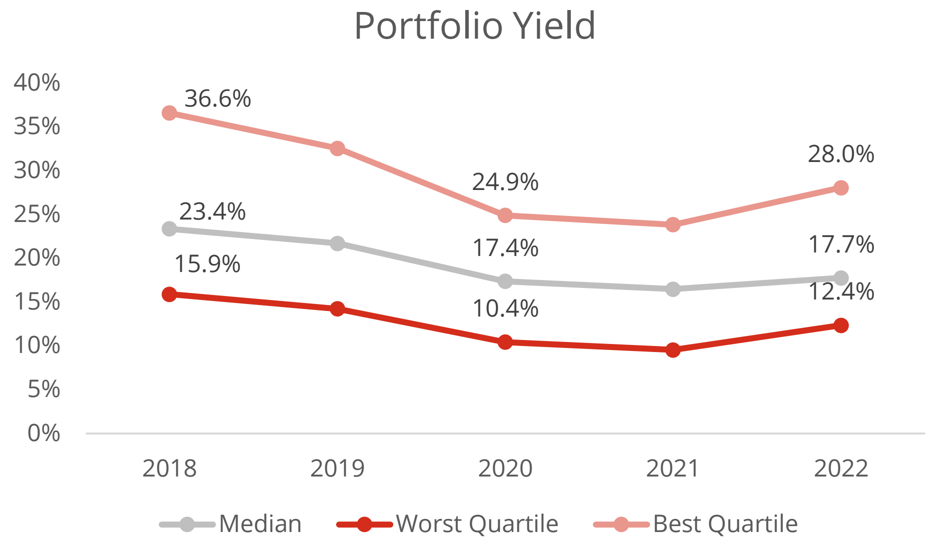
04

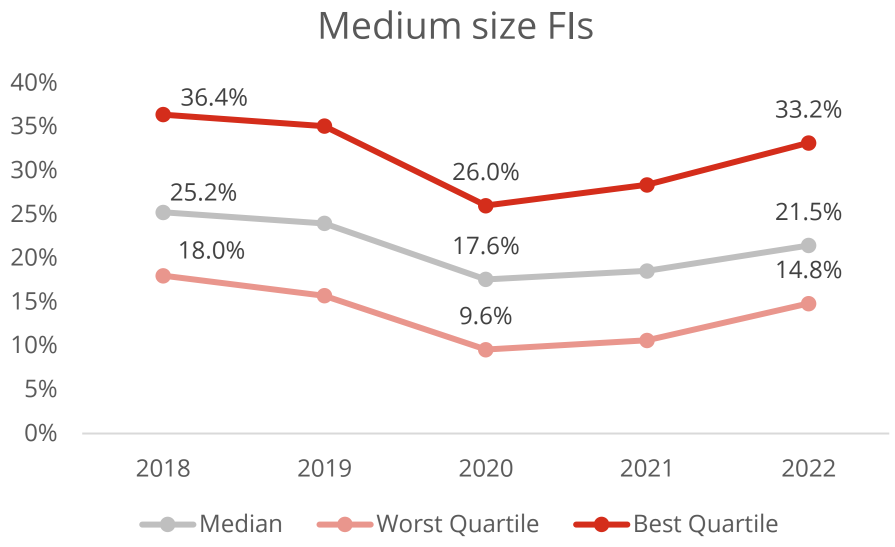
Financial Performance

Portfolio Yield

Portfolio yield displayed an overall stability or improvement from 2021 to 2022. Encouraging **convergence** of the segment of FIs with **lowest portfolio yields** (worst quartile**,** Q1) to the typical level of portfolio yield (median) from 2021 to 2022, improving from the lower levels experienced during the pandemics.

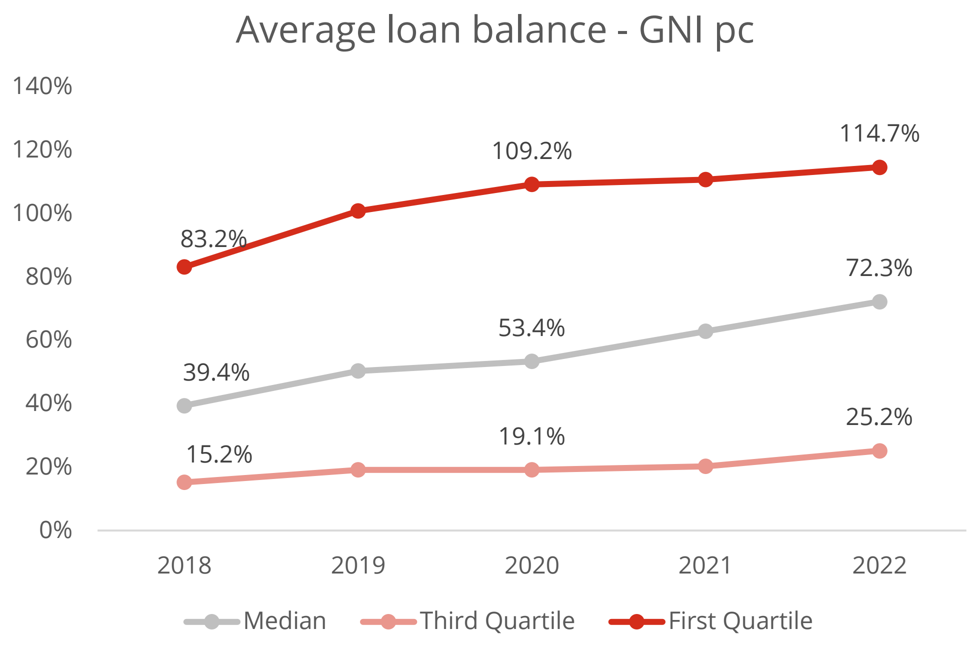
The improvement in portfolio yield from 2021 to 2022 was particularly visible among **medium size** FIs, even if always back yet back to pre COVID levels.





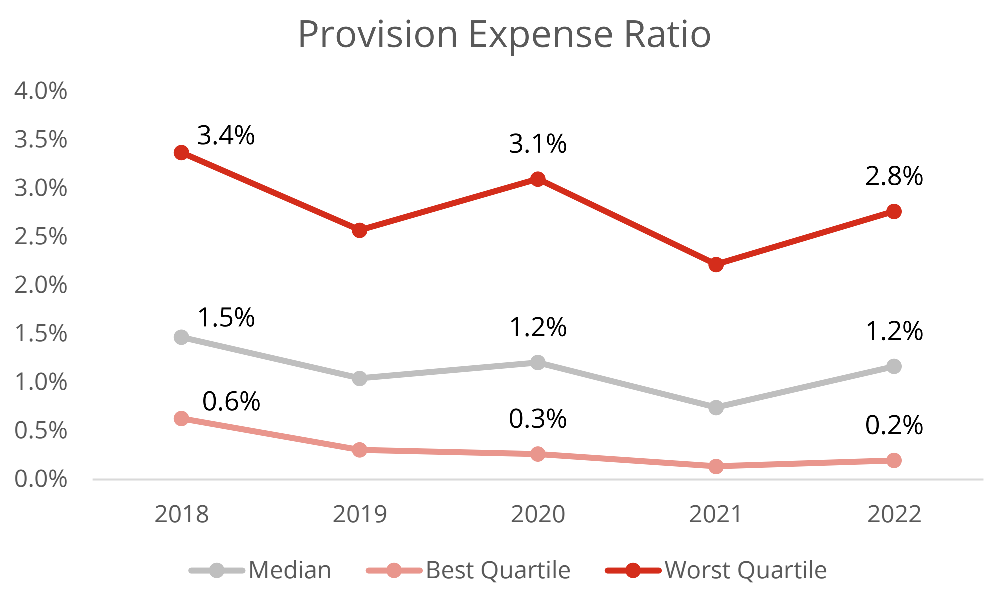
Average loan balance / GNI pc

Average loan balance over GNI per capita showed a stable or slightly **upward trend** throughout the periods, plausibly associated to a diversification of segments served, and to an extension of the average loan terms as well, for FIs to remain attractive to clients in increasingly competitive markets.



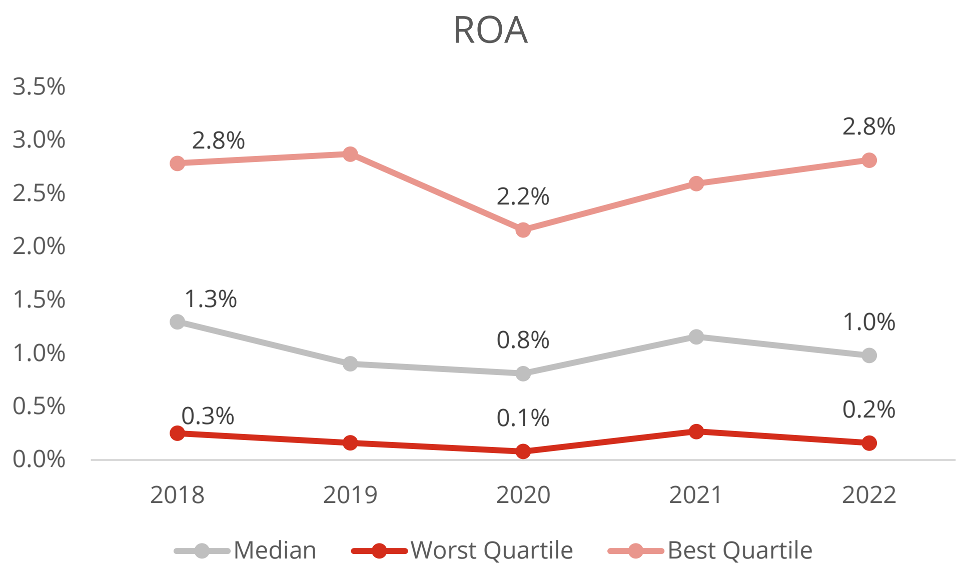
Provision Expense Ratio

After a decrease in 2021, The **Provision expense ratio** showed an **increase** in median and best quartile in 2022, similarly to the trends to the write off ratio.



Return on Assets

Improvement were observed in **profitability** in **2021** compared to 2020 for all quartiles, continued in **2022** for **highest quartile**. However, the **majority** of financial institutions showed **stability or slight decrease** in **2022** compared to 2021, with an acceptable median level of 1%.

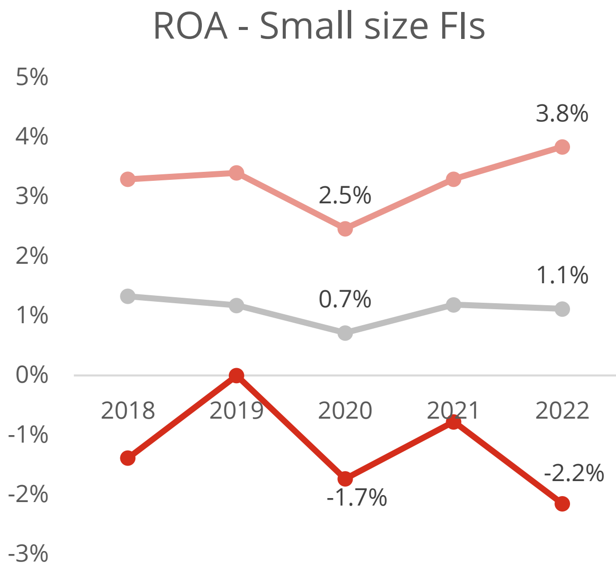


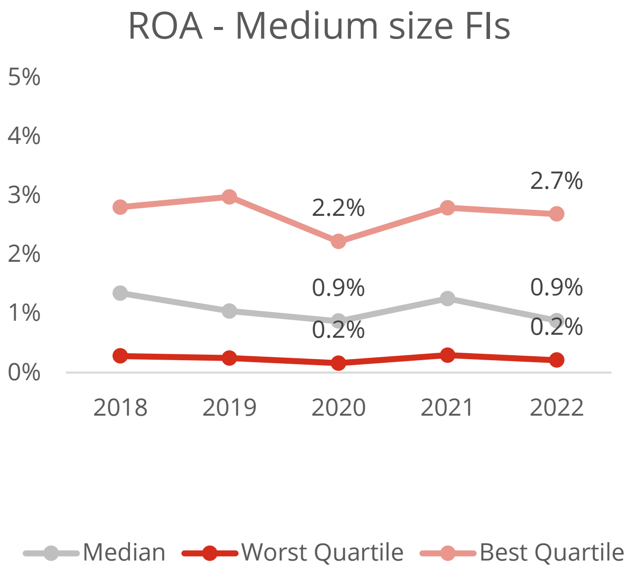
Return on Assets

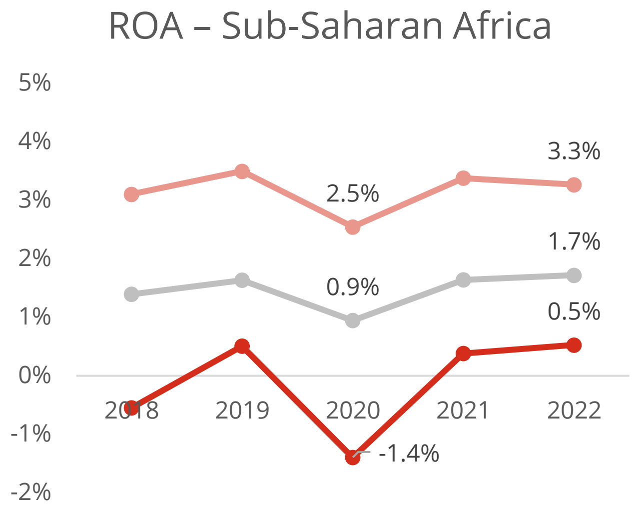
Small and Medium size FIs, and Sub-Saharan Africa

In **Sub-Saharan Africa**, the median displayed a decrease in 2020, followed by an increase in 2021. The worst quartile (Q1) in 2020 was **negative** (-1,4%). Early data suggest a **stable** or **slightly positive** trend in the median ROA in SSA in 2022.

Small and **medium** size FIs displayed a slight **decline** in ROA in **2022**, with the **exception** of the **best quartile** of small FIs. The **worst quartile** among small size FIs was **close to zero** or **negative**, displaying the worst and most unstable performance of all categories of FIs by size.

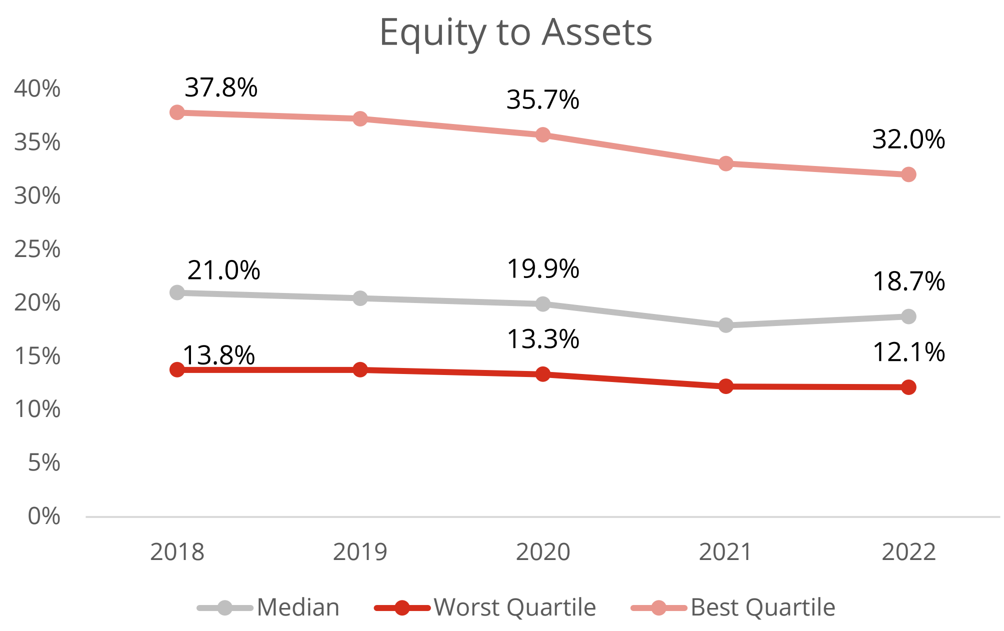






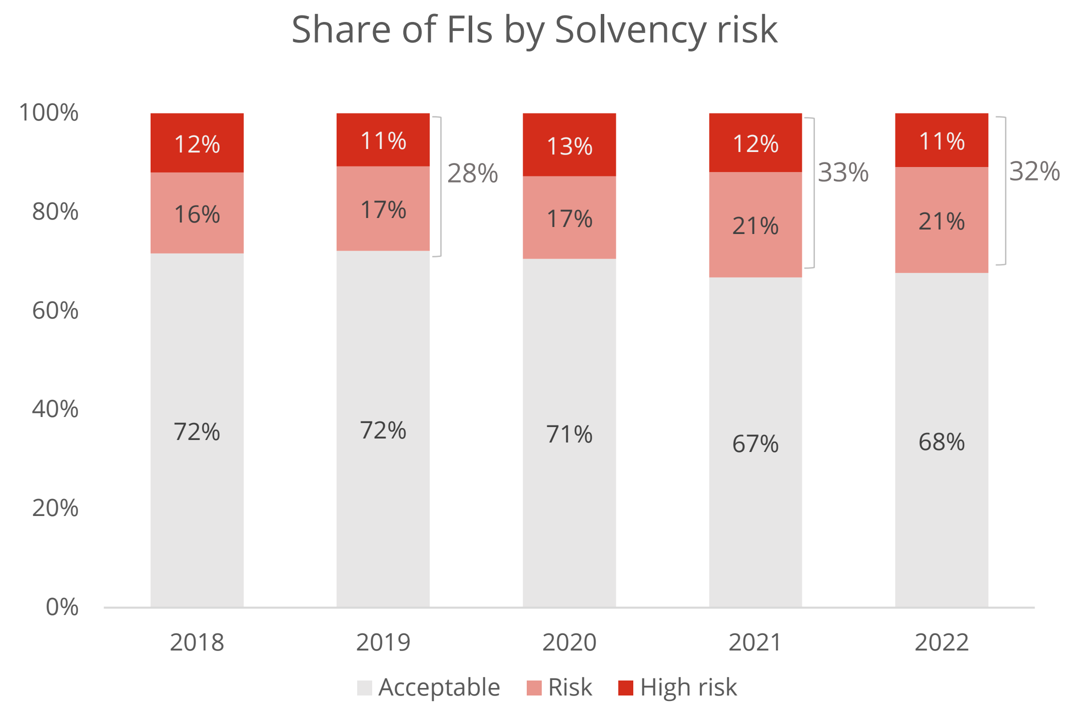
Equity to assets

Equity to assets showed a stable or **slightly declining** trend in 2021 and 2022, with a large distance between the best quartile (Q3) and the median, mainly associated with small size FIs. Small FIs displayed a stable or upward trend in 2022, unlike large and medium FIs.



FIs at solvency risk

The share of **FIs** at **solvency risk increased in 2021** and slightly decreased in 2022 even if it remains significantly **higher than pre covid** levels (32,2% in 2022, 27,8% in 2019). Within the total risk category, the **high solvency risk** category has slightly declined from 13% in 2020 to 11% in 2022. **Large** and **medium FIs** presented the **highest** share of FIs at **solvency risk**, with respectively 38% and 35% of FIs at solvency risk or high risk (average in 2021-2022). On the other hand, only 21% of Small FIs presented levels of equity of assets in the risk category (average in 2021-2022), with emerging data suggesting a positive trend in 2022. However, within the broader risk category, the specific **high solvency risk** category is **higher** among **small** size FIs (15% on average in 2021-2022) than medium and large (11% and 9% on average in 2021-2022).



Vulnerability thresholds

	Acceptable	Risk	High Risk
Small	>18%	14-18%	<14%
Medium	>15%	10-15%	<10%
Large	>12%	8-12%	<8%

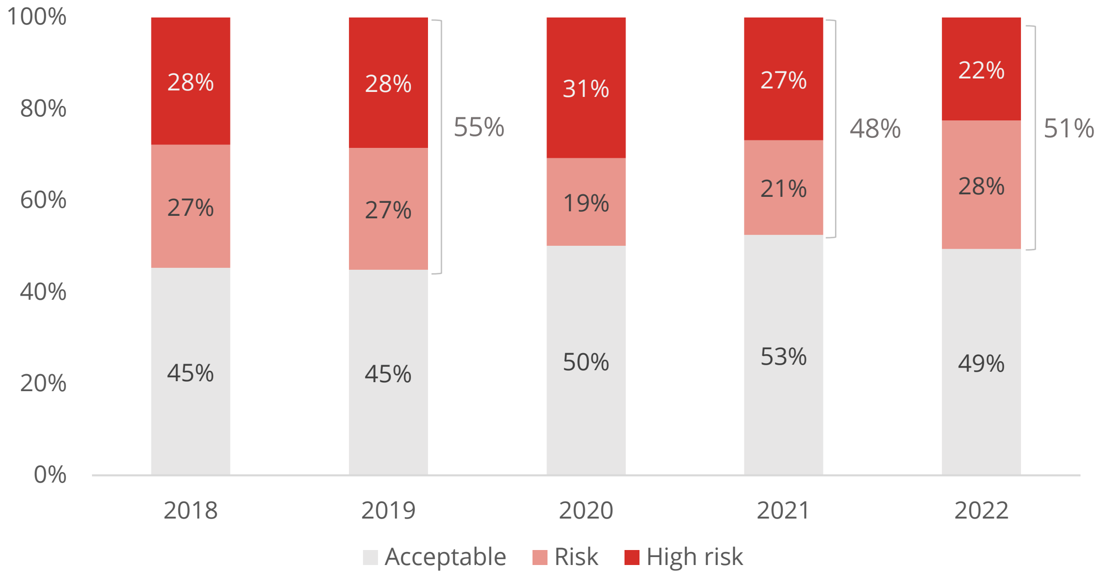
Solvency risk in financial inclusion

FIs at solvency risk

FIs with higher credit risk

FIs with **higher credit risk** were over-represented in the solvency risk and high-risk categories: 51% of FIs with PAR30 > 9% were at solvency risk (28% at solvency risk, and 22% at high solvency risk). Such segment of FIs with both high credit risk and solvency risk was visible in all periods analyzed. This indicates the presence of FIs under the **combined stress** of **credit risk and solvency risk**, and possibly some with a deliberately higher risk appetite. The share of FIs with PAR30 > 9% and at solvency risk was decreasing over time (from 55% in 2019 to 51% in 2022), displaying a positive trend.

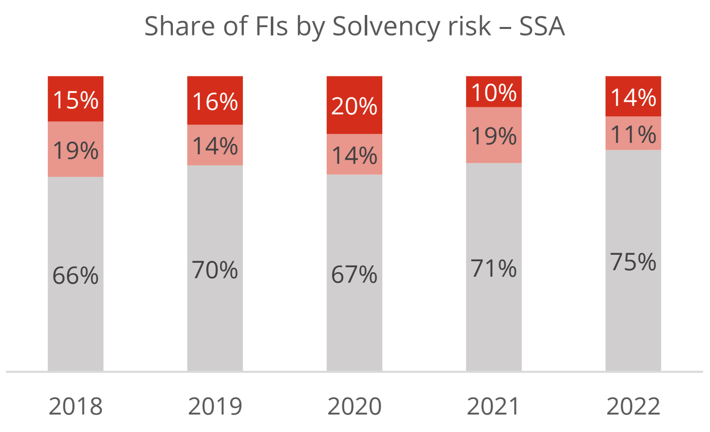
Share of FIs by Solvency risk – FIs with PAR30 >9%

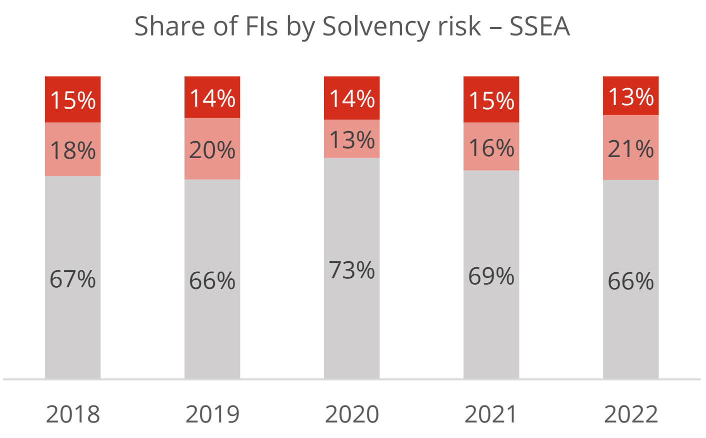


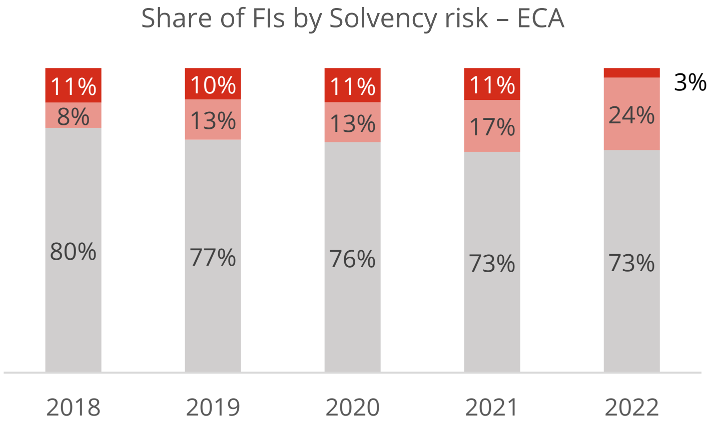
FIs at solvency risk

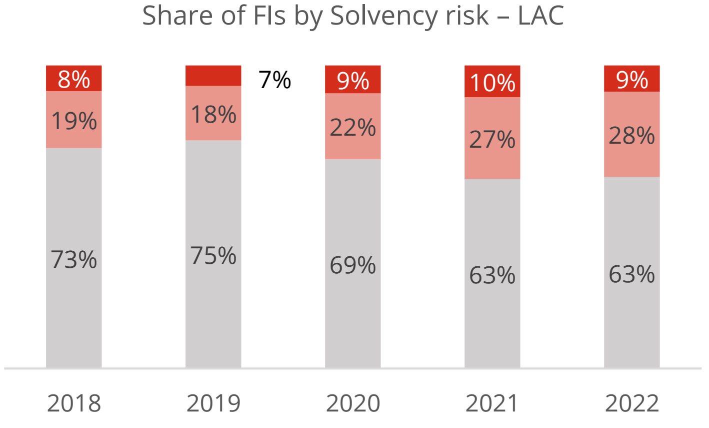
By region

The share of FIs with high solvency risk was higher in South and South-East Asia (**SSEA)** and Sub-Saharan Africa (**SSA**), with 19.6% FIs in SSA at high risk in 2020 and 15.2% FIs at high risk in SSEA in 2021. **SSA** showed high proportion of FIs at high risk both during COVID (2020) and in 2022. In Europe and Central Asia (**ECA**), The share of FIs at solvency risk increased in 2021 and appears to stabilize in 2022. Latin America and the Caribbean (**LAC**) displayed an increase in risk since 2020. However the share of FIs at high solvency risk was stable and ranging between 7% to 11% in all periods.









Acceptable Risk High Risk

Annex

Indicator	Definition
PAR30	Outstanding principal amount of all loans that have one or more installments of principal with 30 or more days of arrears / Gross loan portfolio
PAR 30 + Write-off ratio	Combination of RAR 30 days and Write-off ratio to provide a measure of total credit risk
PAR90	Outstanding principal amount of all loans that have one or more installments of principal with 90 or more days of arrears / Gross loan portfolio
Write-off ratio	Value of loans written-off during the period / Average gross loan portfolio
Growth in Total Assets	Total assets current period - Total assets previous period) / Total assets previous period
Real growth in total assets	Growth in Total Assets – Inflation rate for the country
Portfolio Yield	Financial revenue from loan portfolio / Average gross loan portfolio
Average loan balance / GNI pc	(Gross loan portfolio / Number of borrowers) / Gross National Income per capita
Provision expense ratio	Net loan loss provision expenses / Average gross loan portfolio
Return on Assets	Net income after taxes, after donations / Average total assets
Equity to assets	Total equity / Total assets

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Information

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