Detecting and Monitoring Over-indebtedness Risk in the Market

There may be a risk of over indebtedness in your market if:

1. There are many – or an increasing number of – informal sources of finance available
2. There are many – or an increasing number of – lending institutions
3. Consumer lenders are moving into the same market as microfinance
4. Multiple institutions often compete to serve the same customers
5. Credit bureaus are not available, are inadequate, or not widely used
6. Clients complain about not having the right product fit, including the price and/or the size
7. Financial institutions experience high turnover and/or difficulty providing adequate training to staff
8. Financial institutions' incentives place a high value on portfolio growth

Monitoring over-indebtedness: Information sources

First available indicator is the portfolio quality:

- Portfolio quality monitored monthly (quarterly at least by top management)
    - By branch, product, and client segment
    - When reaching a certain level, it triggers additional monitoring and response.
- Track restructured, rescheduled, or refinanced loans.
- Field staff productivity ratios
    - Investigate those that are above a predetermined threshold.

But over-indebted clients don't necessarily appear in PAR.

- Analyze growth rates by branch/region
- Monitor clients who repay early in order to get new loans
- Monitor field staff productivity ratios
- Conduct a repayment capacity at each loan cycle