

AccessHolding's Position on Responsible Lending

For AccessHolding and its technical partner LFS Financial Systems, responsible lending is one of the key principles underlying the lending technology of the AccessBank network. In our view, the codification and rigorous enforcement of responsible lending practices is not only in the interest of the customer but also in the interest of each network bank, as it is crucial to warrant a high level of customer satisfaction, borrower retention and portfolio quality.

The most general aspect of responsible finance is that a bank knows its customers well and that its customers are better off using the bank's product than not. Access Banks strive to be the 'house bank' of their clients, which are small entrepreneurs and low income customers. This means that Access Banks establish a long term relationship with their customers that includes not only the delivery of credit but also of all other basic financial services that small entrepreneurs and low income customers require, i.e. credit, simple deposit facilities and payment services. Loans are granted on the basis of a thorough analysis of the payment capacity of the enterprise and the family in which it is embedded. The loan amount and repayment plan are defined in a way such that the instalments represent only a limited component of the borrower's monthly 'free cash flow'.

It should be noted that cash flow-based lending costs decrease with the number of transactions conducted with one client. Thus, both the bank and customer have strong incentives to behave in a responsible manner. On the other hand, deposits are voluntary, i.e. loans are not conditional on the client depositing money in the bank, and all AccessBanks that take deposits are under the supervision of the local supervisory authority in their respective country of operation.

As of December 2011, the seven member banks of the AccessBank Network had a total of more than 181,000 outstanding loans and an aggregate outstanding loan portfolio of EUR 351 million. More than 90% of the outstanding portfolio was composed of business loans (the remainder being housing, consumer and staff loans). Most of the AccessBanks finance their business structurally with deposits.

AccessHolding, being the strategic investor of all Access Banks requires all banks in the network to adhere to standards that ensure effective client protection including transparent pricing and responsible lending. Building up trust over time and offering all the financial services that our clients regularly need puts Access Banks in a good position to be the only bank of many of our clients. This in turn allows Access Banks to reduce the risks arising out of multiple borrowing by clients.

A particularly difficult aspect of client protection is to prevent people taking on debt that they are not able to service. There is no universal definition of over-indebtedness but for practical purposes it can be assumed that, in the absence of abusive collection practices, portfolio quality is a good indicator for over-indebtedness, i.e. a low PAR rate indicates that the client is willing and able to pay. Across the AccessBank network, the Portfolio at Risk (30 days) as at 31 December 2011 stood at 1% (with cumulative annual write-offs below 1%). This excellent value supports the notion that our network banks have been carefully adhering to the principle of not over-indebting their clients.

The concept of responsible lending obviously encompasses a multitude of other aspects (such as transparency, pricing, or data privacy) which cannot be covered comprehensively in this overview paper. These are laid out in more detail by the 'smart campaign' (www.smartcampaign.org), a global initiative to promote consumer rights and foster responsible lending in microfinance. AccessHolding and all member banks of the AccessBank Network are endorsing this campaign and have subscribed to its principles.