



2019 Boulder Microfinance Training (MFT) Course Syllabus

Course Information

Course :	Non-Financial Risks: Root Cause of Institutional Challenge
Faculty:	Hans Hekkenberg
Dates :	Week 2 (July 29 - August 2, 2019)
Time :	Morning elective (10:30am - 1:00pm)
Language:	English

Course Description

Credit risk the most important risk for MFIs!

..... **NO!**

Credit risk often seen as potentially the most harmful to any MFI, however, the underlying causes resulting in the build-up of credit risk are often non-financial. These non-financial risks can be rooted in governance issues, fraud, errors, products not suited to the needs of the clients, MIS/IT problems, unreliable data, natural disasters, political influence, to name a few. Any combination of these risks can also culminate in reputational damage. Managing risk for MFIs means not looking at financial risk only.

MFIs are growing in number, size, complexity and geographical spread as the world rapidly changes with new opportunities. With such developments, threats such as cyber-attacks, political unrest, and increased competition have already started to impact our field.

The challenges and risks for MFIs are also large and growing because of stakeholders' increasing requirements. Stakeholders have become more diversified and demanding. Instead of focusing solely on credit risk or broader financial risks, more and more, social investors expect demonstrated attention to non-financial risks and social / environmental sustainability. Not adhering to these expectations poses a risk as well. Social investors focus more and more on proven track records in these areas.

In order to be able to manage these risks, it is important to understand governance and various components of operational risk, compliance / legal risk, reputational risk, i.e. non-financial risks.



The so-called financial crises in the world and in individual countries, in both the banking industry and the microfinance industry have a remarkable resemblance: When analysing these cases, some striking similarities can be detected and there are some important lessons to be learned. The main root causes are non-financial in nature.

In this course, specific attention will be paid to the root causes and how to measure non-financial risks in order to prioritize and mitigate these risks.

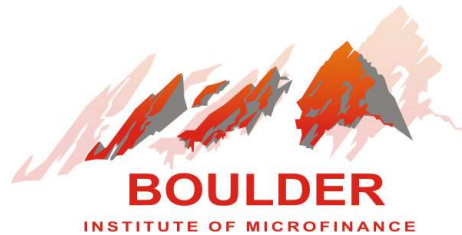
Proper risk management is not only important for the MFIs themselves but in fact for all stakeholders, such as investors and regulators. Investors - because risk for a MFI is often also risk for the investor. Regulators - it is the responsibility of the regulator to have a well-functioning (micro)finance sector. Social media also plays a very important role - bad news travels fast.

Attention will also be paid to information risk / IT security. Information systems play a very important and growing role in the processing of financial data. The scope and pace of information security threats is a crucial risk for any organisation, but specifically for financial institutions. Commercial banks in western countries are very much aware of this issue, and therefore criminals now target more and more financial institutions in emerging markets.

Objectives

The objectives of this training, mainly focused on non-financial risk, are

- To understand why non-financial risks are in most cases root causes for other risks
- To become equipped with understanding, methods, techniques and formats for the management of non-financial risk and operational risk in particular.
- To gain hands-on / practical experience in applying these during the course, moreover, the ability to apply these in your own institution.
- To have identified improvement points for the management of operational risk in your institution and have developed an individualized action plan to improve your operational risk strategies, methods and tools to implement these in your institution.



Prerequisites

There are no special prerequisites for this training.

Audience / Participants

The target group for this training are:

- Board members of microfinance institutions.
- Senior management (and other staff if applicable) of microfinance institutions.
- Dedicated risk management staff, compliance officers and auditors.
- Regulators governing the various parties in the microfinance industry.
- Representatives of microfinance industry going through a transition period.
- Investors in the microfinance industry.
- Consultants in the area of microfinance.

Methodology of the course

The training is highly interactive and is a mix of theory, exercises and a case study in order to practice with the different methods and tools. It is a mix of lecture and group work.

Recommended reading

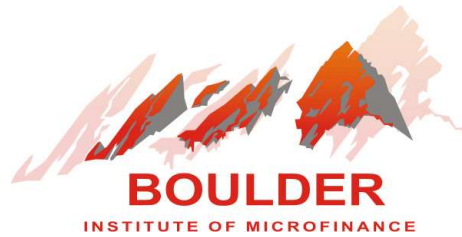
- A CSFI 'Banana Skins' survey of the risks in financial inclusion (<http://www.csfi.org/financial-inclusion-banana-skins>)
- The Graduation model of the RIM initiative (<http://www.riminitiative.org/graduation-model/>)
- What Happens to Microfinance Clients who Default? November 2014 ; <https://www.smartcampaign.org/tools-a-resources/1030>
- Swimming with the sharks Joris Luyendijk (book), <https://www.bol.com/nl/p/swimming-with-sharks/9200000053313182/>
- Publications of the Basel committee, e.g. Principles for the Sound Management of Operational risk, June 2011; <http://www.bis.org/publ/bcbs195.pdf>; Review of the Principles for the Sound Management of Operational Risk, October 2014, <https://www.bis.org/publ/bcbs292.pdf>



- Publications of Nassim Taleb, Black Swan 2007 and Antifragile: Things That Gain from Disorder (books)
- Public awareness and prevention guides (IT security awareness): see <https://www.europol.europa.eu/activities-services/public-awareness-and-prevention-guides>.

Outline

Day 1 :	<ul style="list-style-type: none"> • Introduction and exploring expectations • Risk concept • Risk categories • Risk categories and their importance for MFI's
Day 2 :	<ul style="list-style-type: none"> • Interconnectivity of risks • Proper risk definition: key for risk mitigation • Root causes for credit risk (example) • Understanding the various non-financial risks • Operational risk and their components – methods and tools • Compliance risk • Client protection principles
Day 3 :	<ul style="list-style-type: none"> • Information /IT security • Reputation risk <p>Case study – using methods and tools</p> <ul style="list-style-type: none"> • Corporate governance and organization of risk management – applying in a case study • Risk identification – applying in a case study • Risk measurement – applying in a case study
Day 4 :	<p>Case study continued – using methods and tools</p> <ul style="list-style-type: none"> • Risk mitigation – applying in a case study • Risk monitoring – applying in a case study



Day 5 :	<ul style="list-style-type: none">• Self-assessment using the Risk management graduation model – identifying improvement points for your own organisation• Making an action plan for your own institution
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