The fCb TIMES
2017

Portcullis (Pvt) Ltd T/A fCb
Financial Clearing Bureau
Your Economic Empowerment starts with Your Financial Identity

Welcome to the first Edition of The FCB Times for 2017. In this edition, we explore the gains made by the Reserve Bank as outlined in the Financial Inclusion Strategy. We explore the challenges likely to be encountered by the Credit managers and discuss possible solutions that the Bureau can assist with. But first, a quick review of the statistics and figures of the FCB Database

Facts and Figures

In the first quarter FCB recorded a steady increase in application for Credit. 0ver 56,000 applications were made for Credit with New loans accounting for 61.2% (Men 39.4% and women 21.78%) whilst loan renewals accounted for 38.88% (men 26.34% and women 12.46%) In this section, we note women account for just over 34% of all loans applied for. This ratio is observed as well when we analyze searches done for new account opening under KYC, where women account for just over 32% of all new account applications and men for 67.98% in the period under review. As a result, a search ratio of two to one (2:1) is observed when analyzing the searched individuals across gender lines i.e. for every woman searched, two searches are done for men.

The database grew owing largely to recent efforts by both the Central Bank and Government wherein they called on farmers, SMEs and traders to open bank accounts. As a result, the Bureau recorded 41 016 new accounts being opened in the first quarter of 2017. Of these 38% were women and 62% were men. Of the newly financially included, youths below 25 years of age accounted for 27% and those from 26 to 35 were 32%. The demography of 36 to 45 years accounted for 20% whilst 45 to 60 years recorded a contribution of 17%.

There was recorded financial inclusion of the over 61 years being 3%. The analysis shows the general trend of economic participation with the demography of the economically active age groups contributing the larger percentages. The initiatives by the Central Bank and Government through the Ministry of Finance are yielding results as we can attest that the newly included account for 24% of all searches done in the first quarter.

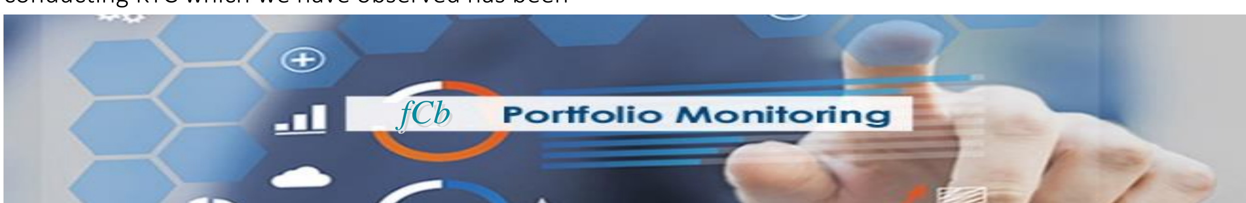
Recorded defaulters applying for facilities has reduced from the highs recorded in 2015 of over 9% to 5.5% percent as at end of March 2017.

More needs to be done to foster an environment for production centered borrowing. Efforts by the Central bank to ensure Finance houses educate and counsel would-be borrowers to refrain from consumptive based borrowing seem to be bearing fruit. Some microfinance houses now center their business model on Agriculture, with some concentrating on women due to the perceived low risk of default they carry. Consumer education hence must be continuous so as to help clients access facilities that they can afford and that will not leave them in a virtual cycle of poverty.

Individuals in FCB Database	2 587 628
Companies in FCB Database	162 705
Total searches in 2017	168 536
Average searches per month	56 179
Ratio of men to women	2 to 1
FCB Hit rate for individuals	70,66%
FCB Hit rate for companies	52,28%
Adverse reports	5.55%
ZFCA MEMBERS	121
Banks and Building Society	18
Microfinance	39
Insurance	3
Others	61
Peak active usage	62
Registered End users	2862
Peak active End users	1002
Growth of database in 2017	7.86%

National Financial Inclusion Strategy

The country is making strides into increasing cash management in order to reduce the cost of transacting as well as reduce money laundering. These initiatives which centre on policies on money supply side and balance of payments with international parties are coming against a culture inculcated in the populace being the use of hard currency. The RBZ has explained that importation of currency which the country's commercial banks have been doing through their Nostro accounts is expensive owing to simple things like cash handling charges and transit fees. These costs are then passed to customers as bank charges, high interest rates and high penalties by finance houses. Also, the fact that our borders are porous and our economy has become more informal, means a haven for unscrupulous elements which has caused an upsurge in money laundering activities hence leakage of foreign currency from the main stream economy. As a result, the Central Bank has been advocating and promoting the use of plastic and mobile money and in so doing increase financial inclusion to the economically marginalized in The National Financial Inclusion Strategy in a bid to improve the welfare of the populace. The fact that such initiatives will also improve collection of credit information as well as contribute towards Anti Money laundering is by design and not by accident. Kudos to the Central bank. The strategy also highlights the need for proper due diligence when conducting KYC which we have observed has been



a bane for most givers of Credit. Simple documentation like identity cards, proof of residence and proof of employment must be verified to avoid fraud and in so doing, such measures go a long way in mitigating risks.

Government policy on Command Agriculture coupled with above normal rainfall has resulted in record harvests in Tobacco, Maize and Cotton. The Central Bank in its bid to further increase financial inclusion has called on all farmers to be banked to address issues of farmer welfare, finance track records and creation of financial identities, sound financial management, reduce corruption, side marketing, theft and above all manage the reliance and need to trade in cash. We observe that such strategies have already yielded results as FCB accounted for growth of the database due to newly financially included. This is a good thing as it means we are creating financial identities of farmers and traders. As their information is now readily available it will make it easier for finance houses to on-lend to them. This will increase not only the bank clientele but also change lending strategies. We will witness movement away from consumptive salary based lending to production centered lending.

The recognition of a small-scale farmers, cross border traders, vendors and backyard industry SMEs will call for formalisation and regulating of their operations. As alluded to earlier, this will contribute towards anti money laundering as well as enlarge tax collection base for government hence more revenue. Regulations will mean improved standards in quality and pricing, which will make Zimbabwean made products compete with international products in both local and foreign markets. As a result, we can refrain from importing cheap substandard goods and second hand clothes and stop being dumping ground for products that are past their sale-by date

Credit Appraisal Challenges and solutions

Credit appraisal can be a daunting task. The RBZ has called on all lenders to adhere to sound Credit policies which include the setting up of a compliance division in order to adhere to sound corporate governance. As a credit appraiser, you must determine whether or not to fund an application based on the merits outlined in the write up. However, most credit officers and managers will tell you that people and companies with a checkered past seldom reveal the whole truth and herein lies the challenge. In some cases, it is the most affluent of individuals and corporates that carry skeletons in their closets. Such scenarios may leave you with egg in your face if you do not adhere to sound credit appraisal practices which start with verifying all documents submitted to be authentic, cross check all given refences, as well background and credit referencing using the Financial Clearing Bureau to ensure the client does not have existing financial commitments. This will make you understand your client's ability to repay a facility as well as attitude towards debt and by so doing you will safeguard depositors and or shareholder funds.

Credit manages also have to deal with related party borrowing. This may lead them to be less objective and hence exercise bias and favoritism on an application. Such facilities are likely to underperform. In such cases one is supposed to recuse themselves and state that they are an interested party and as such cannot be fit to appraise a related entity. In all finance houses that closed, reports of biased assessments and appraisal resulted in facilities that did not perform.

Sometimes a client will fall into hard times mid-way through a facility. These difficulties may in turn cause financial stress which may cause the facility they have with to underperform. As such it is crucial to ensure you are informed of any new developments daily on any person of interest i.e. persons and companies that form your loan book. This portfolio will be lodged with FCB, who in turn inform you of any new reports lodged with the Bureau against your client the minute its reported. This will ensure that you keep your finger on the pulse and you are first to know hence first to act. The main advantage is knowledge which empowers you to make informed decisions whether to instigate recovery procedures or just place the account on a watch list.

MD Comments

The general environment has been characterized by cash shortages and the majority of Zimbabweans have been slow to accept trading using plastic money. The main reason has been the slow uptake of point of sale machines by the informal sector, which demand cash for trading purposes. However, we as a nation, must adopt best practices as seen with most international jurisdiction who have abandoned the use of hard cash / currency in favour of plastic money. The unfortunate circumstances have been the double price regime where cash purchases attract a discount and card payments attract a would-be penalty of between 10% to 15%. It is also important to recognize that mobile money usage has been on the increase to the point where Ecocash deposits and withdrawals are possible with some merchants in South Africa. Such innovation, to allow for foreign trade is indeed welcomed to support the country's Balance of payments which remains

heavily skewed against Zimbabwe due to the high import bill against our exports. Instead of entities profiteering from temporary cash shortages to the detriment of our fellow countrymen we must instead nurture ideas of producing using our own local resources such as stock feed, cooking oil, seed, gas, shoes, fabric, soap and similar products, to enable us tilt the Balance of Payment in our favour. For us to do this the Ministry of Industry and Trade will need to do more to encourage entrepreneurship and protect local business as they did with statutory instrument 64 of 2016-Control of Goods (Open general import License) No 2. We have seen companies like Lafarge cement, Cairns foods, Dairy Board, Alliance Ginneries, BOC Gases to name but a few investing in Zimbabwe to make local products using local resources for export. Indeed, this is a step in the right direction, in order that we become masters of our own destiny.