

Report On
[Consumer Loan Decision procedure at IDLC finance Credit Risk
Management Department]

By

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An internship report submitted to the Brac Business School in partial fulfillment of the requirements for the degree of Bachelor of Business Administration

Brac Business School
Brac University
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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

Fahim Shahriar
Student ID- 18104081

Supervisor's Full Name & Signature:

Dr. Mohammad Mujibul Haque
Professor & Associate Dean, Brac Business School
BRAC University

Letter of Transmittal

Dr. Mohammad Mujibul Haque
Professor,
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report

Dear Sir,

I am thankful to Allah for allowing me to complete my internship report and submit this report to you.

I am also grateful to you for your assistance and guidance in preparing this report. This report includes a summary of my internship at IDLC Finance limited, an overview of the organization, and research on the topic “Consumer Loan decision procedure at IDLC Finance credit risk management department”.

Hence, I sincerely hope that you will accept my Internship Report and be so kind as to comply. If clarification or additional questions are necessary, I would be happy to provide them.

Sincerely yours,

Fahim Shahriar

Student ID: 18104081

BRAC Business School

BRAC University

Date: September 28, 2022

Non-Disclosure Agreement

This agreement is made and entered into by and between IDLC Financer Limited and the undersigned student at BRAC University, BRAC Business School.

Student's Full Name and Signature

Fahim Shahriar

Supervisor's Full Name and Signature

Saidul Bari

Manager, Credit Risk Management- Consumer Division

IDLC Finance Limited

Acknowledgement

I am grateful to Allah for His grace in assisting me throughout my internship experience. Without His direction, my effort would have been inapplicable.

I would also want to thank the management team of IDLC Finance Limited for selecting me as an intern. During my internship tenure I was able to learn a great deal from the program.

Furthermore, I would like to express my gratitude to Mr. Saidul Bari, Manager, Credit Risk Management consumer division, for his assistance and advice throughout my internship. While working under his supervision I felt like I am working as a core team member of IDLC Finance not an intern.

Finally, I would like to thank Dr. Mujibul Haque, Professor at Brac Business School, for his consistent help throughout the internship. I was able to produce this report in an organized and effective manner only because of his methodical approach.

Executive Summary

This paper is a summary of my internship in the credit risk management department of IDLC Finance Limited and is intended to provide an overview of the company and my research topic “consumer Loan decision procedure at IDLC Finance credit risk management department”.

In addition, the report investigates the financial condition of IDLC finance and discusses diverse business and operational verticals. Furthermore, the research identifies the loan decision procedure taken by IDLC Finance to assess the credit risk of the customer and the exposure of different groups to credit risk. Also, this report identifies which group of customer default more loans and what is the current loan portfolio status of IDLC finance limited.

Keywords: Credit Risk Assessment, Loan decision, Non-Performing-Loan.

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Chapter-1

Overview of Internship

1.1 Student Information

Name: Fahim Shahriar

ID: 18204081

Department: Brac Business School, Brac University

Major: Finance and Banking, Minor: Accounting

1.2 Internship Information

1.2.1 Period:

3 months (May 9th – August 9th) 2022

Company Name: IDLC Finance Limited

Department: Credit Risk Management (CRM) Consumer Division

Address: DR Tower (5th Floor) Gazi Golem Dostodir Road, Puran Paltan, Dhaka.

1.2.2 Supervisor's Information:

MD Saidul Bari, Manager (CRM-CD)

1.2.3 Job Scope:

My department is “Credit Risk Management” which actually evaluates a customer’s creditworthiness and mindset to repay the loan. The responsibilities and duties include-

- Assigning and sending CPV (Contact point verification) Request form to agents for verification.
- Keeping the record of CPV request form In CPV pipeline (MS Excel).

- Collecting Verification report from Agents and updating the report in System and CPV pipeline.
- Calculating And preparing Bills for agents.

1.3 Internship Outcome

1.3.1 Students Contribution to the company:

- ✓ Receiving and Uploading CPV request: The most significant part of my responsibilities as an intern I was Assigning CPV request and receiving CPV verification report. Contact point Verification (CPV) Is a pivotal part for any financial institutions risk and credit approval process because it provides key information about existing or prospective clients to be independently verified through physical visits and other required due diligence processes prior to establishing a banking or lending relationship. At IDLC Finance the verification is done by 3rd Party agencies who are responsible for verification and sending the report within designated time limit. I had to collect the report form agents and update the report in the central database for the ease of loan disbursement.
- ✓ Assigning CPV to different agent: Since we receive loan requests inside and outside of Dhaka, we have different agents for different areas information verification. Another significant part of my task was assigning agents for different regions report verification.
- ✓ Communicating with Third Party Agents: I had to maintain regular communication with the third parties for smooth verification and timely report collection. I used to answer their query on any problem while verification and follow up them on timely verification report submission.
- ✓ Calculating Bills for the Agents: Another pivotal task of my internship responsibilities was calculating the monthly bills for the 3rd party agents and adding VAT and deducting TAT from their bills.

1.3.2 Benefit to the Student: This internship opportunity gave me the opportunity to accustom myself with the corporate culture and apply my academic knowledge in practical. Also, this internship opportunity gave me exposure to different critical situation where I learned new skills and improved myself for my future jobs. Prior joining IDLC Finance I knew very little about NBF and their operations. However, through my internship I learned more through my job responsibilities and observation. This internship opportunity helped me to learn the how a loan request is assessed by the organization and the steps involved in it.

On a daily basis I had to communicate with internal and external stakeholders to maintain the smooth flow of CPV reports that enabled my better communication skill and developed my team playing skill. Also, I had to work with different functionalities like VLOOKUP and other functions and formulas in Microsoft excel that improved my excel skill.

My ability to multitask has also been improved through my internship. Because, besides my regular responsibilities often I was assigned with assignments from my supervisor that I had to submit within deadlines. Also, in time of high disbursement pressure I assisted the disbursement officers with documentation printing and scanning. This multitasking skill has enabled me to be more time conscious and punctual.

To conclude, my supervisor has also helped to learn and adapt in every new situation and ensured my proper learning. Without his assistance my I was able to get all the practical learning through this internship program.

1.4 Recommendations

One thing I have noticed through my internship that till now the CPV verification request are made to the agent via printed document Which increases the costing for IDLC finance and requires more time for report verification. My suggestion would be if IDLC finance could improve the process and introduce digital transfer of CPV request form to the agent then the costing could decrease and report receiving could be faster.

Chapter 2 Organization Part

2.1 Introduction:

The core function of any Non-Bank Financial Institution is to provide loan to the individual or business who requires loan for the purpose of either personal fulfilment of financial need or to support business. IDLC Finance is the largest and top Non-Bank Financial Institution of our country that has contributed in the country's economy through their credit services since the inception of the company. In this part of the report, we have illustrated the business practice and service offered by IDLC Finance Limited. Also, we have analyzed the financial and overall Business practice of IDLC Finance that will depict the analysis of the organization of recent time. Also, we have analyzed the internal and external environment of IDLC Finance Limited for the improvement of business Practice of IDLC Finance Limited.

2.1.2 Objective

- ✓ Products and offering of IDLC Finance
- ✓ Cross Sectional Financial Performance analysis
- ✓ Internal and External environment analysis
- ✓ Understanding of management Practice

2.1.3 Significance:

The organization part of the report is prepared with a view to analyze the overall organizational structure of IDLC Finance Limited. First of all, in this part we have analyzed the products and offering of IDLC Finance limited. Secondly, Financial ratios of IDLC Finance from 2019-2020 and analyzed the ratios with IPDC Finance and compared cross sectional performance of both the organizations. Furthermore, we analyzed the external and internal environment of IDLC Finance Limited and Illustrated the SWOT analysis for internal environment. Also, we provided our analysis for external environment with Porters Five Forces and analyzed the competitiveness in the market. Finally, analysis of 4P's of marketing has been illustrated to give the marketing overview of IDLC Finance Limited. To conclude, the organization part reflects the contemporary financial, Managerial and marketing overview of IDLC Finance Limited.

2.1.4 Methodology

The organization part of the report is prepared based on the secondary source of data that has been collected through the Annual report of IDLC Finance Limited and news articles available on the internet.

2.2 Overview of the company

IDLC Finance incepted their journey in 1985 as the country's first Non-Bank Financial Institution. It is the country's largest multi-product NBFIs with a strong and Diverse presence in the market. Initially IDLC Finance was established with the joint effort of The International Finance Corporation (IFC), Korea Development Financing Corporation, German Investment and Development Company (DEG), Kookmin Bank The Aga Khan Fund for Economic Development, The City Bank Limited, IPDC of Bangladesh Limited, Sadharan Bima Corporation, and some other local and multinational financial institutions. Initially the foreign investor had 49 percentage of shares in the company that Subsequently withdrawn when the company proceeded. Gradually the foreign shareholders faded away when local sponsors purchased majority of the shares of the company in 2009. The name of the organization was changed in 2012 from "Industrial Development Leasing Company of Bangladesh Limited" to IDLC Finance Limited.

Over time IDLC Finance has focused on income diversification and expanded their business in Bangladesh's Corporate, SME, Retail and Capital markets. IDLC Finance offers a pool of financial services and solution to satisfy the needs of the customers that includes Lease Finance, Term Finance, Short Term Finance, Corporate Finance, Real Estate Finance, Merchant Banking, Term Deposit Schemes, Debentures, and Corporate Advisory Services. Some Of the key products and services of the portfolio includes Corporate and Structured Finance solutions for local and multinational corporate houses; Personal financing products such as deposits, home loans, car loans, personal loans, and so on; financing facilities for Small and Medium Enterprises; Merchant Banking solutions such as Portfolio Management and Investment Banking (IPO, Bond Issuance, Rights Shares Offering, and so on, supply chain finance for value chain financing, women entrepreneur loan program named 'Purnota' and Brokerage services. Recently IDLC Finance has launched an MFS based Digital Savings Program that gained significant popularity in the market.

Currently, IDLC Finance is the largest NBFIs in Bangladesh with three wholly owned Subsidiaries including

- 1) IDLC Investment Limited
- 2) IDLC Asset management
- 3) IDLC Securities Limited

Since 2012 IDLC Finance has been able to maintain AAA credit rating with a goal to be the country's best performing financial brand. Their policy mainly focuses on Superior customer service, Quality growth and sustainable business model. They always prioritize ethical practices and high customer value with a tagline of "Financing Happiness".

2.3 Management Practice

2.3.1 Leadership:

The leadership style followed at IDLC Finance is a combination of Participative and Laissez-faire. Because after receiving a loan request an analyst does their own analysis and gives their judgement on accepting or declining the loan request. An analyst often takes subjective measures to analyze the client and give their decisions. Also, the employees are encouraged to share their feedback on how to improve the efficiency of the organization and improve the loan experience of the customers.

2.3.2 Recruitment:

IDLC Finance abides by all the employment law of Bangladesh that are in accordance with the approval of the board of directors. Also, they maintain highest level of discrimination free policy.

IDLC Finance has introduced improved and digitalized tool to assess any candidates Capability and evaluate them with an efficient and cost-effective manner. Also, the person job fit characteristics of candidates are also evaluated. The hiring process for junior officer and above includes CV screening then taking aptitude test and eventual evaluation with interview. For any

managerial position a recommendation of the HR committee is to be sent to the board of the directors.

After being hired an employee will be on 6-month probation as specified by the policy. Once the probation period is over the employees can avail the benefits addressed in the HR manual.

2.3.3 The compensation System:

At IDLC Finance there is a separate Compensation committee to assist the HR department for administering and establishing fair compensation policy. There were 8 meetings held by the compensation committee in 2021 for fair remuneration. Also, the company accounted for 60% of their operation cost in compensation for the employees. Eventually IDLC Finance has adopted zero pay cut approach to motivate their employees.

2.3.4 Training:

After being employed by IDLC Finance an employee receives vigorous training opportunity to develop their skills and grow their career. In 2021 IDLC Finance has invested 9530 hours on 185 training events through in house, Customized, foreign and online sessions. Besides initial training on job duties employees receive training on social awareness, leadership and career development and technical skills.

2.3.5 Performance Appraisal:

The organization always encourages fair appraisal of the employee and ensures the employee is aware of their own performance status. The employees are evaluated yearly based on their achievement of performance objectives and behavior. Employees formally sit with their line managers twice a year to discuss and improve their performance.

2.4 Marketing Practices:

Since IDLC Finance has multiple divisions and multiple subsidiaries thus they develop separate marketing strategies for separate product and divisions. For consumer loan they focus on customer driven marketing strategy so that they can offer customized service to the clients. Also, they focus on advertisement on different media to attract consumer loan applicant. Furthermore, they heavily rely on word-of-mouth strategy to create the credibility among the customers. Besides this strategy they heavily rely on social media marketing with sponsorship in different online contents and events. Also, there is separate verified Facebook and Linked-IN page for publishing their Digital marketing contents in different social media platforms.

2.4.1 4P's of Marketing:

The 4P's of marketing is also known as the marketing mix refers to four key element of marketing any product or service. The marketing mix is used to influence their customers to buy their products. Here we will analyze the marketing Mix of IDLC Finance Limited.

1. Product: IDLC Finance deals with loan and deposit thus the offering of IDLC Finance to its customers is mainly different Type of Loans. The loan portfolio includes
 - ✓ Consumer Loan: Retail financing service is the key segment of consumer division. This division has now the largest market share in the Bangladesh's loan business. Products offered by IDLC Finance are
 - ✓ Home Loan - Apartment / Home Purchase, Building Construction, Commercial Space
 - ✓ Purchase, Home Equity etc. types of choice are made available for the buyers under this segment.
 - ✓ Personal Loan – Both secured and unsecured loans are available for debtors.
 - ✓ Car Loan
 - ✓ SME Loan: Since 2020 IDLC Finance is the top performer in SME loan distribution in Bangladesh. They work for the mobilization of SME section in Bangladesh via their offering that includes

- Small Enterprise Financing: SME Term Loan/Lease, Purnota –Women Entrepreneur Loan, Working Capital Loan, Seasonal Loan, Commercial Housing Loan, Vehicle Loan etc.

- Supply Chain Finance- Work Order Financing, Distributor Financing etc. options are available under this financing solution.

✓ Corporate Loan: IDLC incepted their business with corporate financing initially and expanded their services over the years. Under the Corporate financing IDLC Finance is offering two business including Large corporate and Local corporate. The primary role of the corporate financing is to mobilize the corporate division of the country. Products offered in this section includes

- Corporate Finance - Term Loan, Lease Financing, Working Capital Loan, Commercial Space Loan, Bridge Loan etc.

- Structured Finance Solutions - Debt Syndication (Local & Foreign Currency), Working Capital Syndication, Agency & Trusteeship, Zero Coupon Bonds, Coupon Bearing Bonds & Convertible Bonds, Arrangement of Private Equity & Preference Shares, Commercial Paper, Corporate Advisory for Mergers & Acquisitions, Joint Venture Making and Initial Public Offering etc.

- Green Banking Solutions- Renewable Energy, Energy & Resource Efficiency, Recycling & Manufacturing of Recyclable Goods, Environment Friendly Brick Production, Green Environment Friendly Establishments, Agriculture, Green Socially Responsible Financing Priority Green & Eco-Friendly Products for Trading Sector etc. choices are made available for the buyers under this segment.

2 Price: Usually the price refers to at what value the products are being offered in the market. In terms of banking sector in Bangladesh every Financial Institution is monitored by Bangladesh Bank and the interest rate is not fixed for any of the financial institutions. The interest rate keeps changing after 3 months by the law of Bangladesh bank.

- 3 Places: Places refers the points where the product or services are available for the customers. IDLC Finance offer all their loan products to their customer through their 30 branches all around the country.
- 4 Promotion: IDLC promotes their products through conventional advertisements in Television and different social medias to attract their customers. Also, public relation through the relationship managers is maintained to spread the information of the offering to the customers.

2.5 Financial Performances and Accounting Practices:

2.5.1 Cross Ratio Analysis:

We will compare our financial performance with countries 2nd largest NBFI IPDC Finance for cross sectional ratio analysis.

Liquidity (Current Ratio)

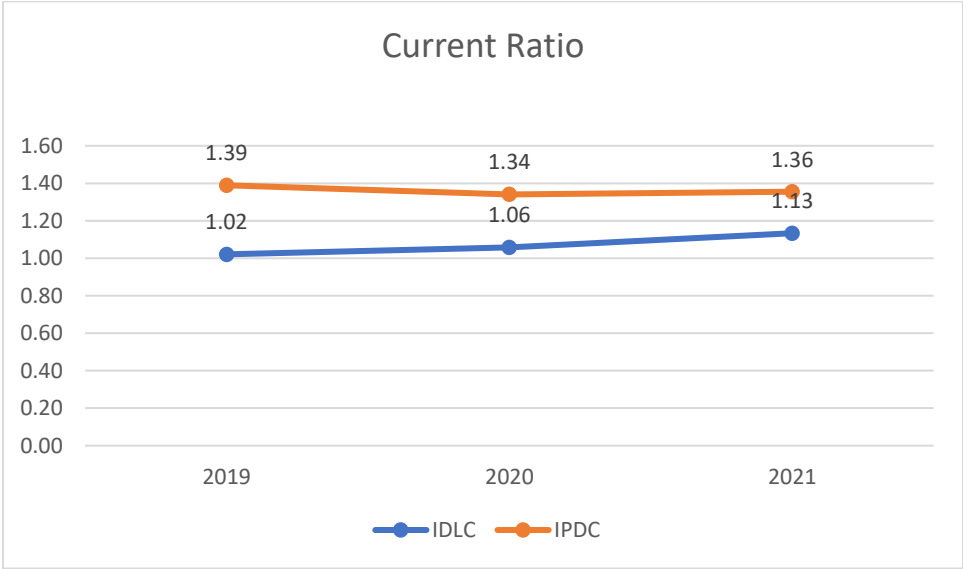


Figure 1: Current Ratio

Both IDLC Finance and IPDC finance has maintained below standard current ratio. The scenario is much worse for IDLC Finance compared to IPDC Finance. This indicates that Both IDLC Finance and IPDC Finance do not have sufficient capability to meet their current obligations at any point of time.

Solvency: (Debt to Equity ratio)

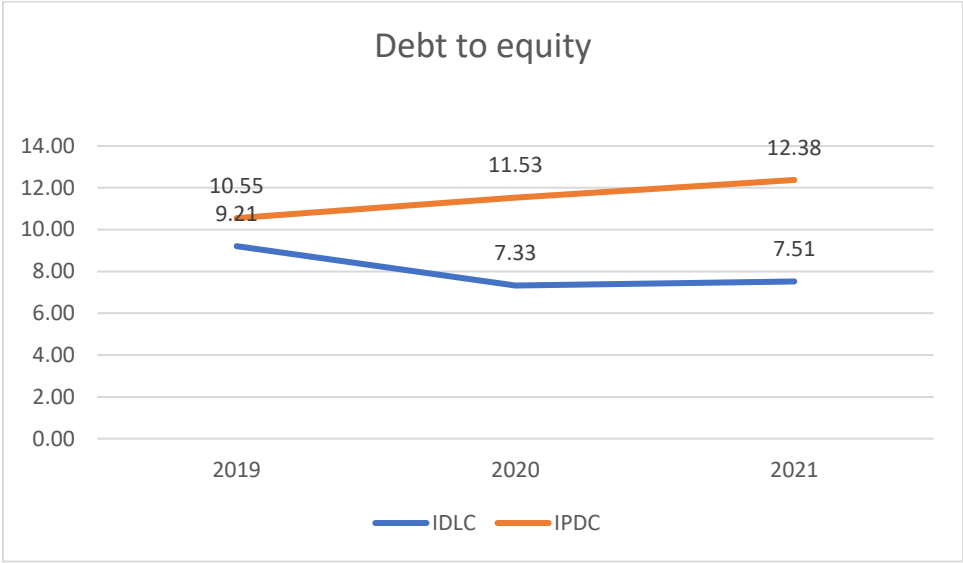


Figure 2: Debt to Equity

The debt-to-equity ratio demonstrates a company's ability to cover all liabilities in the event of loss or damage. A debt-to-equity ratio greater than two is unfavorable for any institution. For IDLC And IPDC both the organization are having a very high debt to equity ratio. However, with time IDLC Finance has improved their condition but IPDC Finance has deteriorated their condition.

Debt to Asset

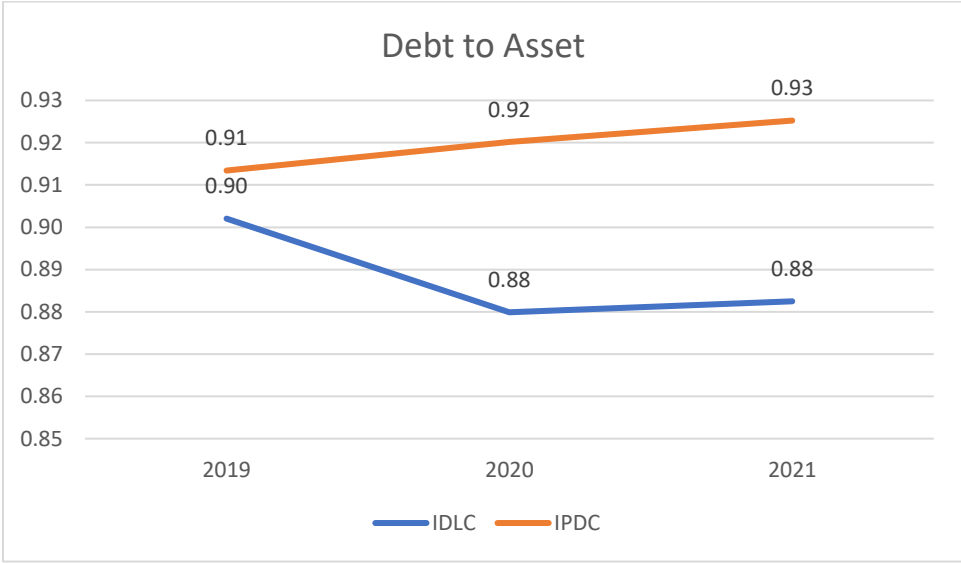


Figure 3: Debt to Asset

Debt to Asset ratio measures the financial or default risk of an organization. The higher the ratio is the greater the risk of defaulting. In comparison between IDLC and IPDC finance though in year 2019 both the organization were in same condition but IDLC finance has improved their leverage and reduced their ratio on the other hand IPDC finance increased their debt burden and got exposed to higher risk.

Net Profit Margin

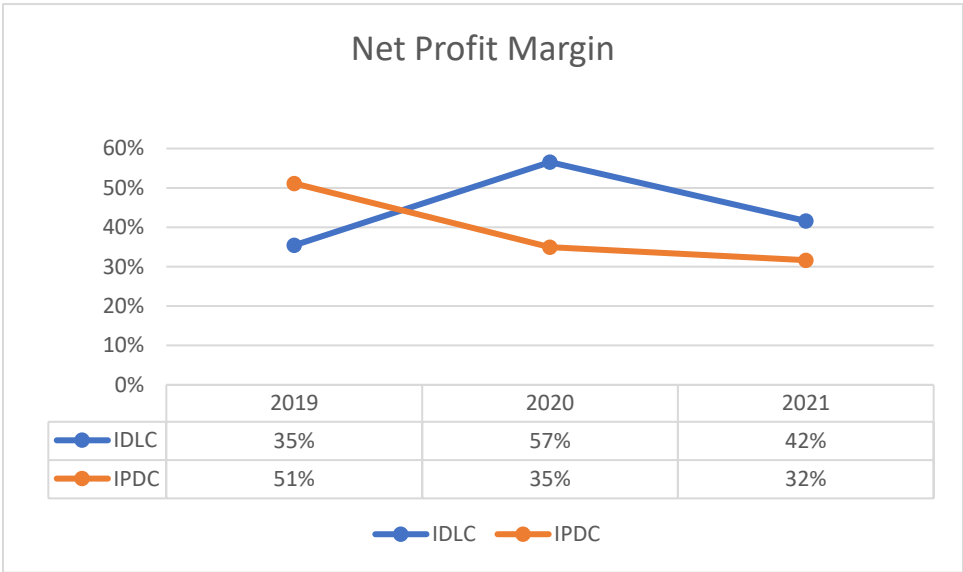


Figure 4: Net profit margin

In terms of net profit margin IDIC Finance’s performance was significantly better than IPDC Finance’s Performance the ratio had a huge boost in year 2020 for IDLC representing significant profit but eventually dropped in 2021. On the other side IPDC had a huge drop in 2020 and it declined further in 2021.

Return on Asset:

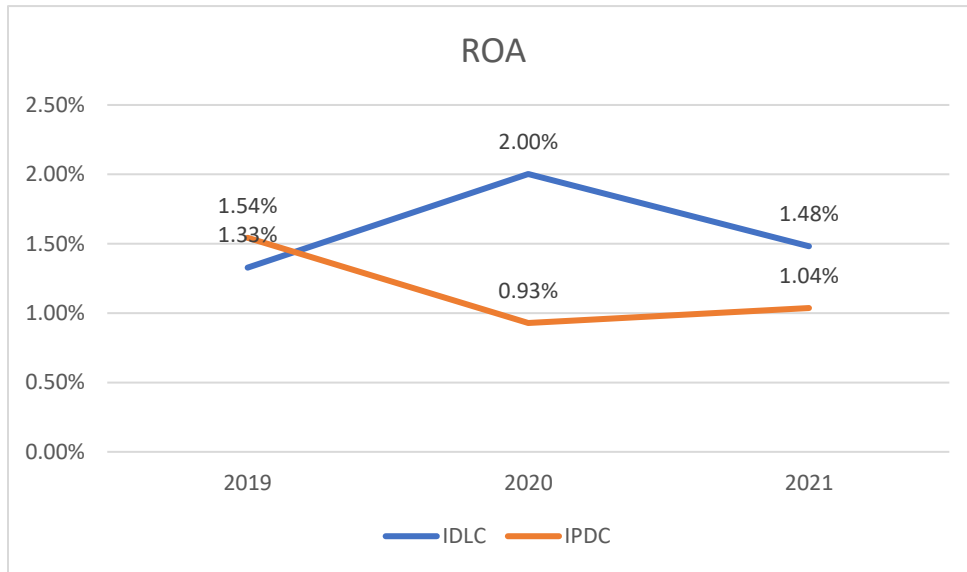


Figure 5: ROA

Though IDLC Finance has ranked the top NBFI of the country thus their performance on Return on Asset should improve to 5% . However, IDLC’s Performance was much better in 2019 and 2020 but the performance declined in 2021. In contrast, IPDC was in better position in 2019 than IDLC finance but their performance dropped significantly I 2020 but they have slightly improved in 2021. Overall IDLC has better performance than IPDC.

Return On Equity:

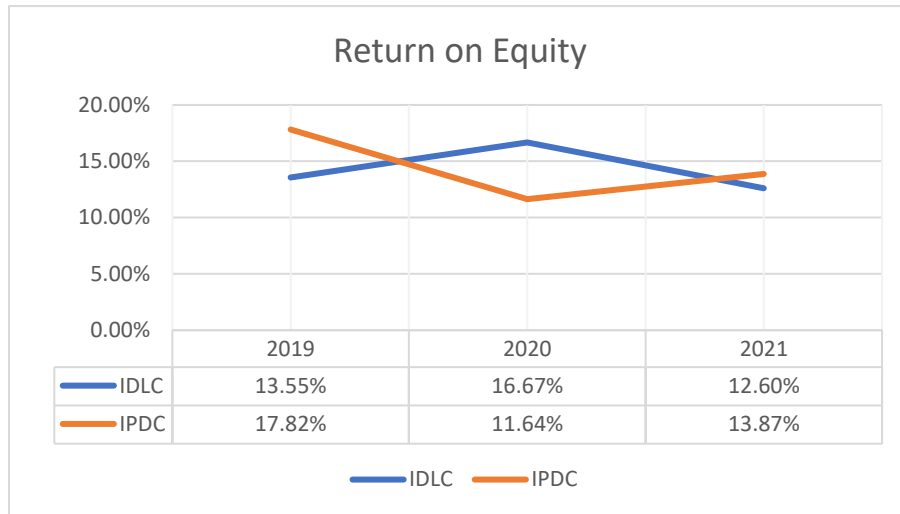


Figure 6: ROE

While comparing Return on equity IPDC Finance has better performance in 2019 and 2021. However, IDLC performed better in 2020 But dropped in 2021 where IPDC performed better in 2021.

Net Interest margin

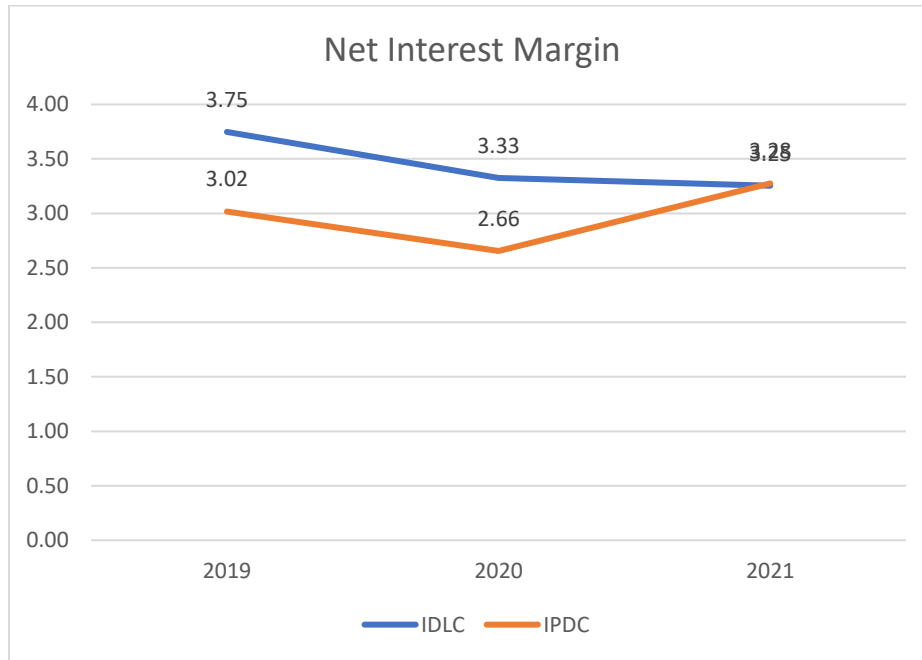


Figure 7 NIM

Net interest margin is used to determine how much the financial institution is earning profit on their interest earning asset. Since interest income is the primary source of earning for any financial institution thus it gives a critical analysis of the profitability of the organization. In this analysis between IDLC finance and IPDC Finance the performance of IDLC Finance has been better since 2019 but in 2020 Both the organizations performance decreased and in 2021 IPDC improved their performance better than IDLC Finance Limited Which indicated IPDC Finance is better managing their Interest earning assets nowadays.

Capital Adequacy Ratio

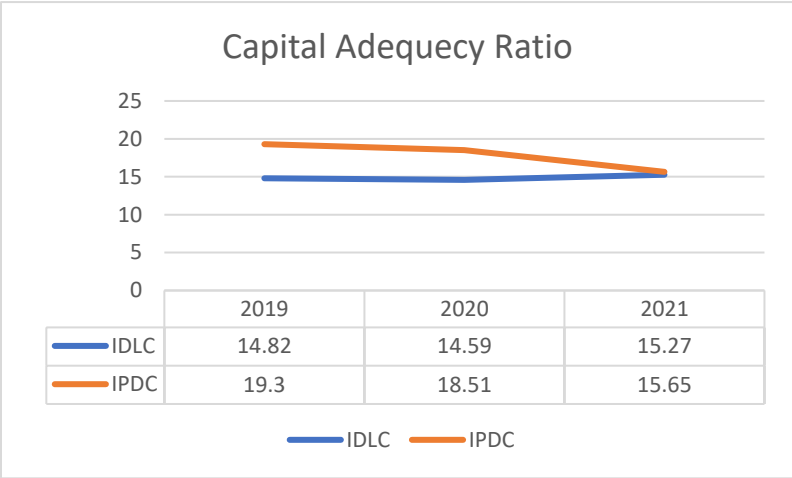


Figure 8 CAR Ratio

This ratio measures how much capital does any financial institution has against its risk weighted asset to cover the deposit from any loss. IPDC Finance was in better condition in 2019 with a higher CAR ration whereas in 2020 their condition remained unchanged and in 2021 IDLC Finance improved their performance and IPDC Finance decreased their performance.

Loan to Deposit Ratio

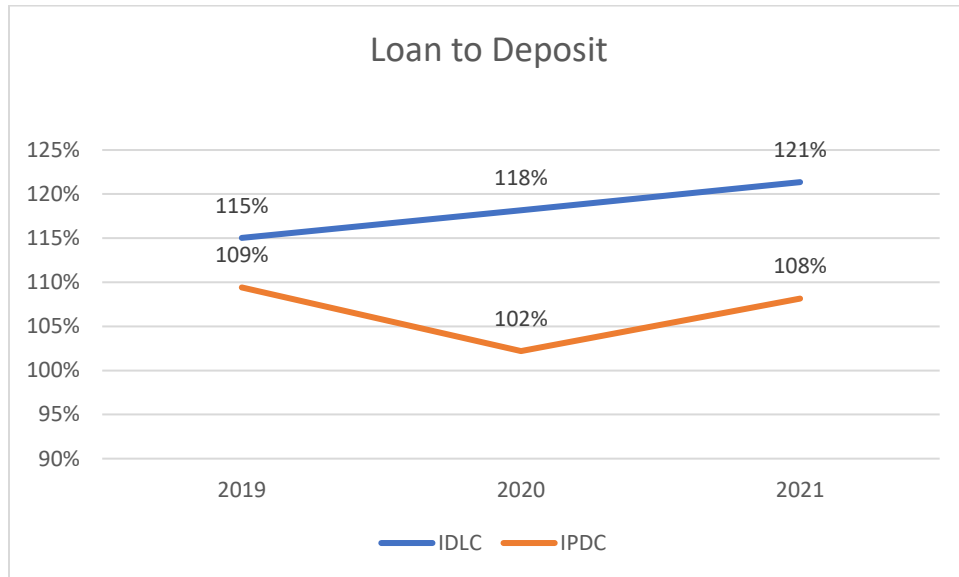


Figure 9 Loan to Deposit ratio

The loan to deposit ratio is calculated by total loans to its total deposits and illustrates how much loan has been given against how much of deposit. Generally, the appropriate Loan to Deposit ratio ranges between 80%-90%. However, IDLC and IPDC Finance both the institutions are having more than 100% of Loan to deposit ratio which indicates they are reserving very low amount of deposit for any future unexpected eventualities both the organization should reduce their Loan to deposit ratio for better performance.

Loan to Asset ratio

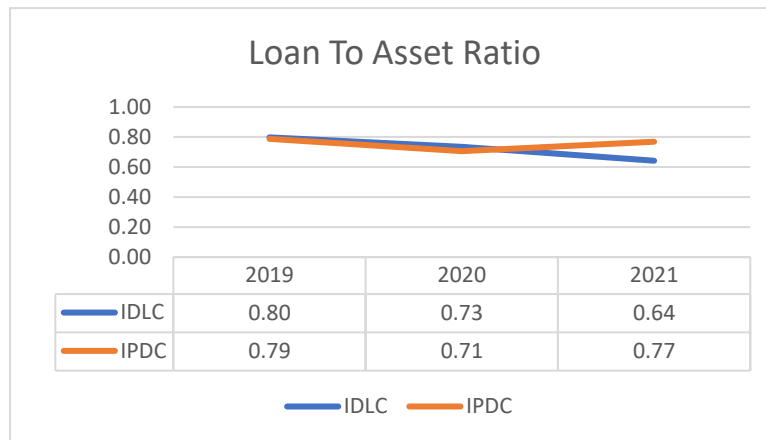


Figure 10 Loan to Asset Ratio

This ratio measures the percentage of outstanding loans against the total asset. The more the ratio is the indebted and less liquid the organization is. In this ratio IDLC finance improved their performance historically and decreased their Loan to asset ratio. However, IPDC Finance improved their condition in 2020 but deteriorated their performance in 2021.

Loan Loss reserve Ratio

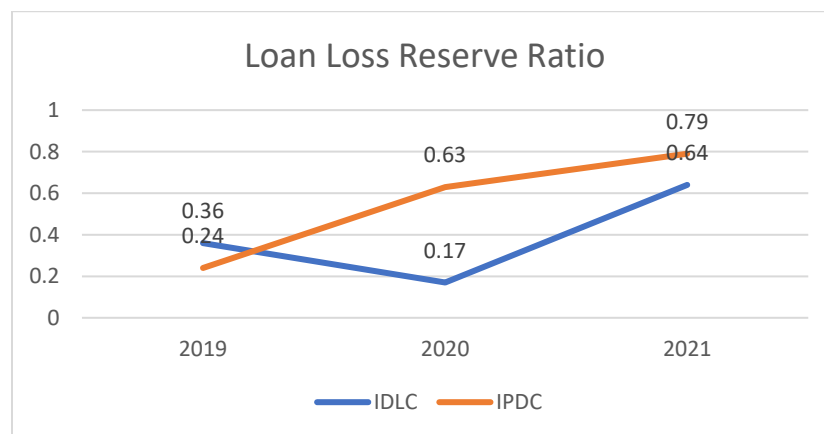


Figure 11 Loan loss Reserve ratio

The loan loss reserve ratio is maintained for the recovery against expected losses due to default loans. Between IDLC and IPDC Finance both of their ratio is in increasing that that refers both the organizations having customers who are not willing to repay their debts and IPDC has a very high portion of bad loans.

2.5.1.1 Analysis:

Financial ratios are always a great toll to analyze the overall performance of any organization in various category. Here we have analyzed the financial ratios of IDLC Finance and IPDC Finance From 2019-2021 for Profitability, Liquidity and Leverage analysis. For Liquidity We have analyzed Current Ratio and Loan to Deposit ratio where IDLC Finance has better performance in current ratio with closer ratio to 1 that indicates IDLC Finance can convert their current asset into cash more firstly than IPDC Finance. However, both the organization's Loan to deposit ratio is alarming because both organization having above 100% loan to deposit ratio indicating they are keeping very low amount from their deposits in reserve for any future unexpected events and investing all deposits into loan investment. Both organizations should decrease the ratio and maintain a ratio close to 80%.

For Profitability, we have analyzed Net interest margin ratio, Return on Asset, Return on Equity. Initially in 2018 IDLC Finance had better performance in net interest margin than IPDC Finance indicating they were more efficient than IPDC Finance in utilizing interest earning asset. However, in 2020 Both the organization dropped their performance but in 2021 both the organization has equal improvement in using interest earning asset. Moreover, IDLC Performed better in ROA and continued better performance than IPDC in the three consecutive years. On the other hand, IPDC Finance was efficient in ROI than IDLC Finance.

For Leverage we have analyzed Debt to equity, Debt to Asset and loan to equity. In all the three ratios IDLC Finance performed significantly well. The debt-to-equity ratio of IDLC Finance was much lower than IPDC Finance indicating IDLC Finance has sufficient equity to cover all their debts. Another significant ratio we have analyzed is Debt to asset ratio that illustrates the riskiness of default. The higher the ratio is the more the organization is exposed to default risk. IDLC Finance has continuously improved their condition whereas IPDC Finance Deteriorated their position.

2.5.2 Accounting Practices:

IDLC Finance Prepare their financial Statements in accordance with International Accounting Standard (IAS) and international Financial Reporting Standard (IFRS) with a purpose of error free financial statements. Also, they have appointed Hoda Vasi Chowdhury & Co, Chartered Accountants to prepare their financial statements and Audit report.

Method of Accounting:

IDLC Finance uses Accrual basis of accounting in terms of recording transactions that signifies when any transaction incurs that transaction should be recorded in the book of accounts.

Depreciation Method: Straight Line depreciation method is used by IDLC Finance to write off estimated useful life of tangible fixed asset. The rates are given below;

Furniture and fixtures	12.50%
Building	2.50%
Electrical equipment	20.00%
Curtain and carpets	33.33%
Office equipment	20.00%
Office decoration	20.00%
Telephone and telex	33.33%
Motor vehicles	25.00%
Computers	20.00%
Software (Office Operation)	33.33%
Software (Business Operation)	20.00%

2.6 Operations Management and Information Practice System:

The main source of collecting and sharing valuable information with the stakeholders and clients in the website of IDLC Finance. Also, for most of the loan applicant's valuable information with EMI Calculator has been added to the website. The website is also monitored by a talented team for better service. Also, In the website there is sufficient information about how to apply for any loan and the required documents.

At IDLC Finance there is a specific cloud-based website named OCAS where all the information about loan applicant is kept for internal use and safekeeping of customers valuable data. In terms of Loan processing there is lack of technological inclusion at IDLC Finance. However, the HR division At IDLC Finance uses separate software for maintaining valuable information of the employee and making the recruitment process smooth.

2.7 Industry and Competitive Analysis

2.7.1 PORTER'S Five forces Analysis

Rivalry Among Competitors: In the Banking industry of Bangladesh there is more than 90 banks and financial institutions that are operating in the market for giving financial services to the customers. Thus, there is high level of competition among the financial institution in Bangladesh. Also, the switching cost is very low for the customers which intensifies the competition. So, I will rate Rivalry 4.5 out of 5.

Power of Buyers: Since there is multiple financial institution in the market and the interest rate offered by the financial institution is monitored by Bangladesh bank thus power of customer is high. I will rate power of customer 4 out of 5.

Power of supplier: For NBFIs like IDLC Finance the main suppliers are the banks. Since the interest rate offered by the suppliers is also highly monitored by Bangladesh bank through its refinancing scheme thus the power of supplier is low. I will rate 2 out of 5.

Threat of substitute: There is no direct substitute of loan product in the market. However, for any investment the increased portion of equity investment can be considered as substitute. But keeping the current economic scenario of Bangladesh people will less rely on equity investment. So, the threat of Substitute is low and will rate 2 out of 5.

Threat of new entrants: the threat of new entrants is low because it requires a significant amount of investment and requires governmental decision to obtain license. I will rate threat of new entrants 1.5 out of 5.

Adding up all the forces: $4.5+4+2+2+1.5=14/25=56\%$ degree of competition.

We can also call this market concentration ratio, As the ratio is moderate, IDLC will not face any MAJOR CHALLENGES TO SURVIVE IN THE LONG RUN. However, the performance of the financial institutions highly dependent on the economic condition of the country as well. If the economy booms their performance will improve if the economy faces a downfall they will suffer in the future.

2.7.2 SWOT Analysis

Strengths

1. Strong Grip in the market with a good reputation
2. Diverse product portfolio with efficient customer service
3. Focus on inclusion of fintech in business offering.

Weakness

1. Limited operation all over the country
2. Vulnerable deposit management system

3. Limited investment scope

Opportunities

1. Inclusion of Fintech in product and service offerings.
2. Expand operation all over the country
3. Exposure in Green banking and Islamic Banking

Threats

1. Significant competition in the market.
2. Advance mobile banking and e banking may turn their services obsolete.

2.8 Summary and Conclusion:

IDLC Finance is the country's Largest non-bank financial institution with very successful performance, Implementation of corporate governance and management of information system for its investors and stakeholders. They exercise participative leadership and focus on ethical business practice. We have compared their financial ratios with IPDC Finance and found competitive and consistent performance over the last 3 years. IDLC Finance prepare their financial statements in accordance with GAAP and IAS. Also, we evaluated their degree of competition in the market through PORTER's Five forces and evaluated the degree of competition. Finally, we analyzed their SWOT for further improvement.

Chapter 3: Project Part: Consumer loan decision procedure at IDLC Finance Credit risk Department

3.1 Introduction:

The topic I have chosen for project is directly related to the institution where I am currently doing my internship and the industry is related to my day-to-day work. The reason for choosing the topic “Consumer loan decision procedure at IDLC Finance Credit risk Department” is to get the practical knowledge about how consumer loan requests are analyzed and loan decisions are made. In my Bachelor of Business administration course, I have learned from my finance courses about financial institution and their operation. But we had very little exposure to how the financial institutions process any loan request in practical setting and the loan decisions are made and how the credit risk is managed. Throughout my internship tenure I learned about the steps and processes are maintained to measure the credit risk of any loan request and base on that analysis loan requests are made. Through this project I will get the opportunity to analyze about the industry and enrich my understanding about retail banking.

The key research questions of this project are

1. What is the process to analyze loan request?
2. How many loan requests are made?
3. What types of loan request are made?
4. How loan applicants are segmented?
5. What is the status of the NPL?

3.1.1 Objective:

- Understanding the procedure of Credit Risk Management Department (Consumer Division) at IDLC Finance
- Importance of Credit Risk Management
- Loan request assessment and Approval or rejection criteria
- Improving the Credit Risk Management process at IDLC Finance

3.1.2 Literature Review

Credit risk refers to any economic loss caused by not fulfilling the financial obligations by the counterparty (Jorion,2009). Khan A.R. (2008) highlighted that Credit risk is one of the most vital risks for any financial institution. Moreover, the real risk of credit is the deviation of portfolio performance of its expected Value. Thus, credit risk management is illustrated as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayment (Coyle, 2000). Also, Management of credit risk is so significant for any financial institution because it directly affects the profitability of the business (kinthinji, 2010). The prime objective of the credit risk management is to maximize the performing asset as well as ensuring the optimal point of loan and advances and their efficient management (Banarjee, Prashanta K, Farooqui Q,G,M, 2009).

3.1.3 Significance: Since I work in financial institution and their core product is providing loan to their prospective customers. But At the same time evaluating the customers tendency to utilize the loan and willingness to repay the loan is also significant. As a finance major, I got very little exposure about the analysis of any retail loan request assessment. Through this project, I believe I will get more insight about credit risk assessment in financial institution and will be able to analyze the customers type and need for different loans.

As the economy in our country is facing a downfall in recent time thus more people will tend to take loans and may not be able to repay the loans back thus getting a practical knowledge about assessment of loan applicant will help me to perform efficiently in my future career.

3.2 Methodology

The research is done mainly based on both primary data and secondary data that I obtained from my organization's professionals and from the application form filled up the loan applicant. The Applicant for all consumer loan in the month of July are the sample of this research. Here we analyzed all the 50 applicants whose loan was approved in Gulshan and Dilkhusha branch for analysis of their exposure to credit risk. The sample includes different segments of loans applicants and the loan product they received. Also, for the loan decision process I also interviewed organizational officials who are involved in loan approval or rejection decision making.

Although the sample of 50 loan applicants of Dilkhusa and Gulshan has been analyzed for the research but due to limitations we could not conduct direct interview of the applicant. We have to rely on the information that they have filled in the loan request application form.

3.3 Findings and Analysis;

3.3.1 The loan request Assessment Process:

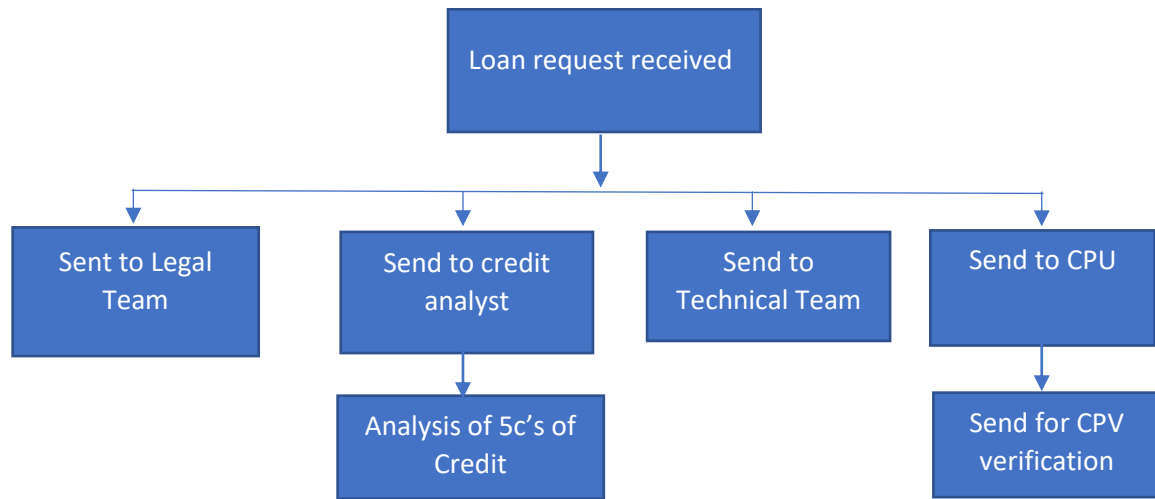


Figure 12: Loan decision Process

Initially the business Team hunt prospective loan applicant and brings the applicant’s loan request to the CRM division for detailed assessment of the loan proposal for further processing of the loan request. After receiving the loan application CRM asses, the loan through their different teams. That includes

1. Legal Team: This team actually validates the loan applicants’ different legal aspects of the applicant like previous criminal record, land papers and ownership status for home loan and overall legal aspects of the applicant’s character.
2. Assign a Credit analyst for assessment: After receiving the loan proposal the analyst thoroughly analyze 5c’s of credit on the applicant whether the applicant is creditworthy or not. The analysis of 5c’s of credit is illustrated below.

Character: To analyze the character of the loan applicant first the analyst looks into the Credit Investigation Bure (CIB) report in the Bangladesh Banks database. Bangladesh Bank maintain database of any individuals previous record of loans and the status of the

loan. By looking at CIB report the analyst obtain insight about the applicant's previous loan history. Secondly, based on the Education, occupation and social status the applicants are categorized in different segments of "A" "B" "C" "D".

Capacity: Here the loan applicant's financial ability to repay the loan is analyzed. Here 3 crucial ratio is analyzed to check the financial ability of the loan applicant. First Debt to Barden (DBR)=Total Barden/Total Income is calculated to check current loan burden on the applicant. If the ratio value is up to 50% the applicant is considered for further assessment. Then Fixed obligation to income ratio Is calculated (FOIR)=Total Expense/Total Income to evaluate the inevitable expenses of the customers. The decision criteria is if the ratio value is below 100%. Also we calculate Net FOIR = Total Expense/(Existing income + Expected Income) for home loans because if the applicant uses the home for rental income. The decision criteria here is up to 150% of Net FOIR.

Coverage: For coverage the contribution of the applicant in the proposed project is taken into consideration. For this analysis Loan to Value (LTV)= loan Amount/Proposed project value is taken into consideration. The more the contribution of the applicant in the proposed project the more the applicant is involved in the project and that minimizes the default risk. Based on the previous calculation and segmentation till 70% of the proposed project is financed by IDLC finance.

Collateral: Usually the proposed project for which an applicant apply for loan is usually kept as collateral. But to evaluate the value of the collateral the analyst uses the technical team's evaluation on valuation of the project.

Condition: Here the purpose of the loan is determined in consumer division home loan, car loan and personal loan is offered to the clients. If the client's purpose of loan aligns with the offering of IDLC Finance and convincing to the analyst then the loan request is proceeded to the approver for approval.

3. Send to technical team: This team is solely designated for valuation of the proposed project. They visit the loan applicants proposed project apply their technical knowledge and value the financial worth of the proposed project.

4. Send to CPU: This division usually gives input the clients information in the database software of IDLC finance and send the clients information to CPV team for further verification.

4.1 Send for CPV verification: After receiving client's information from CPU team CPV team re verifies the client's information through 3rd party agents. Here the guarantors of the loan applicant are asked about the loan and their signature is taken and address is cross verified.

After all the above-mentioned assessment and verification if any loan applicant fulfills all the required criteria and assures credibility then the loan request gets approval. On contrast, if any applicant fails to fulfill any of the above-mentioned conditions or found suspicious by the credit analyst then the loan request is rejected.

3.3.2 Branch Wise car loan segments

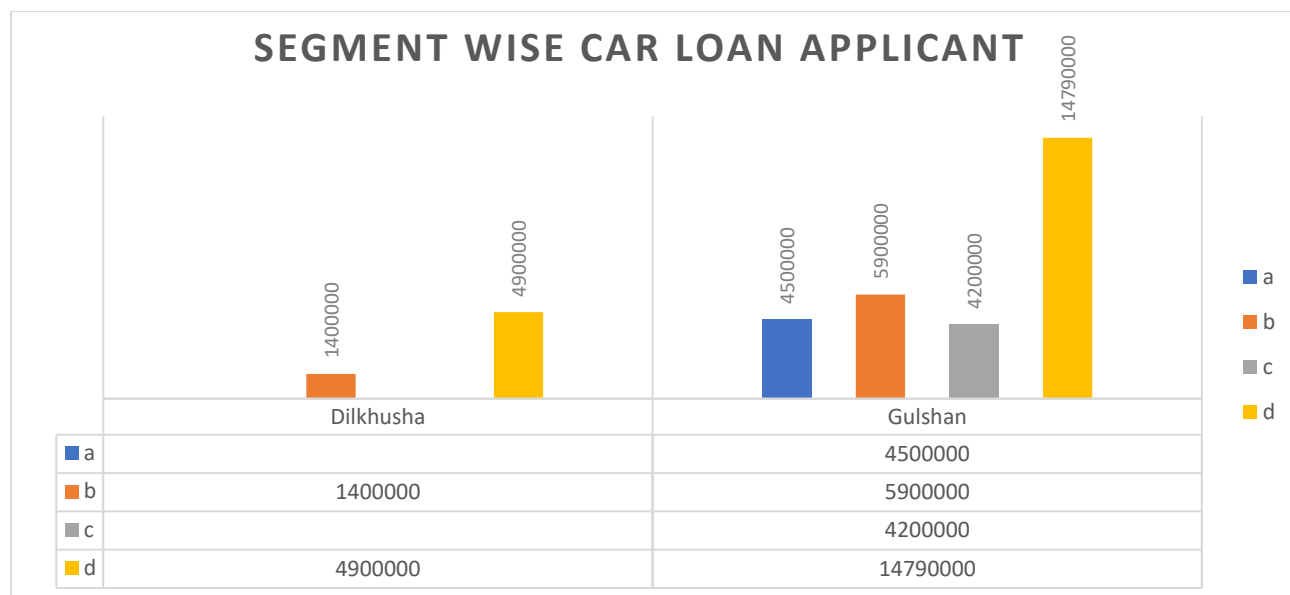


Figure 13: Segment wise Car Loan

In the month of July 2022 there was 16 car loan request was approved in both dilkhusha and Gulshan Branch. Among which 25% loans was approved at Gulshan branch with high portion of “D” segment customers then with “B” Segment customers and gradually with “A” and “C” Segments of customers. In case of Dilkhusha Branch only “D” and “B” category customers loans was approved among which “D” category is the predominant. So overall for Car loan mostly “D” segments of Customers are served by IDLC finance.

3.3.3 Branch wise home loan Segments

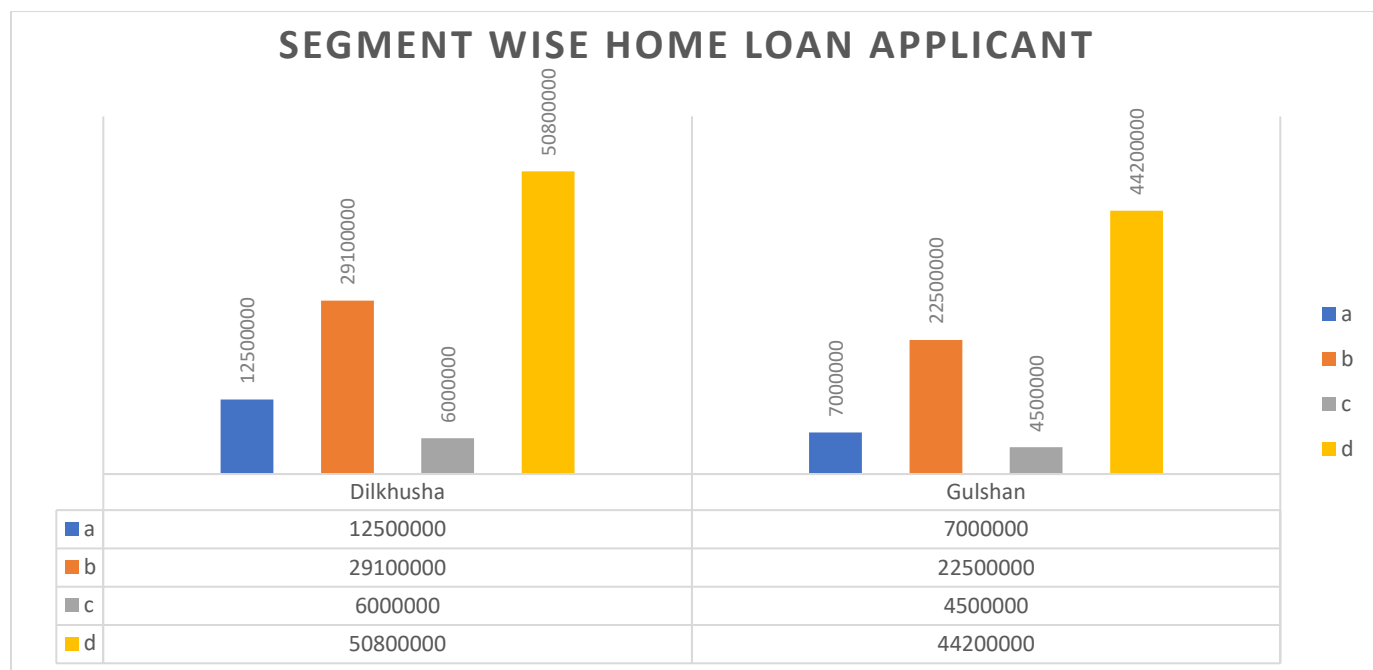


Figure 14: Segment wise Home Loan

In the month of July 30 home loan request was approved in Gulshan and Dilkhusha Branch among which 45% was approved in Gulshan and 55% was approved in Dilkhusha. For home loans also Segment “D” has the highest amount of loan applicant and segment “B” is the second highest loan applicant. And gradually Segment “A” and “C” ranks.

3.3.4 LTV for Home loan Segments

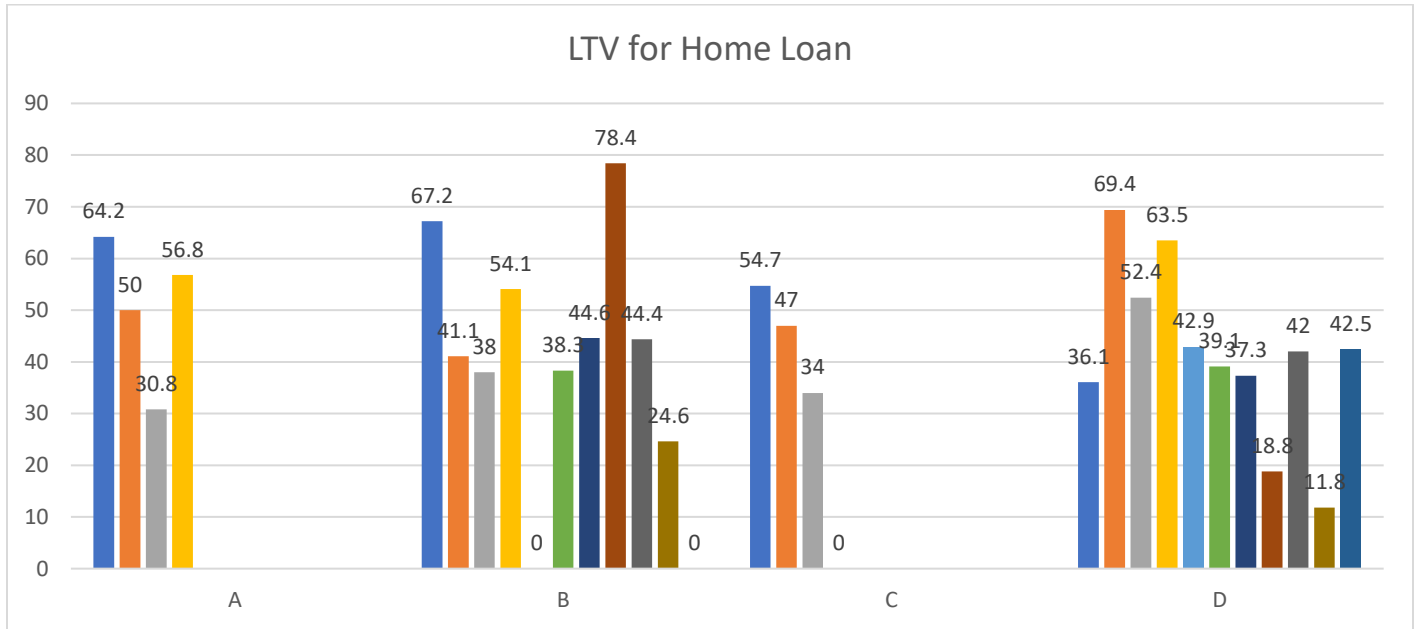


Figure 15: Segment Wise LTV

Though the Segment “D” obtains most of the loans but The LTV is low for segment “D” customers. However, Clients from Segment “B” have the highest LTV ratio which indicates highest risk is taken by IDLC Finance.

3.3.5 DBR For Home Loan

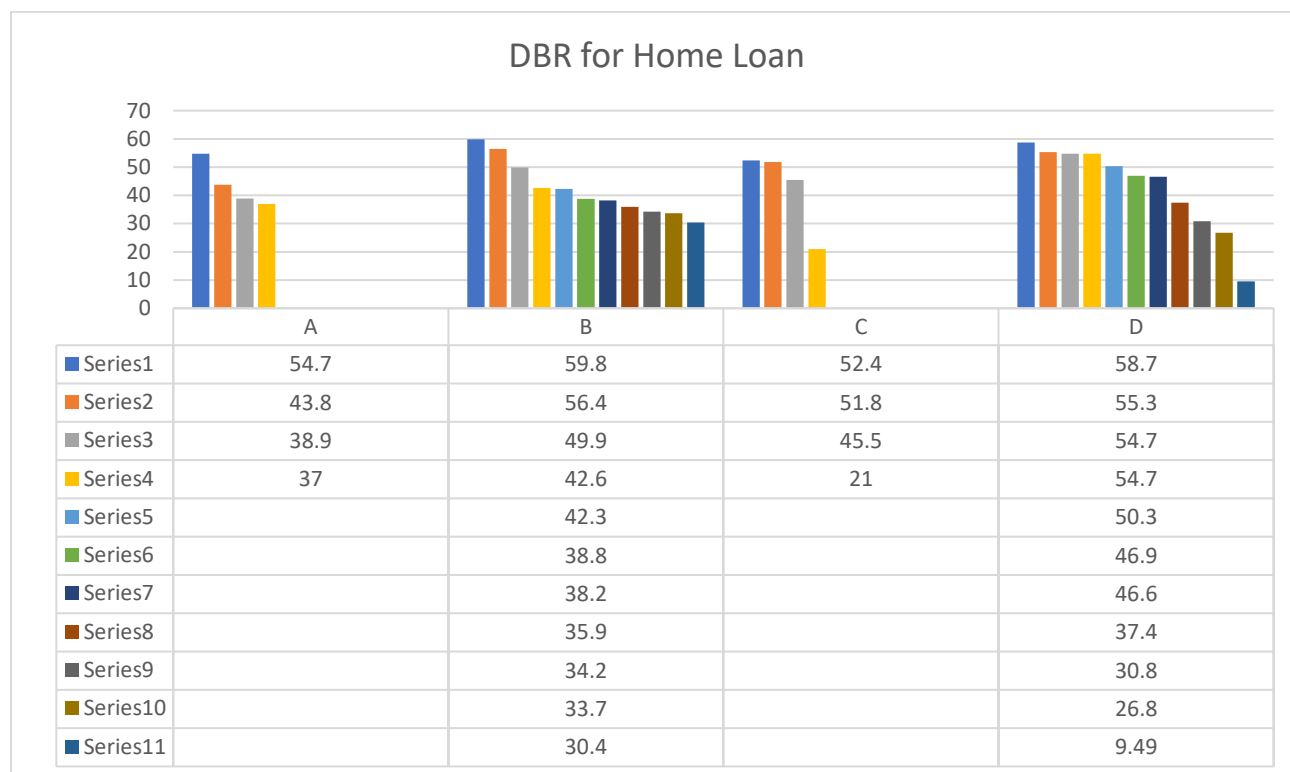


Figure 16: Segment Wise DBR

Though the standard DBR ratio is 50 However the most loan approved section Segment “D” Applicants are having high DBR ratio indicating that the clients of Segment “D” is highly exposed to loan loan barden than their income and they have the highest possibility to default. Also Segment “B” clients are highly exposed to high DBR rate. Thus most of the Home loans offered by IDLC finance are highly risky.

3.3.6 NPL Treand

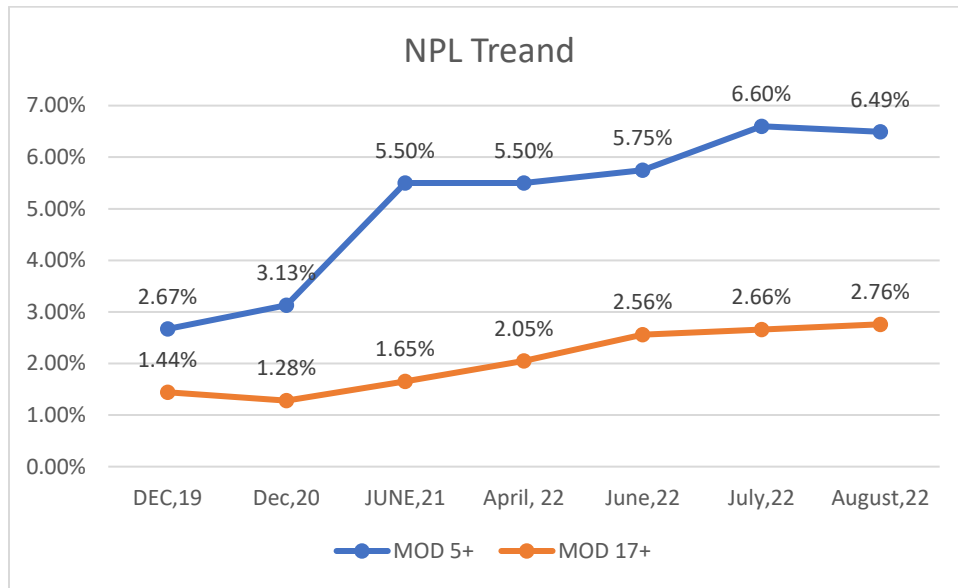


Figure 17 NPL Trend

The NPL Ratio enables us to determine the peoportion of Non performing loan of total loans. Usually, NPL with lower than 6% are considered as acceptable. However, for both 5 months above month overdue (MOD) and 17 months Over month overdue are in increasing treand and 5 month above MOD has has increased significantly in the last 3 months. Moreover, 17+ MOD is also in inreasing treand but the rate is in optimal level. Most significantly IDLC Finance has successfully been able to convert their Non performing Loans to reperforming loans and in the long term their Non performing loan in in optimal range.

3.3.7 Product wise NPL

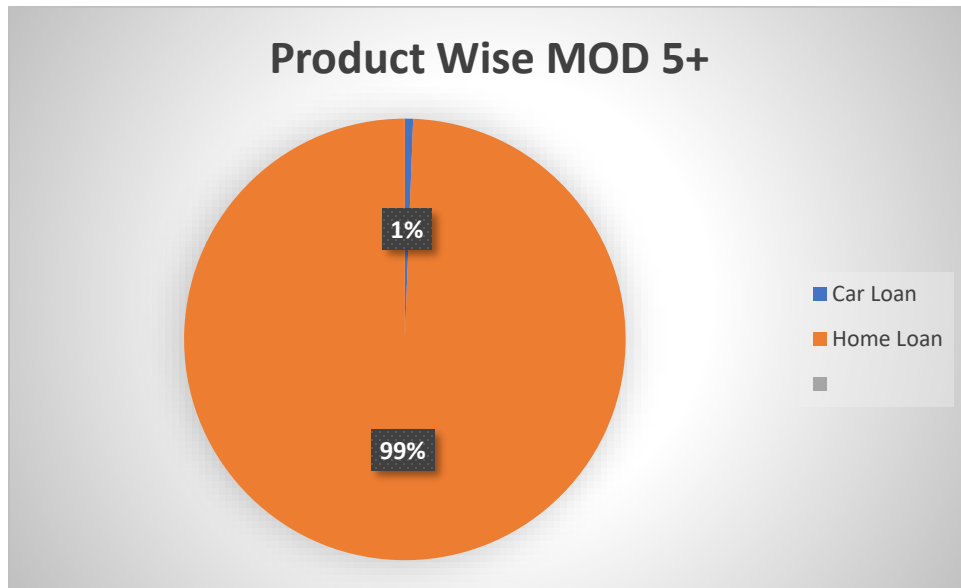


Figure 18 Product Wise MOD5+

While analyzing the NPL of IDLC finance the 5 month overdue account mostly attributed to home loan applicants. This indicates IDLC Finance should be more wise and conscious while making any loan approval to home loan applicants.

3.3.7 Segment wise Home Loan MOD 5+

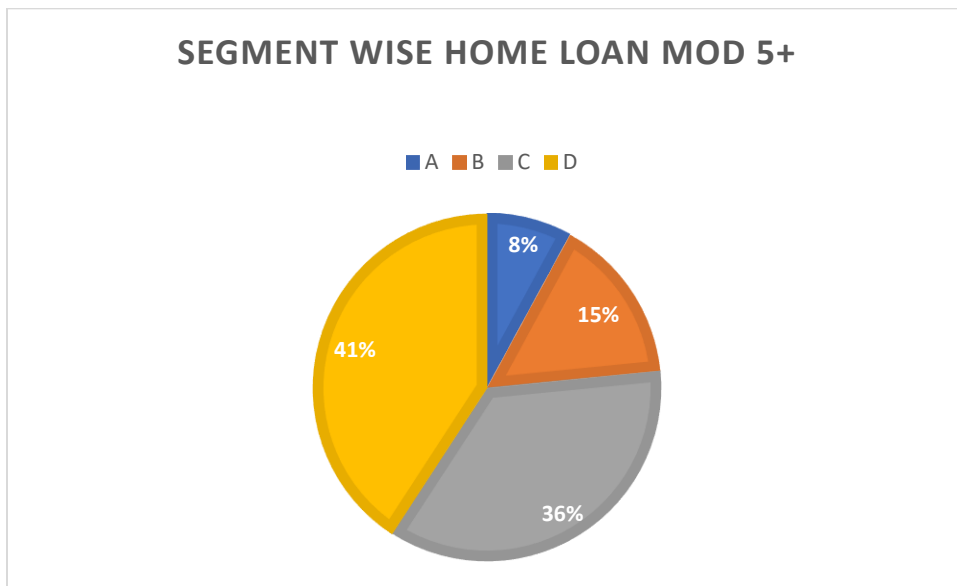


Figure 19 Segment wise MOD 5+

Previously, it was found that home loan applicants tend to default more than car loan applicants. And now the pie chart shows among home loan defaulters the Segment “D” and Segment “C” customers default more. The rate of default in segment “D” and “C” are 41% and 36% consecutively. The rate is very alarming for further loan approval for these segments. However, Most of the approved loans was in segment “D” category with high LTV and DBR ratio.

3.4 Summary

Though for the consumer loan division including both home loan and Car loan applicant requests are almost the same in both branches. But the applicants who are applying for the loan are belonging to Segment “D” category. Who are the most risky investment for IDLC finance because their LTV and DBR rate is significantly high than other segments and they are highly in risky conditions. Moreover, The NPL trend in MOD5+ is also in an increasing trend and most of the defaulters are belonging to Segment “C” and “D” whose recent approved loan contains also high exposure to credit risk. Since the historical data illustrates the segment “C” and “D” has a record of very high NPL thus loan approved to this segment should require more critical analysis. As per my opinion IDLC finance should try to attract more segment “A” customers for their loan offering so that they can make investment in less risky customer segments and reduce the default risk.

3.5 Conclusion

Though the process and steps IDLC finance take into consideration to evaluate every loan applicant is very structured but the loan applicant to whom the loans are given are concentrated to one segment of customer. Also this segment of customers are considered as the most risky group of people. Also the investments made by IDLC finance are very risky investments because the applicant's DBR ratio is very high and they possess very high risk of default. So portfolio of consumer loan at IDLC Finance should be diversified.

3.6 Recommendation

From my observation the Contact Point verification (CPV) is a significant part of applicant assessment. However, this critical task is done through the third party agent who often provides faulty report that might impact the loan decision adversely. If IDLC can develop a specific dedicated team for CPV with own employees instead of third party agents they could minimize the risk even more. Also diversified loan portfolio must be ensured to diversify risk. Furthermore, The loan request of segment “C” and “D” of Home loan should require more detailed verification including local Chairmans verification on the applicants character and whether they are exposed to any local loans or not. Another pivotal part is while analyzing the income of the applicant IDLC Finance considers the agricultural income of the loan applicant which depends on the harvest and high chance of fluctuating. Thus, while considering income of the applicant their less risky source of income should be considered to calculate the income of the applicant.

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Appendix

Segment: A

Businessmen (premium corporate segment), Salaried executives of large local/international/multinational organizations, foreign NGOs & agencies, UN organizations, embassies, high commissions, banks & financial institutions, multilateral bodies having at least 3 years of operation, and independent / salaried professionals comprising accounting professionals, physicians (with minimum 5 years of experience), Dentist, Mariner (Chief Officer, Second Officer, Chief Engineer, Second Engineer), 1st class/ gazetted officer in government/ semi government organization, corporations or autonomous body, faculty members of renowned universities/schools.

Segment: B

Salaried executives of local corporate (mid segment), prominent NGOs, officials (other than 1st class/ gazetted officer) serving in government/ semi government organization, corporations, autonomous body, Physicians (less than 5 years of experience), teacher & other professionals other than mentioned in segment A, Mariner other than mentioned in segment A (except non-commissioned employees), Professional /executive NRB, businessmen (corporate segment).

Segment: C

Salaried executives of NGOs (other than mentioned in segment A & B) having 10 years of operation in the country, local corporate (small segment), non-commissioned employees in merchant/passenger ships/tankers, non-executives other than mentioned in segment A & B, employed NRB and landlord having rental income.

Segment: D

NRB businessmen, businessmen (mid & small segment)