HFCs scout for people and technology to manage risk

MDs and CROs of housing finance companies discuss current trends in risk management:

Deepak Patkar

Anuj Mehra

Naveen Uppal

The National Housing Bank (NHB) has recently asked all housing finance companies (HFCs) with more than ₹50 billion in assets to appoint chief risk officers, citing the need for strengthening risk management practices in the industry. The directive comes in the wake of some HFCs and NBFCs facing liquidity issues after the IL&FS defaults came to light, underscoring the mismatches between assets and liabilities in this sector. As per the NHB directive, the CRO is required to function independently to ensure the highest standard of risk management. NHB stipulates that the CRO, who will have voting power in credit sanction proposals, should be a senior officer with adequate professional qualifications and experience. Boards of HFCs can appoint CROs for a fixed tenure. Her/his role in deciding credit proposal will be limited to that of an advisor and will be involved in the process of identification, measurement and mitigation of risk.

TOP RISKS

HFCs today face risks involving liquidity, credit, ALM, operational and lack of funding. The availability of funds for HFCs has reduced significantly from all sources and this further restricted the ability for fresh lending and maintaining of healthy book sizes.

Deepak Patkar, group CRO at Magma Fincorp and Magma Housing Finance explains the top risks faced by HFCs: "The asset liability mismatch, or ALM, risk is a crucial risk. Prudent HFCs have started correcting their positions of mismatch over the last 3-4 quarters. The liquidity crisis has slowed down that process, which could lead to stress on cash flows in the short to medium term. Another major risk is the one associated with construction/builder financing. With banks becoming allergic to even reputed real estate developers, there can be substantial delay in project completion. Their restricted ability to complete and hand over premises to home buyers will lead to stress on their repayments to banks and HFCs."

Sanjeev Srivastava, CRO at IIFL Home Loans, concurs and adds: "High cost of borrowing, decreasing funding options, seller impersonation and data misrepresentation are the other risks faced by HFCs."

According to Sanjay Chaturvedi, CEO, Shubham Housing Finance, his company faces risks on account of delinquencies and losses as also reputational and regulatory risks. "We have developed a tool in-house - 'key matrix' – which helps us to identify what had gone wrong and then fix the wrong. HFCs should give due weightage for credit and liquidity risks," he says.

CRO APPOINTMENT

Most of the larger HFCs, after the directive of NHB, are in the process of appointing CROs. Many HFCs are taking internal and industry references and have appointed recruitment agencies for the purpose.

Mahindra Rural Housing Finance does not have a CRO at present, but the Mahindra Group has CRO office, which helps group companies identify and manage risks associated with their respective businesses. The company has been following risk identification and mitigation practices and monitoring risks. It is now seeking to appoint a CRO. Anuj Mehra, MD of the company, says the office of the CRO of the group helps the company identify the risks faced by the business. "At present, this exercise is coordinated by the office of the CRO with the MDs, COOs and CFOs. Once the risks are identified, risk champions relevant for that risk, monitor these risks as well as initiate risk mitigation steps. For example, risks related to liabilities would be handled by the CFO, credit related risks by the chief credit officer, etc," he adds.

For the last 3 years, Naveen Uppal has been heading the risk function as risk head at Indiabulls Housing Finance. Following the directive from NHB, he has been redesignated as CRO of the company.

Deepak Patkar of Magma Fincorp points out that the NHB directive applies to companies with an AUM of ₹50 billion and above. "However, we have plans to have a separate CRO for our housing finance unit in FY2021 when our book size will be crossing ₹35 billion," says he.

Capri Global Housing Finance has the position of head, Risk, who oversees the risk functions at the HFC and NBFC wings of the company. Rajesh Sharma, MD of the company, says the company will be appointing a separate CROs in the coming months. "Whether the regulator suggests or not, there is need for efficient risk management in any entity which is handling money and where asset quality maintenance is required. We have risk managers at branch, regional and national level and they are manging the risks and underwriting," says he.

The bottomline is that risk management function is getting focused and centralized.


Rajesh Sharma


Sanjay Chaturvedi


Sanjeev Srivastava

CREDIT RISK POLICY

How are HFCs ensuring effective credit risk management?

IIFL Home Loans has broadly revised its policy under categories like affordable segment borrowers, increased funding basis reported income and restricted eligibility calculation through various surrogate programs. It has made the balance transfer norms more stringent with eligible financial institutions. Multiple funding to same borrowers is restricted and project approval norms have been tightened for builder properties.

Says Naveen Uppal of Indiabulls Housing Finance: "We continuously evolve our risk policies and framework. Our risk management committee reviews our credit policy and operations on an ongoing basis and places recommendations that would curtail/averse potential risks. In the recent past, we have modified our policy for loan valuation basis which now every loan would have two external valuations."

Deepak Patkar of Magma Fincorp outlines the mechanism adopted by the company for the credit policy: "We follow a rigorous review mechanism for our credit policy. This is guided by our regular analysis of the customer segment performance and market conditions. We have consciously avoided taking high ticket exposure on LAP and construction finance and increased focus on retail loans for affordable housing customers."

Anuj Mehra of Mahindra Rural Housing Finance says the company has developed a credit scoring model using machine learning. This was done by analyzing the repayment pattern of 200,000 customers. "For risks other than credit risk also, we keep changing risk mitigation action plans depending on our assessment of the risk at any point in time," he adds.

TECH FOR RISK MANAGEMENT

HFCs use a variety of risk management software to manage risks. Some use custom-built credit appraisal systems integrated with bureau analyzers and fraud deduplication platforms. Most of them are in an advanced stage of developing credit rule engine for housing loans and have deployed statistical tools for risk segmentation to sharpen the collection strategy.

Naveen Uppal speaks about the various software in use at Indiabulls Housing Finance: "Our core software is FINNONE, which is powered with multiple plug-ins, which in turn provide alternate data to mitigate risks. These plug-ins are integrated with our CRM for PAN verification through NSDL, Perfios for bank statement verification, Automated Credit Score using CIBIL and Experian, Hunter from Experian for pre-application check, Finfort for ITR verification, Email Verification services of CreditVidya and Deduplix by Xcite to avoid reduplication."

Sanjeev Srivastava mentions IIFL Home Loans' tie-up with fintech companies for risk management. These tie-ups are essentially at transaction level and portfolio level. "At transaction level, we have SaveRisk for company checks, Finfort for income document validation, Perfios for bank statement analysis and Whatsloan for KYC validation. For portfolio risk management, we have management decks with early warning triggers," says he.

Capri Global Housing Finance uses a combination of touch and tech. The company mainly serves small entrepreneurs like garage owners whose transactions are in cash. Technology is used in backend processing, data analytics and generation of MIS.

Sanjay Chaturvedi of Shubham Housing Finance says the internal tools the company has developed like the dashboard and trackers are helpful in managing risks. It is also using analytics for manging customer data and portfolios.

STARTUPS VS ESTABLISHED

Today companies handling risk mitigation use advanced technologies, including AI and ML. These companies are willing to try new things to solve some of the industry's most critical problems like fraud detection using OCR, extracting financial information from bank statements and helping companies to automate decisioning. However, scarcity and sanctity of data available with companies limit the scope of such companies which are purely data driven.

Sanjeev Srivastava explains: "Established solution providers have deep domain knowledge and provide solutions which are easy for companies like us to understand and consume. Since we are in a transition state where we are moving from heuristic to data driven models, for us a blend of risk-tech and established providers is more preferred. However, going forward, we may be focusing more on risk-tech companies."

Naveen Uppal believes in complete automation rather than relying on standalone tools/solutions. Technology is a boon to all, he says, adding the company continuously explore options that would help in its credit decisioning process.

Deepak Patkar maintains that all solution providers are progressively moving towards providing technology solutions. "The gap between risk-tech and traditional companies is narrowing very fast. All solutions need to be evaluated and tested for suitability," he adds.

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