Box 1: Commercial Loans Provisions by Company Size - Financial stability Report, First Half of 2021

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Credit institutions (CIs) in Colombia provision their loans based on the regulations established by the Office of the Financial Superintendent of Colombia (FSC). Specifically, the FSC introduced the Credit Risk Management System (SARC in Spanish), a reference model for determining the minimum loan-loss provisions required for loans based on debtor characteristics, the loan transaction, and the credit cycle phase of the institution.

This box focuses on one of the characteristics that determines the required level of provisions. Specifically, a brief analysis of the relationship between the amount of provisions and the size of the company in the commercial category is presented. The results suggest that the level of the provisions made by the CIs reflects a combination of regulation and internal risk analysis done by each entity. The CIs follow the pattern defined by the regulations that call for greater provisioning for loans to smaller companies and, in general, provision them in excess of what is required. These additional provisions also seem to depend on the size of the borrowers and is thus larger for smaller companies within each size category. This characteristic means that the method used by institutions to determine their level of provisions enables them to soften the impact of shocks that, like the one the Colombian economy went through recently because of the global pandemic, affect small companies particularly.

Fuente: https://www.banrep.gov.co/en/publications-research/financial-stability-report/box-1-first-half-2021