Bank Provisioning and Microcredit

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In this paper we develop a banking model to study the traditional credit and the microcredit markets. We suppose a monopolistic traditional bank that specializes in screening potential debtors based in their risk profile and a microcredit bank that focus on monitoring the riskier profile customers. The model is calibrated with Colombian financial data. The results show when banking provisioning depend only on the screening level, a significant portion of the risky debtors are left out of the financial system and the microcredit bank would not operate in certain market conditions. Nonetheless, when we consider provisions that include monitoring considerations, the microcredit bank would be profitable for the different debtor risk profiles, and its optimal monitoring level is higher in comparison with the ones chosen by the traditional bank. Keywords: Bank Provisioning, Microcredit banking model, Regulation and risk profiles, debtor screening, debtor monitoring.