Risk Calibration & Forecasting

Actively monitor portfolio, calibrate risk and forecast performance

Introduction

Global circumstances have impacted businesses around the world to an unprecedented extent.

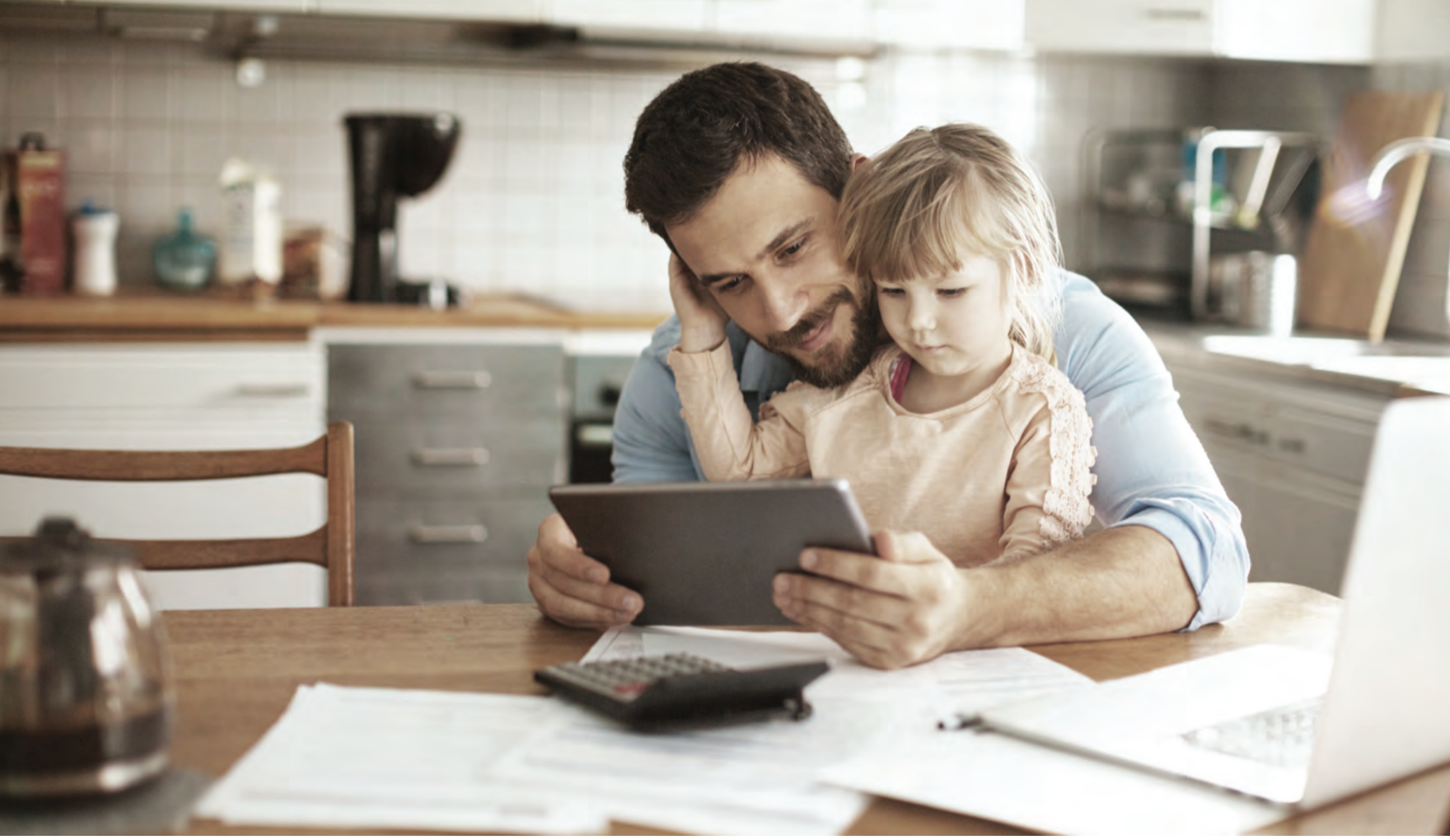
With the volatile market conditions, scenario models that have worked in the past are unlikely to be relevant today. A new response is needed by developing appropriate, effective models. These will consider the different variables in play, and allow you to tweak your loss forecasting models and other portfolio KPIs.

It's also fair to say that the assumptions made when calculating expected credit loss as part of IFRS9 will need to be rethought based on the latest insights to make sure that they're accurate and robust.

Also, consumer payment priority may change as well, leading to a need for businesses to accurately segment credit risk and stress versus loan-stacking. Segmentation and loss provisioning will become essential parts to a rapid response as businesses will seek to cut costs, reduce prices, postpone new investments and reduce expenditures.

The need for businesses is to increase agility/control across the credit risk teams to actively monitor and predict portfolio performance. This will help the businesses control losses, measure capital adequacy norms, and have an early warning system in place to take effective portfolio actions based on critical scenarios.

Experian® solution helps banks to monitor changes in key portfolio indicators and adjust current models to manage these actively to drive towards a contained loss rate or capital adequacy ratio with multiple scenario simulations in line with the economic uncertainty and evolving situation.



Key Challenges

Portfolio Performance

Changes to portfolios due to rapid **shifts in underlying borrowing** characteristics

Asset Quality Deterioration

Significantly higher outstanding debt due to **job losses and income shocks**

Consumers become **at-risk or vulnerable** and **Consumer-oriented sectors** are facing the most immediate impact

Regulatory Models

Due to its uncertainty, the global health crisis raises several questions on banks' regulatory models

- Do the existing models **sufficiently capture the impact of Covid-19?**
- What other **recalibrations and refinements** can be done to strengthen the banks' regulatory models?

Review of Scorecard

Significant impact in **model performance and suitability** due to changes in relationship between the **drivers and predicted behavior**

Recalibrations and refinements to strengthen bank's models and accounts for macro-economic changes

How can Experian help?

Experian's solutions allow banks to analyse & monitor changes in portfolio behaviour, understand the underlying macro-economic trends and the potential impact of the same, thereby allowing us to help you re-calibrate your models to adjust to the changing circumstances.

- Inevitably, your credit portfolios will feel the impact of the pandemic, and having access to the right tools and data including macro-economic trends & bureau data, will enable you to run more accurate stress testing and gain a clearer picture of what that impact is likely to be.

- Due to the rapidly evolving impact of the crisis, scenario models that have worked in the past are unlikely to be relevant today. A new response is needed and at Experian we can support you in developing appropriate, effective models. These will consider the different variables in play, and allow you to tweak your loss forecasting models and other portfolio KPIs.

- It's also fair to say that the assumptions made when calculating expected credit loss as part of IFRS9 will need to be rethought based on the latest insights to make sure that they're accurate and robust. Again, we're here to guide you through this process, with expert advice and practical tools.

- Adjusting for declining levels of applications and credit quality
  With a reduction in the number of new applications for credit, it will be important to look to the existing base for growth.

- Existing customer management strategies will need to be re-evaluated to understand what changes should be made to balance extra customer assistance with acceptable risk.

- It's likely we'll see a shift in lending types, with the demand for sub-prime credit growing and demand for prime credit reducing. Therefore, a review of your scorecard and segmentation, together with analysis of your cut-off criteria, can help to make sure you're accepting the right customers for your risk appetite, even in a reduced pool.

Learn more:

Contact your Experian representative to learn how our solutions can monitor portfolio, calibrate risks, and forecast performance.

www.experian.com/innovation