RISK MANAGEMENT

DIGITAL STRATEGIES AND TOOLS

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International
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WORLD BANK GROUP

Overview

- Competitive pressures, regulations and customer expectations driving financial institutions (FIs) to rethink the cost and efficiency of lending and risk management activities
- Greater digitization of the credit process is key to establishing a robust platform to:
    - Prospect and service clients
    - Improve risk decisions – selection, pricing, losses
    - Reduce operational costs and risks
    - Provide early warnings and remediate problems earlier
    - Deliver effective portfolio analysis and information
- Investing in risk management capability supports the growth of profitable business, responsiveness to customers and managing portfolio quality

Creating value

- Enhanced credit risk management requires further steps in automation, connectivity, delivery and decision making to create value
  - Grow (protect) revenue
    – Customer demand for services
    – Retain and attract good customers
  - Reduce the cost of risk management
    – Better decisions based on data and analytics
    – Improved risk / return with risk-based pricing
    – Real time data for portfoliooversight and forward looking indicators
  - Reduce operational costs
    – Automated / standardised work flow to reduce manual handling and errors

Strategic approach

- Define target market segment based on FI strategy, risk appetite, capability.
- Map the entire credit value chain, capturing all processes and functions
- Analyse points for the potential for revenue growth, cost reduction, risk assessment and portfolio management in order to evaluate cost-benefit of solutions

Source: The value in digitally transforming credit risk management, McKinsey, 2016

Implementation considerations

- FIs have (should have) initiatives to digitize credit risk management
- Typically start with retail credit processes with most efficiency gains
- Progression up the SME chain with digitization of key steps in credit processes and integration of credit decision tools – pilot product cases
- Understanding and testing new data for risk modeling – what is the confidence level for performance of recent data sets in stress / crisis? Potential impact on portfolio?
- Coordination of multiple parties and systems – change management for process, methods, customer
- Regulators expect the risk function to play a more active role with new / increased risk issues e.g. privacy, cybersecurity, AML / KYC, data aggregation (BCBS 239)