# **RISK MANAGEMENT**

## DIGITAL STRATEGIES AND TOOLS

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#### **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

			high-level digital credit risk value map		
	Credit risk value cha	in	Potential for revenue	Potential for	Potential to reduce cost of
	Appetite and limit setting	Strategies and policies	Improvement	COST TEOLCTION	risk mitigation
	Organization (customer contract)	Sales and planning			
		Pricing	1		
	Credit analysis and decision	Analysis			
		Scoring and rating			
		Application			
		Decision			
í	Back office and loan administration	Contracts and documents			
		Collateral management			
	Monitoring and early- warning system	Issue identification		<u>1</u>	
		Action recommendation	1		
	Collection and restructuring	Workout strategies	))i		
		Restructuring			
	Reporting	Report generation			
		Insights and analysis		Ĩ	
		Work-flow support			

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



#### **Implementation considerations**

- Fls 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)

