

Credit Scoring and Credit Control X
August 2007
ABSTRACT

When scoring doesn't work

Credit scoring has been in active use in the UK financial industry for over two decades. It has become an accepted and widely used method for automating credit decisions.

This paper looks at the current environment in which credit scoring processes operate, and identifies areas where there is deterioration in the ability of a credit score to predict risk.

Changes in the external environment, consumer's attitudes to credit and their approach to obtaining and managing their debts are examples of factors not readily available to the scorecard development process. The way this behaviour is altered by the marketing and credit strategies, is also difficult to pick up in a standard scorecard development process.

Specifically, the effectiveness of risk scores will be discussed in relation to factors such as indebtedness trends, pricing/product strategies and external market changes.

The presentation concludes by outlining the implications of the findings on credit policy strategies and scorecard use.

Kate Sharman
Alliance & Leicester
[*Kate.sharman@alliance-leicester.co.uk*](mailto:Kate.sharman@alliance-leicester.co.uk)