

Credit risk assessment:

Frameworks for enterprise-credit

This report provides frameworks for credit-risk assessment in the enterprise-credit domain (SMEs and larger businesses), that can aid lenders when assessing which data and tools are appropriate. It strives to provide succinct coverage of a broad topic. Traditionally, lenders relied on the five Cs, but modern technology and analytical tools have allowed them to amass and capitalise on data. Tool and data types vary though, largely depending upon the size and nature of the enterprises. Entrepreneurs' personal data play a major role when assessing the smallest companies, but enterprise-specific data (transactional, trade-creditor, financial-statement, rating agency grade, bond and equity prices) take over for larger companies. The primary analytical tools are judgmental, structural, reduced-form, and scoring. The latter plays the greatest role for smaller enterprises where there is sufficient data and performance to develop a model, and has been the major catalyst behind a shift from relationship to transactional lending. Even for larger enterprises, scorecards can be developed that harness expert input. This paper further highlights the potential value that can be added by proper assessment of financial-statement data, and presents results showing that individual lenders can use underwriters' assessments to develop models that approximate those developed using empirical data.

Anderson, Raymond RA [Ray.Anderson@standardbank.co.za]