

CREDIT SCORING AND CREDIT CONTROL IX EDINBURGH 2005

Strategy Optimization for Credit – maximise profit while managing risk

Abstract

Effective credit portfolio management is critical to an organization's financial health. The task of a credit manager can be extremely complex, balancing risk with reward to achieve business targets for growth, exposure and return. Strategy Optimization enables an organization to implement credit strategies that control credit losses and deliver maximum customer profitability. Optimization offers a simple solution to what was previously a highly complex challenge. It enables an organization to identify optimal strategies based on each individual's profile and potential value as well as overall business objectives and goals.

We will use the business problem of setting loan pricing as one example where optimization can be applied to achieve an organization's business goal of maximising profit. Loan pricing can be extremely profitable if properly managed. However, lower risk customers are likely to be attracted away while higher risk customers are more likely to borrow at rates that do not reflect the true risk.

This case study highlights the issues of risk based pricing, adverse selection, and the benefits of effective value management and optimization. We will review the analytical methodology and results, and discuss some of the interesting 'trade-offs' between loan take-up propensity, bad debt, and profit, from a recent project undertaken by Experian-Scorex.

Victoria Carr
Senior Business Consultant
Experian-Scorex
Landmark House
Experian Way
NG2 Business Park
Nottingham
NG80 1ZZ

victoria.carr@uk.experian.com
Tel : +44 (0) 115 828 6536

Delphine Luong
Optimisation Consultant
Athos Palace
2 rue de la Lujerneta
MC 98000
Monaco

Delphine.Luong@experian-scorex.com
Tel: +377 97 98 54 69