

Making Affordability work for you!

Presented by: **Denis D. Dell**
DDell@PIC Solutions.com



CAPE TOWN HEAD OFFICE

Postal Address

P.O. Box 2455
Cape Town
8000
South Africa

Tel: +27 (0)21 680-6000
Fax: +27 (0)21 680-6003

DUBAI OFFICE

Postal Address

P.O. Box 502390
Dubai Internet City
Dubai
United Arab Emirates

Tel: +971 (0)4 369-7624
Fax: +971 (0)4 369-7623

JOHANNESBURG OFFICE

Postal Address

P.O. Box 3350
Parklands
2121
South Africa

Tel: +27 (0)11 759-0300
Fax: +27 (0)11 880-0466

Email: Info@PIC Solutions.com
Web: www.PIC Solutions.com



South African Landscape

- Population
 - Large credit unaware population
 - High debt commitments

- Credit Bureaux
 - Contain positive and negative information
 - Hold Payment Profile / Trade Lines

- Credit Industry
 - Banks versus retailers
 - Competitive market
 - National Credit Act



National Credit Act

- National Credit Act (NCA)
 - Implemented 1 June 2007
 - Fair and non discriminatory access
 - Promote responsible credit
 - Curb “reckless” credit

- Reckless credit definition
 - NCA provides no specific guidelines but require “reasonable steps”
 - No affordability checks are considered reckless
 - Credit risk models, not substitution for affordability



Affordability

- Affordability formula
 - Income less expenses equals disposable income
 - Disposable income and new instalment define affordability decision

- Typical Variables
 - Income
 - Expenses
 - Existing debt commitments
 - Statutory Payments / Tax
 - Food / Living expenses
 - Accommodation / Transport
 - Education
 - Other



Affordability Assessments

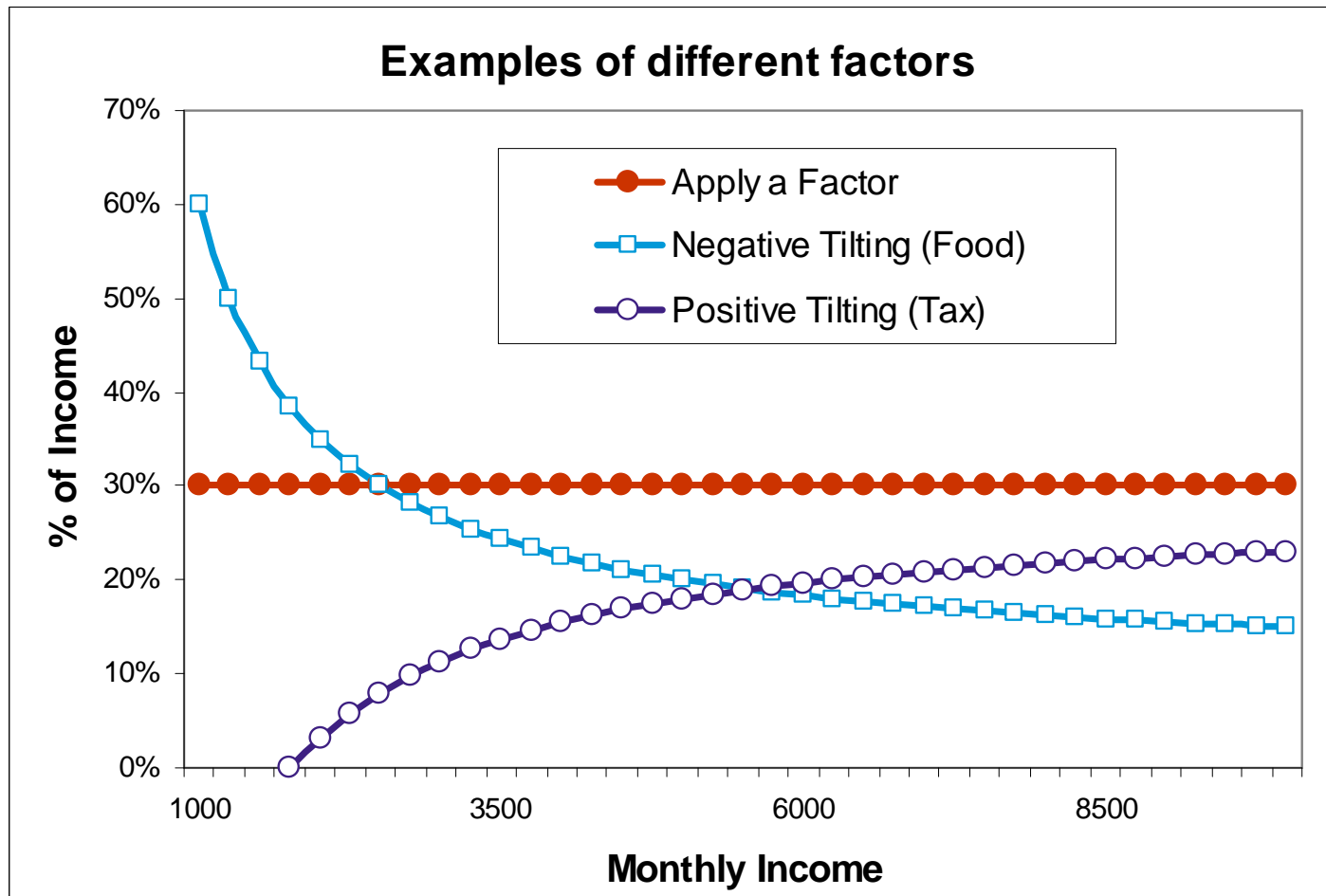
- Current Practice
 - No industry standard
 - NCA require fair and objective treatment

- Type of Assessments
 - Manual Assessment
 - Estimations
 - Studies indicate patterns within expenses
 - Patterns consistent across research houses

- Recommended Approach
 - Income sourced from applicant
 - Debt commitments from bureaux
 - Estimating expenses
 - Use factors to map expenses to simulate observed patterns
 - In future obtain some expenses from applicant and apply factors to the rest



Estimating Expenses



Powered by

Final Affordability Model

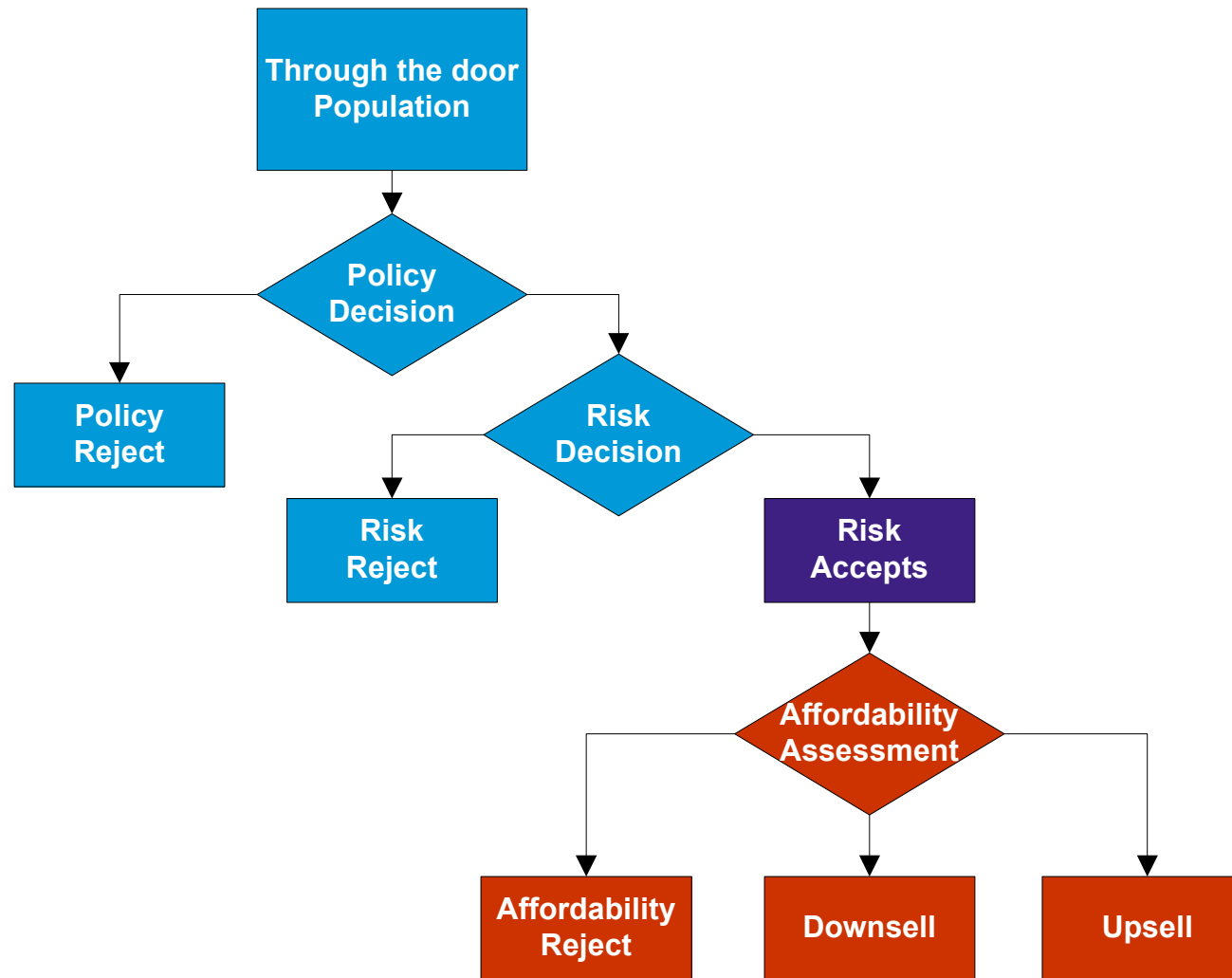
- Estimations based on
 - External research data
 - Internal data collected
 - Expert opinion

- Some variables use to tilt by
 - Income
 - Size of household
 - Type of accommodation

- Framework
 - Actual income obtained from applicant
 - Existing credit commitments obtained from credit bureaux
 - Disposable income calculated
 - Applied to all risk accepted applicants



High Level Application Process Flow



Affordability Impact Risk

% Disposable Income		<= -75%	<= -20%	< 0%	<= 40%	> 40%
Credit Risk	Lowest Risk	17.5	38.9	49.7	62.9	66.1
	Risk Grade 2	7.4	14.4	18.0	20.2	24.4
	Risk Grade 3	6.2	10.7	13.1	13.3	15.9
	Risk Grade 4	5.2	9.0	11.6	12.0	12.9
	Risk Grade 5	4.8	7.5	8.5	9.4	10.6
	Highest Risk	4.7	7.2	7.4	7.7	7.9
Average		6.7	13.2	16.1	16.3	18.0

- *Table only include population that passed the risk decision*
- *Average population odds of 15:1*



Powered by

SOLUTIONS

Upsell Potential

- Reduction of risk allowed more aggressive limit setting strategies

	% Accept	Limit
Previous risk limit	100%	100,000,000
Initial Impact	79%	82,849,642
Revised limit strategies	79%	102,929,728



Powered by

Advantages of Estimating Route

- Fair and objective assessment
- Consistency
- Reduced application turnaround time
- Less labour intensive
- Reduced operational cost
- Ease of rolling out changes to affordability



Recommendation

- Analyse impact of affordability model using factors
 - Short term increase in odds
 - Possible upsell opportunities
 - Additional information for scoring


- Track current affordability model
 - Verify / challenge factors continuously
 - Understand the impact of the model
 - Enhance the model with new research

- Implement factors to maximise automation and consistency

- Understand your data and your client!



Questions & Answers




CAPE TOWN HEAD OFFICE

Office Address
PIC Solutions
Birkdale I, River Park
Liesbeek Parkway, Mowbray
Cape Town, 7700
South Africa

Postal Address
P.O. Box 2455
Cape Town
8000
South Africa

Tel: +27 (0)21 680-6000
Fax: +27 (0)21 680-6003

Email: Info@PICsolutions.com
Web: www.PICsolutions.com




JOHANNESBURG OFFICE

Office Address
PIC Solutions
5th Floor, JHI House
11 Cradock Avenue, Rosebank
Johannesburg, 2196
South Africa

Postal Address
P.O. Box 3350
Parklands
2121
South Africa

Tel: +27 (0)11 759-0300
Fax: +27 (0)11 880-0466



DUBAI OFFICE

Office Address
PIC Solutions
Office 3509, 35th Floor
Shatha Tower
Dubai Media City, Dubai
United Arab Emirates

Postal Address
P.O. Box 502390
Dubai Internet City
Dubai
United Arab Emirates

Tel: +971 (0)4 369-7624
Fax: +971 (0)4 369-7623