

# Skip Behaviour Scorecards

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# Defining Skip

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- An expatriate that leaves a country with the intention of not repaying the debt within said country
- Typically occurs after a work contract expires and expatriate returns to his/her country of origin, or moves on to the next country
- Various profiles of skips occur
  - Consistent high utilisation levels
  - Gradually building up a balance prior to skipping
  - Maxing out credit card at airport, last minute skips
  - Obtain additional credit with intention of skipping
- Product specific

# Middle East Environment

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Country/State	Population	Labour Force	Expatriate Labour Force%
Bahrain	708,573	352,000	~44%
Kuwait	2,505,559	1.136 million	~80%
United Arab Emirates	4,444,011	2.968 million	~74%
Saudi Arabia	27,601,038	7.125 million	~35%

- Banking
  - Fierce competition between banks.
  - Credit policies relaxing
  
- Political
  - Nationalising programmes implemented
  - Can create negative sentiment
  - Increase short term risk of skip



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# Why Skip Scorecard

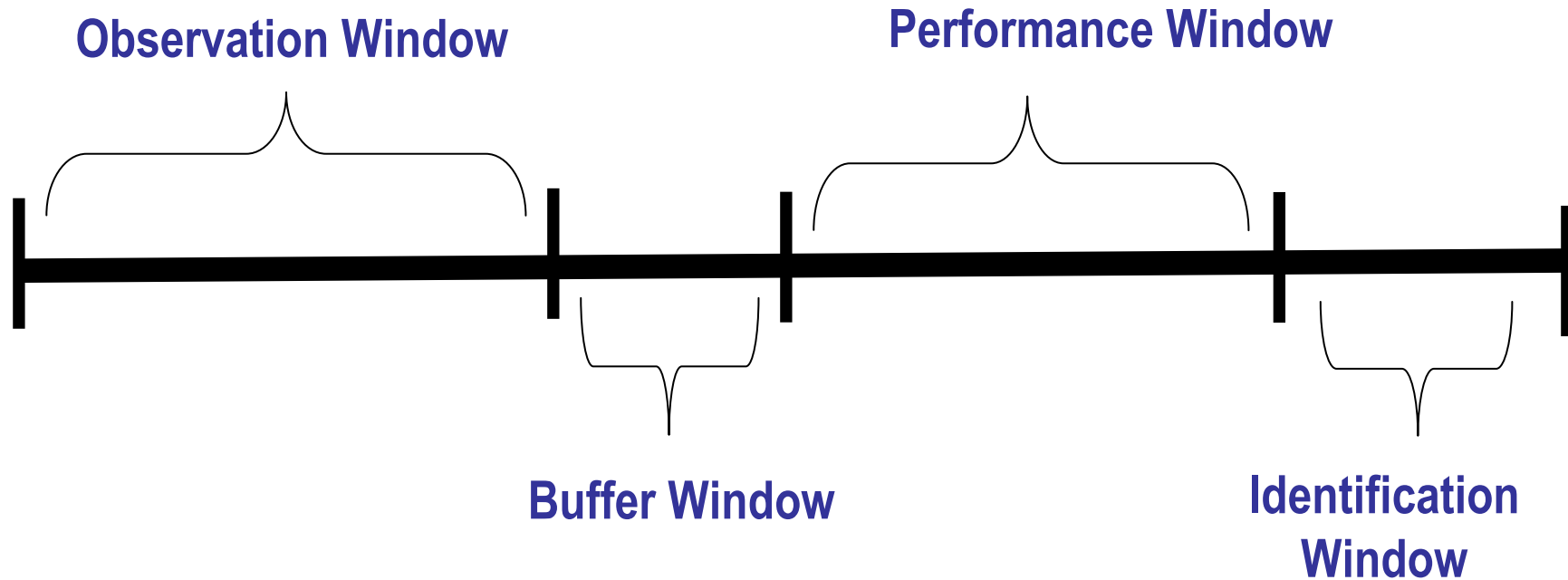
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- Some portfolios report 50% of all bad debt as skips
  - Behaviour risk does not adequately predict skip
    - Timing, identify pattern too late
    - Different profile
  - Normal bad debt still recovered after defaulting, skipping is final
  - Collection costs much higher for skips
  - Lead time to identify skip is crucial
  - Active reduction policy on exposure even when account is current or only minor delinquent



# Scorecard Development Windows

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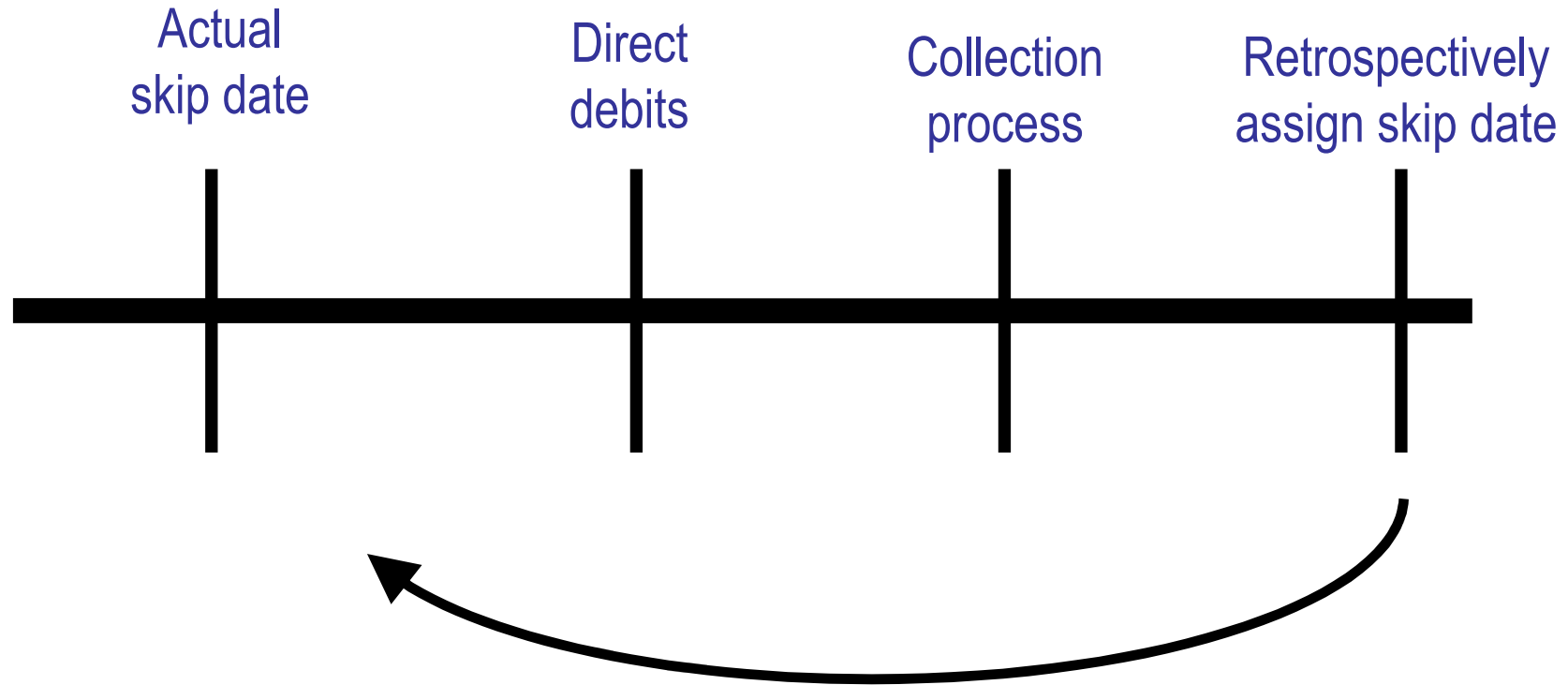


- Skip scorecard development requires
  - Buffer window
  - Identification Window



# Identification of Skip Date

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- Why the need for an accurate skip date?



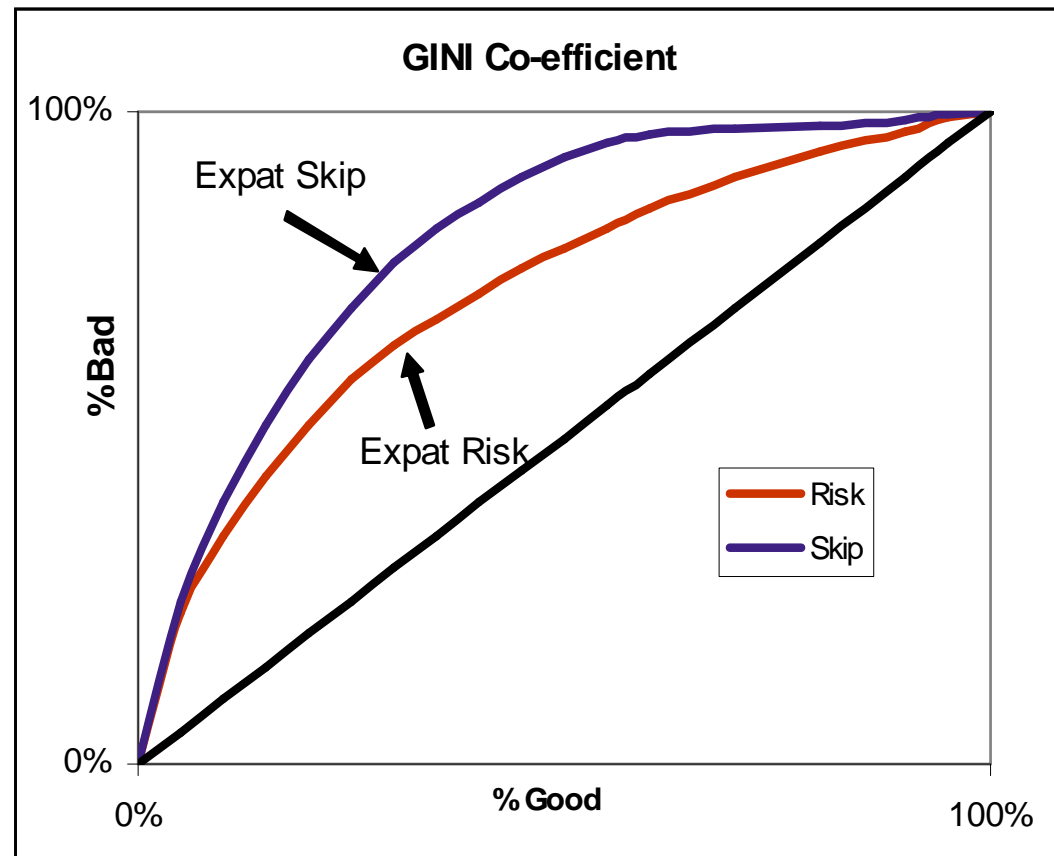
# Modelling Differences

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- Buffer window
  - Client requires a lead, how much is sufficient?
  
- Identification window
  - Skip date retrospectively assigned once confirmed
  - Time to assign the skip date could take several months
  - Accuracy of identification of skip
  
- Transactional Level Data
  - Transaction data down to merchant level
  - Insufficient volumes to model / be predictive
  - Pre-conceptions versus reality

## Scorecard Comparison

- Risk behaviour scorecards rank order skip, but not as effectively as Skip scorecards
- GINI Coefficient only ~40% when scored using existing risk behaviour scorecards, ~65% when using Skip scorecards
- Skip scorecards must allow lead time for remedial action; not required in behaviour scoring



# Predictive of Skipping

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- Static and Geographical Data
  - Time on books
  - Nationality
  
- Behavioural Data
  - Cash more dominant particularly long term
  - Purchase patterns change / value of purchases increase
  - Balances increase / payments reduce
  - Higher minor delinquency
  
- Transactional Data
  - Purchases not necessarily merchant dependant
  - Purchase of airline tickets not predictive



# Results of Skip Development

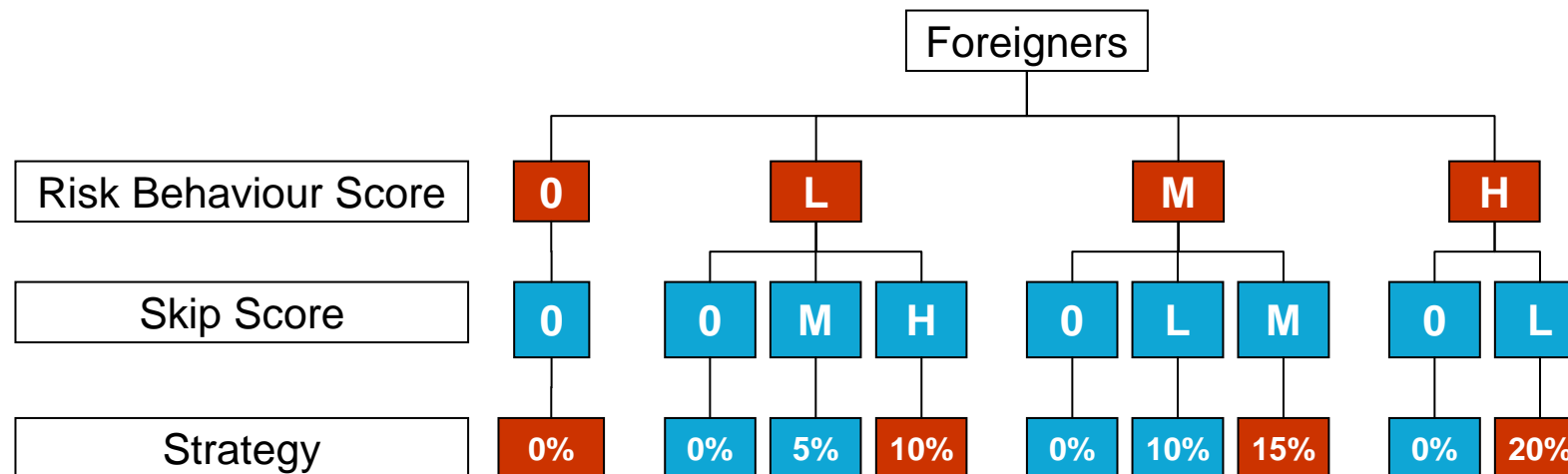
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- Can differentiate between normal credit risk, and risk of skipping
- Able to use Skip and Risk Score in combination to develop strategies
- Now have a lead time to action potential skip
  - Careful of false positives
  - Minimise exposure for credit line increase strategies
- Proactive action and not just reactive actions are possible
- Actively reduce exposure for high skip risk, non-delinquent accounts




# Recommendation

- Consider and test the correlations between a risk behaviour scorecard and a skip scorecard to maximise benefit of development
- Strategies implemented should take into account false positives
- Example of a credit limit increase strategy



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## Questions & Answers




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