

## ABSTRACT:

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Credit scorecard is playing a critical role in today's banking and financial services. Given the ever increasing bad debt challenge, squeezed margin and the dynamic business environment, better and more up-to-date scorecards are in constant need by risk managers in order to optimise risk-reward trade-off.

Reject Inference is a widely accepted methodology in the financial service industry and is commonly used when an Application Scorecard is built, although there is still some debate about how effective Reject Inference can actually be. From a real business perspective, however, the more relevant question for many risk managers is how much confidence we should give to reject inference based evidences in assessing the scorecard performance and the corresponding risk strategies.

For those risk managers who are only willing to trust the evidence gathered from Accepted customers' behaviours, they may encounter a practical dilemma from time to time. While the new scorecard appears to perform very well in Development Sample, its performance deteriorates significantly when measured in out-of-time sample. In extreme cases, this makes the new scorecards fail in user's acceptance test

This paper interrogates into the underlining root causes for this phenomenon based on a real-life case. It reaches some general learnings in terms of application scorecard model design, sensitivity of scorecard to reject inference, and scorecard implementation.

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Thanks.

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