FICO Decisions

IFRS 9 – Comply and Compete

Improving credit decisions across the lifecycle

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Executive Summary – Why Comply and Compete?

- IFRS 9 moves impairment accounting from an incurred to **expected loss basis**
- All accounts will require provisions based on "Expected Credit Losses" over at least the next 12 months – deteriorated accounts over their remaining lifetime
- Compliance with the new standard is usually required by January 2018
- The change **will affect the financial impact of daily decision strategies**, including but not limited to:
  - Originations / pricing / product structure
  - Customer management (especially line management)
  - Collections / recoveries
- Organisations who can plan for and mitigate these impacts will have an advantage over those who focus only on compliance – **"Comply and Compete"**

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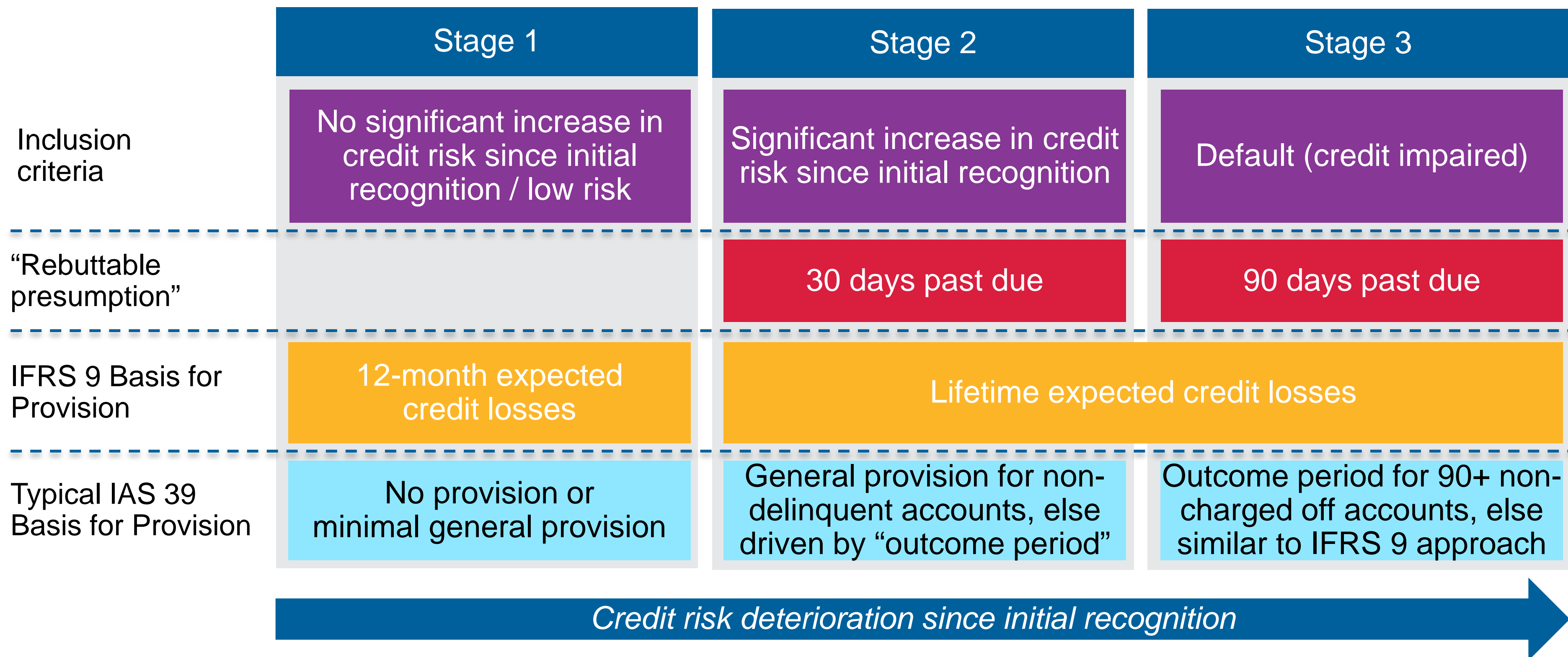
Stage Classification Requirements

All accounts are segmented into “stages” based on credit risk



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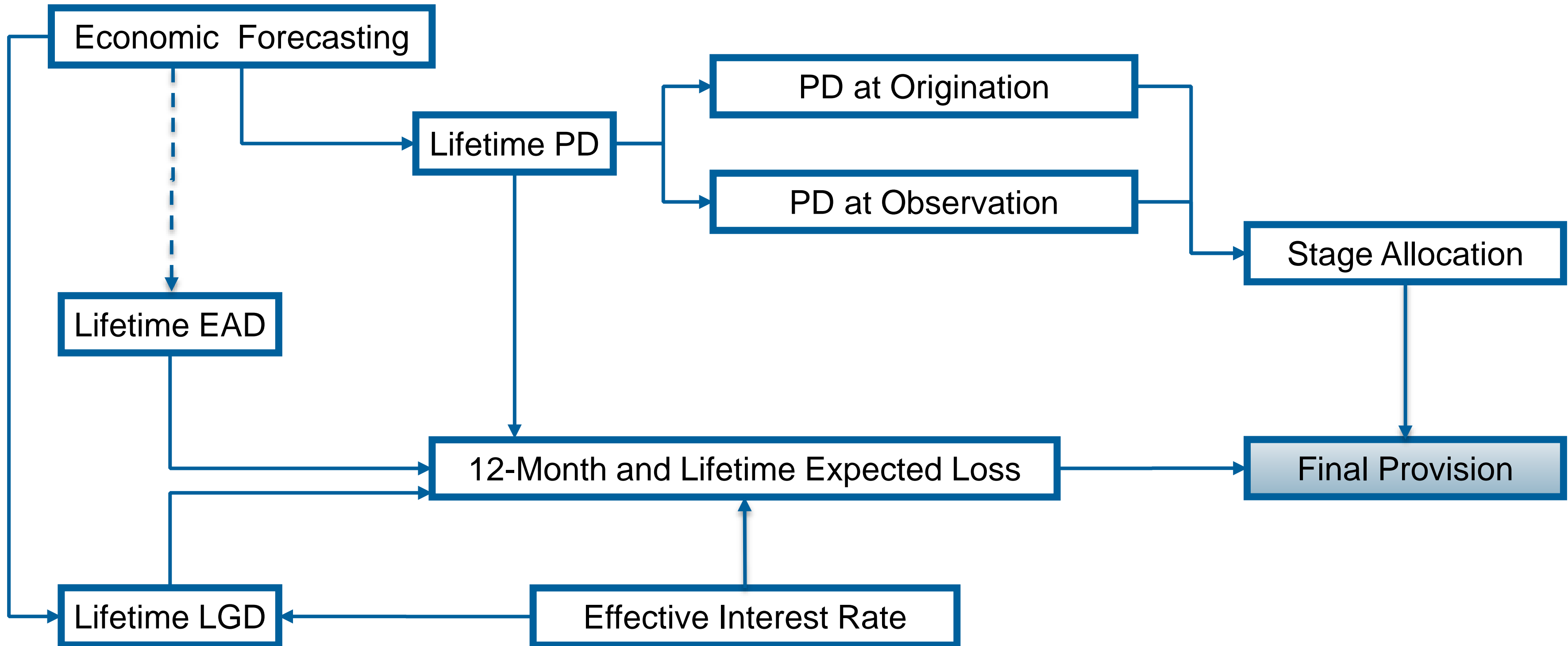
IFRS 9 High Level Analytic Schematic

Numerous models (each with their own useful outputs) combine to produce IFRS 9 provisions.



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Linking Expected Credit Loss drivers to business decision areas

PD
- Underwriting
- High Risk Account Management
- Collections

EAD
- Initial line
- Credit line increases / decreases
- Authorisations
- Charge vs credit cards

LGD
- Recoveries
- Settlements
- Debt sales
- Collateral values

Lifetime
- Product tenor
- 'Encouraged attrition'

Stage
- High(er) Risk Account Management
- Collections
- Mitigants to economic conditions

Expected Credit Loss

Profitability / Returns

Sensitivity to Stress

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Focus on EAD: Line management

PD

- Underwriting
- High Risk Account Management
- Collections

EAD

- Initial line
- Credit line increases / decreases
- Authorizations
- Charge vs credit cards

Unused credit line bears a cost under IFRS 9

…so card issuers may choose to switch to a "low and grow" strategy

…but this may reduce revenue potential

…and create "adverse selection"

…and a negative customer experience

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Focus on Stage: High(er) Risk Account Management

PD

- Underwriting
- High Risk Account Management
- Collections

Preventing movement into Stage 2 is key

…but accounts may move before they are even delinquent

…and they may not be your highest risk accounts

…so 'Pre-Pre-Delinquency' and 'High(er) Risk Account Management' tactics are now needed

Stage

- High(er) Risk Account Management
- Collections
- Mitigants to economic conditions

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Thank You

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