

Title:

Data illusions in credit risk management: what lies behind our (potential) mistakes

Abstract:

On some occasions, a same data set can lead us to opposite conclusions in credit risk management. Simply looking at the data available, we are not able to decide among different model set-ups. In this work, we show the role played by the 'data generating process' in this context. We then recommend the use of Structural Equation Modelling (SEM) for choosing the model that should give us the most accurate result. In sum, our main objective is to break data illusions that now and then challenge credit risk managers. Although the discussion involves technical issues, the presentation is didactic and aimed at practitioners. Examples focused on the evaluation of interventions in the credit risk area are given but our conclusions and recommendations are pertinent to various analyses carried out in credit risk, in particular those using specific data mining techniques.