Business Resilience

Strategy review and monitoring

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Introduction

The downturn is having a huge impact across all economies with disruption and the likelihood of a prolonged recovery significantly affecting the banking sector - notably with sharp increases in non-performing loan levels, provisioning and a shortage of capital. Withstanding the downturn has prompted ambitious, co-ordinated and urgent policy action to help ensure ongoing support for at-risk customers and firms. Regulators have been pro-active in helping to mitigate the impacts of increased volatility of capital and financial statements, the pro-cyclical impact of IFRS9, alongside intensified monitoring and assessment activities. Their recommendations make full use of flexible accounting and regulatory frameworks in order to support the banking sector.

Although the solvency and liquidity positions of European banks are generally regarded as sound, the European Central Bank (ECB) quickly took steps to introduce a series of measures to provide further liquidity, solvency and operational support to the banking sector in shoring-up new lending, capital requirements and profitability. Banks are also impacted by the global increase in both consumer and Micro, Small to Medium Enterprises (MSME's) risk profiles and rising delinquency rates.

Focus is directed at assessing the impact of the crisis on debt levels and the associated impact on collections processes. The potential for new lending is emerging as several sectors continue to thrive - notably ecommerce, or where government grants and stimulus packages now offer new lending opportunities. Despite the challenges, we believe that by working together, bringing you powerful data and tools, we can help you and your customers quickly recover.

Situation analysis

Current challenges	Impact
The downturn is having an economic impact across all economies with investment and demand shocks triggering slowdowns. The disruption and prolonged recovery are significantly impacting the banking sector, with sharp increases in non-performing loan levels, provisioning and capital shortages.	FINANCIAL, CUSTOMER
It is deeply impacting credit risk provisions maintained by banks. Banks' operations are also being affected by a global increase in both consumer and Micro, Small to Medium Enterprises (MSMEs') risk profiles and global rise in delinquency rates.	OPERATIONAL, FINANCIAL
Changes to revenue streams are swift and significant. It's therefore increasingly important for credit providers to understand the rapid changes in as close to real-time as possible, so they can protect both their customers and their loan portfolios.	FINANCIAL, OPERATIONAL

Implications and actions

PORTFOLIO MONITORING

Identification - Credit providers need to identify which consumers & MSMEs are most at risk across industries and segments based on economic impact, then monitor this data for early warning signals.

Stress Testing - Current stress-testing scenarios are based on pre-Covid eventualities. Credit providers will need to recalibrate these scenarios with new data in order to adjust their credit strategies going forward.

Scenario Testing - develop a range of possible scenarios based on pandemic's ongoing progression, any regulatory responses, shifts in supply or demand and related predictions as to how the economy continues to react.

LEVERAGING ALL AVAILABLE DATA SOURCES

Alternative data sources can provide leading indicators of possible stress, helping to identify and monitor consumers and MSMEs most at risk. Credit bureaux data will provide key insight as to both consumer and business payment behavior as economies reopen. Categorised transactional data, at both account and customer level, enables the creation of individualised profit and loss statements. When combined with month-on-month cash flow analysis, it allows for the assessment of a consumer's sustainability while under stress conditions.

ADAPTING PREDICTIVE CREDIT RISK MODELS

Credit providers will be seeking to either adjust or redevelop existing credit risk models to account for behavioral shifts within the population. The incorporation of all available data sources (traditional, transactional and alternative), in combination with the use of Machine Learning techniques, within the model development process will allow credit providers to better adapt their credit strategies to a rapidly changing lending environment.

Strategy Reviews can focus on any stage of the lifecycle or particular area of need

STRATEGY REVIEW PROCESS

- ✓ Experian has established a highly effective, modular methodology for improving existing credit risk strategies by using transactional and alternative data.
- ✓ It's a six-step review process – Plan, review, design, implement, monitor and assess.

Identify segments of your portfolio that require action.

React quickly to the changes in your customers' behavior.

Stay ahead of the competition by quickly adapting predictive models to the 'new normal'.

Remain compliant by performing stress and scenario tests.

Benchmark your performance against comparable organisations.

Develop prudent credit risk strategies that connect with your customers.

How will Strategy Reviews generate the required impact?

DATA INSIGHTS

- Creation of a uniquely triangulated view of risk.
- Access traditional data insights via bureaux.
- Unlock transactional data insights from in-house and open banking data.
- Extract insights from web data with specialist technology.
- Uncover further insights by blending data variables.

IMPROVE RISK MODELLING, CREDIT POLICY FORMULATION AND STRATEGY DESIGN

- Re-development of models to reduce performance risks.
- Implementation of credit policy changes.
- In-life customer risk modelling through enhanced affordability analysis.
- Automated processes for the deployment of models and strategies within operational processes.

Get in touch

If you'd like to discuss any aspect of this report or find out more about how we can support you, please get in touch with your Experian account manager today.

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