FC Business Intelligence

A New Credit Crisis for 2014:

How Credit Risk Analytics Professionals are Managing Critical Changes to their Business

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With contributions from:

Sundeep Kumar, Senior Vice President, Global Credit Risk, Citigroup

Dev Strischek, Senior Vice President & Senior Credit Policy Officer, SunTrust Banks

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Introduction

'Big Data' just keeps on getting bigger. Regulations rarely seem to sit still. Many economies around the world are only just stuttering out of recession. New technology continues to develop at an astounding pace – and of course, the competition never sleeps.

The challenges facing financial institutions as they develop their credit risk analytics are many, and often contradictory.

Bigger data, coming from a far greater number of sources, needs to be squeezed into fewer – and more fluid – risk models. Analysis needs to be both more accurate and faster in order to make the customer experience as painless as possible, while making sure new regulations are complied with throughout large, complex institutions.

Just how have today's credit risk analytics professionals been coping with the realities of the modern world? And how do they see the industry progressing?

Here, we spoke to three industry leaders from three organizations – Citigroup, SunTrust Banks and Kabbage – to find out what the big drivers are for their organization, how they are facing up to today's challenges, and how they see credit risk analytics evolving to keep up with those challenges and become more effective.

Sundeep Kumar is Senior Vice President, Global Credit Risk at Citigroup, where he has worked since joining the company in November 2010. Previous to this he worked at Merrill Lynch, where he was responsible for the management of risk and equity derivatives trading. Sundeep holds a Master's Degree in Computer Science and Electrical Engineering, along with an MBA in Finance from the Stern School of Business at NYU.

Dev Strischek is Senior Vice President & Senior Credit Policy Officer at SunTrust Banks, where he has worked since 1998, when he joined as a credit approval officer. Dev is responsible for credit policies for SunTrust's whole-sale lines of business. Dev holds an MBA from the University of Hawaii, and an undergraduate degree in Marketing from Ohio State University.

Bruce Brenkus is Chief Risk Officer at Kabbage, an online financing corporation based in Atlanta, Georgia that was founded in 2009 and provides working capital to small businesses. Bruce can boast over 28 years of experience working for a range of companies in risk management and financial services analytics. Bruce has an undergraduate degree in Statistics / Economics and also holds a CMB with mortgage industry specialisation.

What is driving change to your credit risk analytics systems within your business?

Bruce Brenkus: The biggest driver is automation, speed of delivery. We want to be different in small business lending by being able to gain as much information as possible in a very short period, and provide a final decision back. We usually guarantee seven minutes online.

It's a balancing act. We need as much data as I can get to make a proper decision, but we really want to turn this around in a quick process. We want to have a web experience that doesn't scare people, so we don't lose people in the funnel process, but still gain the information we need. We build a lot of automation for the normal PII data – name, address, social data, date of birth etc., to get the process started with proper consents, and then we start pulling data in the background. It's very important for us that we tell our customers and lead them down the right path. We need one revenue (sales) channel such as Amazon, eBay, or Merchant Processors, we need one payment channel such as PayPal or Business Checking account, and with the small business principal's consent, we pull the principal's credit report and other sources such as business credit report.

Once the consent is provided, we go back and build the aggregations while we're still gaining more information to make a competent decision. So it's a balancing act – speed of delivery is most important for us from a business point of view, but in terms of risk it's the quality & quantity of data received in that time frame.

Dev Strischek: It's always been a combination of regulatory advice and suggestions. In 1999/2000 I was part of a task force that was assembled to move us to a two-dimensional risk ratings system in preparation for Basel. We were an opt-in bank, and we decided early on that we wanted to go to Probability of default and Loss given default, and the thrust of that was that we would be able to price our loans more precisely, that we would be able to price them more competitively on creditworthy customers and price up for less creditworthy customers.

Our risk rating is tied to our pricing models, and I think the result of that has been generally positive – more so now than ten or fifteen years ago, there's a better correlation between the pricing charged and the degree of risk as measured by our risk rating system.

Sundeep Kumar: I'm primarily responsible for our commercial banking business, and in commercial banking we have a large number of different types of clientele, from small and medium to large companies, individuals, buyers and their suppliers. Initially we had a separate model for each one of these segments, so you had score carding in one, different ways of getting

To read more of The New Credit Crisis, FC Business Intelligence's free white paper on credit risk analytics in retail financial services, go here:

credit-risk-analytics-summit.com/content.php