# Case Study - II

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## Case Study - BestCredit (Part 2)

Clearly, BestCredit is in trouble! The product is losing money with each customer they bring in. So how can we improve profitability for BestCredit? There are only 2 solutions (or a combination of them):

- Increase Revenue
- Decrease expenses

In order to increase your revenues, let us say you increase interest rates on loans to following:

- Highflyers - 7%
- Strugglers - 20%

**Question:** Assuming everything else remains as it is, what is the expected profit for BestCredit?
**Options:**

1. Profit - 4,65,000
2. Profit - 15,00,000
3. Profit - 19,65,000 (Correct answer)
4. Cannot be determined

This looks really good! You go ahead and make this change in your product, hoping that you will get profitability by the end of the year.

**Unfortunately, things didn't turn out as rosy as you thought. Your company ended up making just about break even (Profit = 37,000). So what do you think happened?**

Actually, when you changed your product (increased interest rate), you no longer appeal to same customers. Assuming all other things equal in the market, customers who would still apply for this product would be riskier than the customers who were applying before. This is because good customers will take up loans from other loan providers at a cheaper rate. Hence, your charge-offs ended up being higher than expected:

- Observed charge-off for Highflyers - 1.8% (vs. expected 1%)
- Observed charge-off for Strugglers - 12.5% (vs. expected 10%)

As you saw, even small changes in your product can shift risk profiles of customers dramatically. Hence, it is imperative for any credit provider to assess the risk of its customers accurately.

This is where Business Analytics comes into the picture. Based on your past data, you can more accurately predict what is the likely risk of a customer, thus enabling your organization to make the right choices about the risk of customers.

This is just one example of how predictive modeling and Business Analytics could be critical to what you are doing.

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