Credit Risk Optimization Strategy

Data-driven recommendations to reduce credit losses by 20-30% and strengthen portfolio performance through behavioral risk assessment and strategic segmentation.

STRATEGY 1

Prioritize Repayment Behaviour in Credit Decisions

Core Recommendation

Use repayment delay history as the primary risk indicator. Flag customers with increasing delayed payments early and integrate behavioural risk scores into credit approval workflows.

Business Impact

- Reduce high-risk approvals by 15%
- Lower future default probability
- Improve portfolio stability

STRATEGY 2

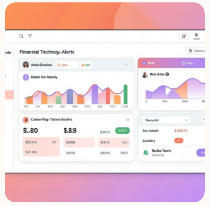
Implement Risk-Based Credit Limits

Lower Limits for High Risk

Assign lower credit limits to high-risk customers to minimize exposure.

Increase for Low Risk

Increase limits only for low-risk segments with proven repayment behavior.



Continuous Monitoring

Monitor high-limit accounts continuously for early risk detection.

15%

Reduced Exposure Risk

Decrease credit exposure risk across portfolio

STRATEGY 3

Deploy Cost-Optimized Prediction Threshold

Use prediction threshold 0.3 instead of default 0.5 to prioritize early identification of potential defaulters. This lower threshold increases sensitivity to risk signals, enabling proactive intervention before defaults occur.

0.3 Threshold

Optimized for early detection

Higher Recall

Catch more potential defaulters

Business Impact

- Reduce financial losses by approximately 29%
- Improve early risk detection
- Increase recall of defaulters

STRATEGY 4

Implement Early Risk Monitoring System

Track Continuously

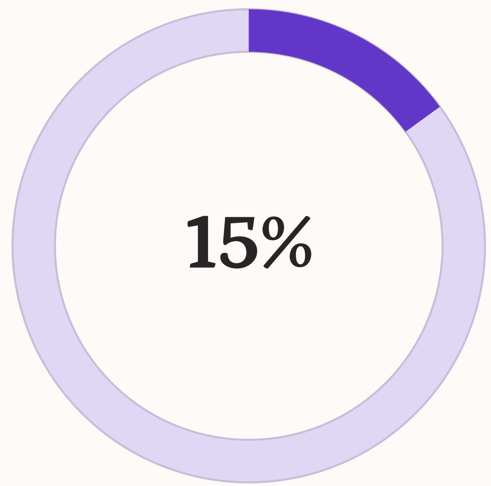
Monitor repayment behaviour and credit utilization in real-time

Automated Alerts

Trigger alerts for high-risk customers automatically

Proactive Intervention

Enable early action strategies to prevent defaults



Prevent Defaults

Stop potential defaults before they occur

STRATEGY 5

Apply Risk Segmentation Strategy

Segment customers into low, medium, and high-risk groups. Apply differentiated approval and monitoring policies tailored to each segment's risk profile for more precise credit management.

Low Risk

Streamlined approvals, higher limits

Medium Risk

Standard monitoring, moderate limits

High Risk

Enhanced scrutiny, restricted limits

Accuracy Improvement

Improve credit decision accuracy by 20%+ through targeted segmentation

Portfolio Quality

Enhance overall portfolio quality with differentiated policies

STRATEGY 6

Incorporate Demographic Factors into Risk Assessment

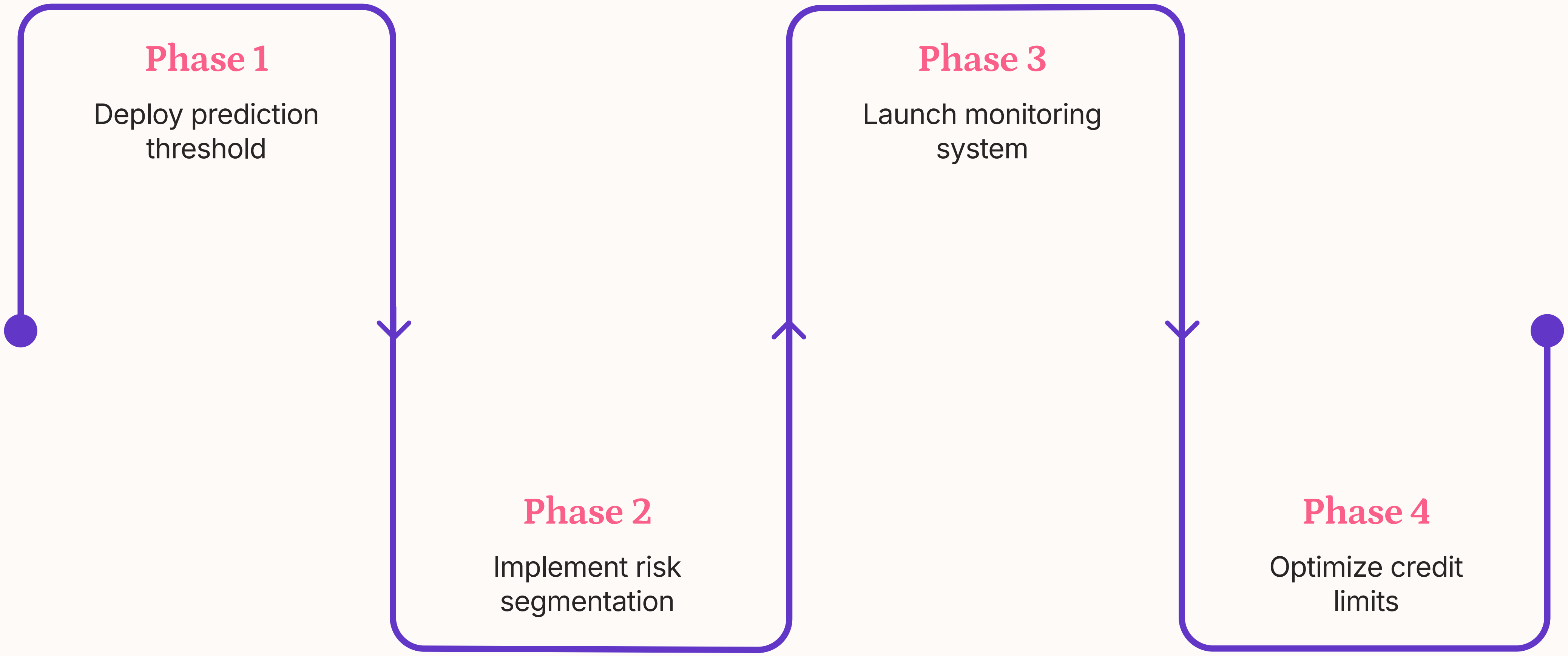
Key Recommendation

Use age and education as secondary risk indicators. Combine demographic and behavioural variables in risk models to create more comprehensive customer profiles.

Business Impact

- Improve model prediction stability
- Increase model accuracy by 5–10%
- Strengthen risk profiling capability

Implementation Roadmap



A phased approach ensures smooth implementation while minimizing disruption to existing operations. Each phase builds on the previous one, creating a comprehensive risk management framework.

1

Month 1-2

Deploy optimized prediction threshold and begin risk segmentation

2

Month 3-4

Launch early risk monitoring system with automated alerts

3

Month 5-6

Implement risk-based credit limits and demographic integration

Expected Business Value

Reduce Credit Losses

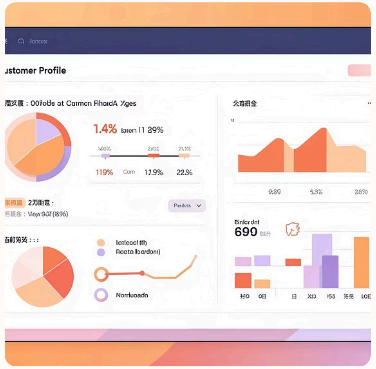
Reduce overall credit losses by 20–30% through comprehensive risk management

Improve Decision Quality

Improve credit approval decision quality with data-driven insights

Control Exposure

Control financial exposure across all customer segments effectively



Strengthen Profiling

Strengthen customer risk profiling with behavioral and demographic data

Key Takeaways

20-30% Loss Reduction

Comprehensive strategy delivers measurable financial impact

Behavioral Focus

Repayment history is the strongest predictor of future risk

Early Detection

Proactive monitoring prevents defaults before they occur

Segmented Approach

Differentiated policies optimize outcomes across risk levels

These data-driven strategies provide a clear path to enhanced portfolio performance and sustainable risk management.