Research Validation Framework

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The FIN-TECH project aims at building a fintech risk management platform, which measures risks to make fintech innovations sustainable.

As a financial intermediary, the aim of the present document is to provide general considerations to support the improvement of P2P credit scoring model for regulatory purpose.

🔍 **Scope**	**Possible improvement**
Model Design	✓ Small access to borrower's data: the model development is based only on the behavioral informations of the counterparty. A possible solution to improve the credit assessment methodology is to evaluate the counterparty not in terms of rating classes, but in accordance with the "*good or bad approach*", by defining a cut-off under which the the credit is not granted. ✓ Rating review: since the predictive accuracy of the model is particularly sensitive to the borrower's behavior, the **rating should be reviewed frequently**, at least on a quarterly basis.
Definition of Default	✓ Adoption of a definition of default based on a "**delinquency approach**", taking into consideration the cases in which the **borrower is late or overdue on a payment.**

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🔍 *Scope*	*Possible improvement*
Model Design	✓ Application of ***multi-year time series***: in order to improve the predictive capacity, the model should be based on historical time series of balance sheet and income statement data which include at least 5-10 years of observations. ✓ The model should take into account also **behavioral information**. A possible way of improvement can be represented by the inclusion of **historical trends** of the ratio used in the regression as additional inputs (for example QoQ or YoY variation). ✓ In order to better align the P2P credit scoring model to the banks models, it could be useful to integrate the original dataset based only on financial information with a **qualitative set of information** that takes into account, for example, the valuation of the management of the companies, long-term strategies and market size. ✓ Another way of improvement could be the develop of a **cut-off of the scoring in rating classes**, in order to better express the different risk underneath the single counterparty. It could be also added a **traffic-light approach** to measure the quality of the cut-off.

🔍 *Scope*	*Possible improvement*
Definition of Default	✓ It would be useful to **clearly explain the definition of default adopted,** in accordance with the regulatory framework. ✓ A possible additional area of improvement is connected to the valuation of the **sensitivity of the model to the change of default definition** (see EBA/GL/2016/07 - "*EBA Guidelines on the application of the definition of default* ")