Report for Management

Dashboard Overview:

The analysis of credit card customer risk profiles, especially focusing on the younger demographic under 30 years old, holds significant importance in the financial sector. Understanding the risk factors associated with this particular age group is crucial for financial institutions to tailor their services effectively and mitigate potential losses. Younger customers often have limited credit histories and may exhibit different spending patterns and risk behaviors compared to older demographics. By honing in on this demographic segment, financial institutions can develop targeted strategies for risk management and customer engagement.

The dashboard provides a comprehensive overview of key metrics and insights related to the risk profiles of credit card customers under 30. By segmenting the data based on age and existing credits, the dashboard allows for a nuanced analysis of risk factors within this specific demographic. This focused approach enables financial analysts and decision-makers to pinpoint trends, identify outliers, and make informed decisions to mitigate risks and optimize customer experiences.

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Description automatically generatedThe interconnectedness of the visualizations within the dashboard serves to create a cohesive narrative and facilitate deeper insights into the relationships between different variables. For instance, by examining the distribution of customer age alongside average credit amounts and purposes, analysts can discern patterns in spending behaviors and assess the impact of age on credit risk. Furthermore, the exploration of existing credits, employment duration, and job types among customers under 30 sheds light on socio-economic factors influencing credit behaviors and risk levels.

The Story Revealed Through the Visualizations:

The journey begins by looking at the overall distribution of customer ages. The 25-29 age group emerges as the largest segment. As I dig deeper, a concerning pattern surfaces - the younger the customer, the riskier their credit profile tends to be. The age bins under 30 have strikingly higher proportions of "bad" credit customers compared to their older counterparts. This raises a red flag, signaling that extra vigilance is warranted when dealing with younger adult borrowers.

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Description automatically generatedIntrigued by this finding, I decide to zoom in on the under-30 age group and examine their credit behavior more closely. I compare their average credit amounts to their account balances, using filters to toggle between good and bad credit customers. Immediately, a stark contrast becomes apparent. Bad credit customers in this age group have alarmingly high average credit amounts relative to their account balances. A staggering 80% of them have less than 100 DM in their accounts, compared to just 73% for good credit customers. This raises serious concerns about their ability to service their debts and repay their loans.

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Digging deeper still, I explore the purposes behind these risky credit exposures. For bad credit customers, the highest average credit amounts are for used cars and business-related purposes. In contrast, good credit customers stand out with significantly higher average credit amounts for education, especially in the youngest age group up to 23 years old. This could be attributed to student loans taken out to pursue higher education. While education-related credit may be seen as a positive investment, the limited financial resources and employment histories of these young adults still warrant closer monitoring.

A graph of credit score

Description automatically generatedOur analysis then shifts to examining the number of existing credits held by the under-30 group. The majority have either one or two existing credits. Interestingly, the group with just one existing credit has a higher proportion of good credit customers compared to those with two. This suggests that additional credits may be an indicator of higher risk.

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To further understand the dynamics at play, I look at the average number of existing credits through the lens of employment duration and job type. Across the board, good credit customers have lower averages compared to their bad credit counterparts. The highest averages are seen in customers who have worked for 4-7 years or more, potentially due to increased financial stability and investment needs, such as car purchases, as they progress in their careers.

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Description automatically generatedHowever, a concerning trend emerges when we examine the averages by job type. Unemployed/unskilled non-residents and skilled employees/officials stand out as having higher average existing credits for bad credit customers. This could indicate potential vulnerabilities in their financial situations, which may require extra scrutiny.

Recommendations:

The Younger Generation: Proceed with Caution

Our analysis has highlighted that younger customers, particularly those under 30, tend to have higher proportions of bad credit profiles. This group exhibits alarming levels of credit exposure relative to their account balances, with a significant portion having less than 100 DM in their accounts. Such imbalances raise serious concerns about their ability to service their debts, making them riskier borrowers overall.

While it may be tempting to avoid this segment altogether, we must strike a balance between prudence and opportunity. The recommendation here is not to completely shut the door on younger customers, but rather to approach them with heightened vigilance. Closer monitoring, regular credit reviews, and strategic credit limit adjustments could help mitigate risks while still allowing access to credit for responsible borrowers within this age group.

The Multiple Credit Trap

Our analysis has also revealed that customers with two or more existing credits tend to have higher risk profiles compared to those with just one existing credit. This suggests that the accumulation of multiple credit lines may be a red flag, leading to overexposure and increased chances of default.

In light of this finding, we recommend implementing tighter credit approval processes and more frequent credit reviews for customers with multiple existing credits. Stricter criteria for approving additional lines of credit, as well as regular assessments of their overall credit health, could help prevent them from spiraling into unmanageable debt.

Vulnerable Employment Situations

The dashboard has highlighted a concerning trend among certain job types, specifically unemployed/unskilled non-residents and skilled employees/officials. These groups exhibit lower average existing credits for good credit customers, indicating potential vulnerabilities in their financial situations.

To address this, we recommend implementing additional credit checks and collateral requirements for these segments. Thorough assessments of their income stability, employment prospects, and overall financial health should be conducted before extending credit. Requiring collateral or guarantees could further mitigate risks and provide added security.

The Education Opportunity

While education-related credit appears to be associated with higher average credit amounts for good credit customers, particularly among the youngest age group, we must exercise caution. Young adults pursuing higher education often have limited financial resources and employment histories, making them susceptible to overextending themselves.

Rather than denying credit to this segment, we recommend implementing a closer monitoring system for education-related loans. Regular check-ins with these borrowers, assessment of their academic progress, and guidance on prudent financial management could help ensure they stay on track and avoid defaulting on their student loans.

By tailoring our risk management strategies to these specific customer segments, we can strike a balance between extending credit opportunities and mitigating potential losses. Vigilance, targeted approaches, and proactive monitoring will be the keys to strengthening the overall health and sustainability of our credit card division.