Strategic Risk Management

Deciphering the High-Risk Credit Profile to Fortify Bank Lending Policies

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Introduction and Executive Summary:

In the ever-changing landscape of financial risk management, particularly within the credit card division, it is imperative to continuously evaluate and adapt our strategies to mitigate potential risks. The following analysis, derived from an in-depth review of our customer profiles and credit behaviors, aims to uncover the characteristics that predominate among individuals with a higher likelihood of incurring bad credit. Unlike conventional analyses that often compare positive and negative credit behaviors to isolate traits of ideal customers, this report focuses exclusively on those with poor credit history, offering a targeted perspective on high-risk groups. From this viewpoint, we propose actionable recommendations to enhance our credit approval criteria and minimize future risks.

Key Recommendations:

1. Implement stricter credit approval processes for individuals under 30, particularly those with existing credit cards.
2. Conduct detailed assessments of applicants' employment status, focusing on the length and stability of employment.
3. Reassess the underwriting criteria for co-applicant cases, ensuring thorough vetting processes.

Detailed Analysis:

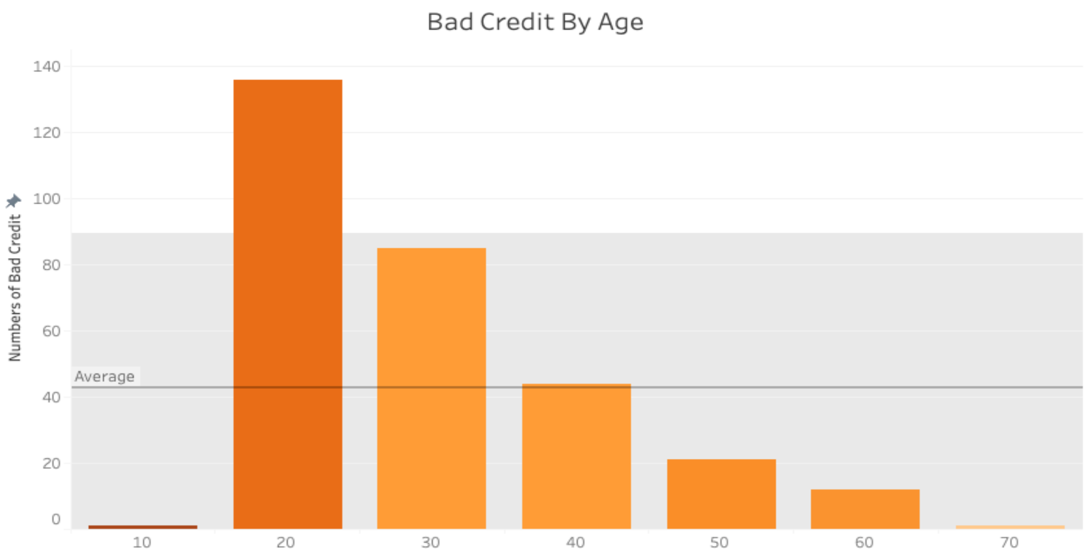
Since most of the risk manager seems to analyze what characteristic makes a good credit person or comparing the good's and the bad's, I am focusing on the bad's only and try to analyze these people so that in the future, the bank can have a more strick discipline to set up rules for these people.

Figure 1

In all of the graphs shown later, the color stands for the bad credit rate of each specific category. The darker the color is, the higher the rate is.

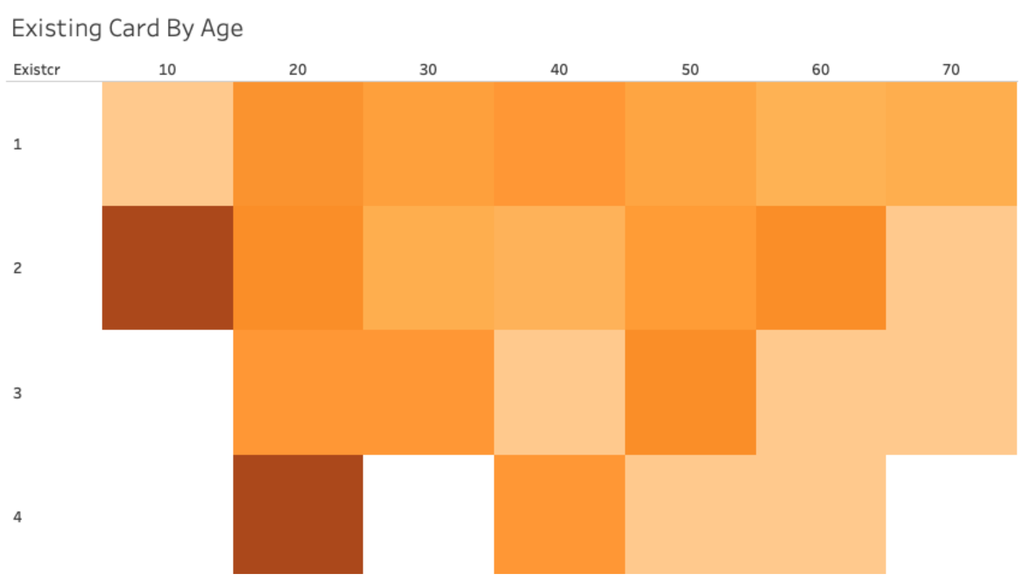
According to the figure 2, the bar shows the total number of bad credit cases with a average line across the table. the younger people especially those who are under 30 years old have a higher total amount of people with bad credits. Even more, the 20's has triple the amount than the average which is crucially higher than other ages. One can disagree with this because just because the total number of the people are higher doesn't mean they are the domain in their own age group. However, when looking at the color, the youngers are likely to have a higher chance to have a bad credit and as they are grownup, the lesser the bad credit rate is, which means their credit are getting better and better by their age.

Figure 2



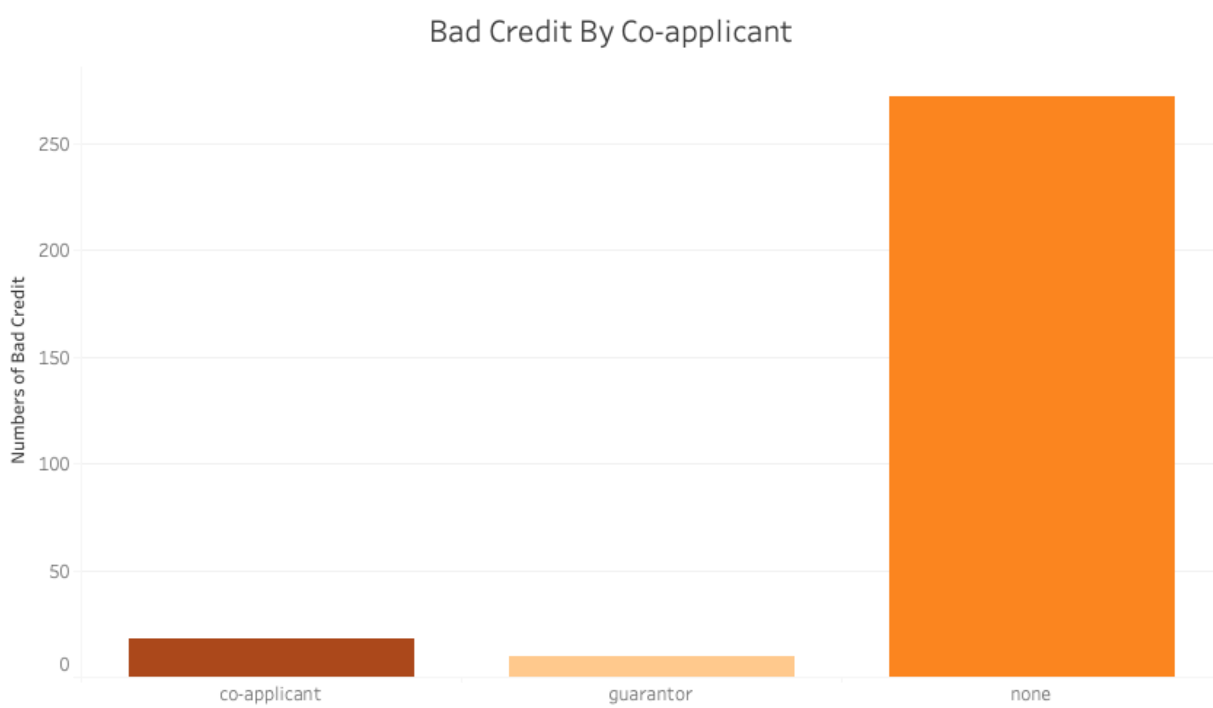
After analyzing the credits among the ages, it is obvious that the deeper color is lean to the bottom left shown in figure 3, which mean as mentioned in the last graph, youngers has a higher bad credit, but on top of this, the more the credit card you have, the higher risk you might have and a higher chance to get bad credits. And the highest rate in this graph are the two blocks with both age of 10's and 20's and having the most credit card in their group. In hence, this shows that the bank needs to have a better policy when dealing with this group of people.

Figure 3



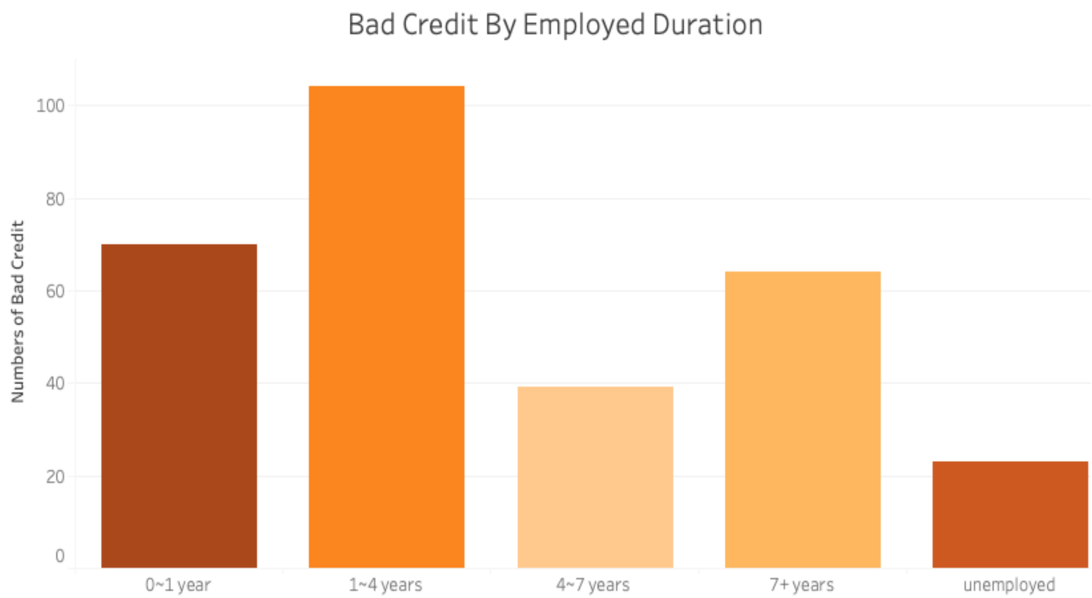
Moreover, when consider having a co-applicant and guarantor or not, normally, people would think that if there's a co-applicant or guarantor, these people are likely to have a better credit since the guarantor can guarantee their payment and the co-applicants can split the bill or separate the risks to reduce high risk and get a good credit. The guarantor shown in figure 4 indeed shows that if the case has guarantor, these people have a significantly low rate of getting a bad credit. On the other hand, the co-applicant column should have similar result like guarantor, however, it is totally the way around. These co-applicant cases show to have the highest rate of getting a bad credit. This indicates that these cases' co-applicant is applying credit cards with someone who also cant apply by themselves and need someone to apply together to reduce the risk, same as the idiom bird of feather flock together. The only people for them to find and apply together are the ones who are having the similar status as themselves.

Figure 4



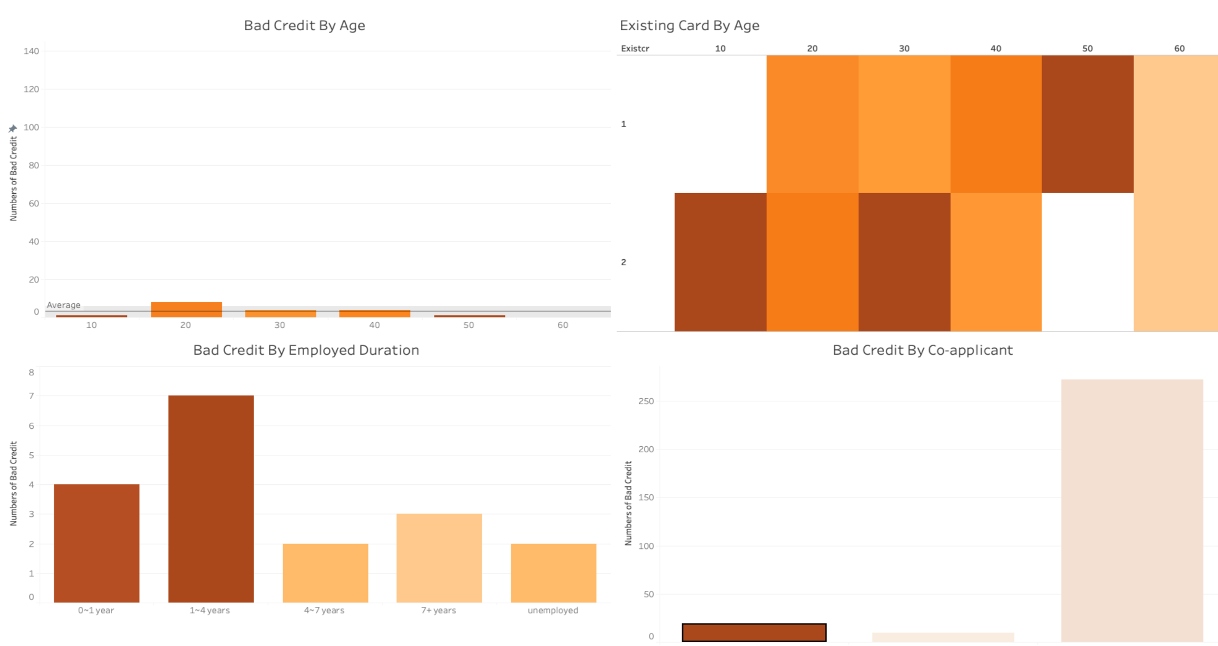
Moving on to the employed duration, figure 5 can easily tell that those who are not working or working duration are less than a year have a much higher chance to get a bad credit.

Figure 5



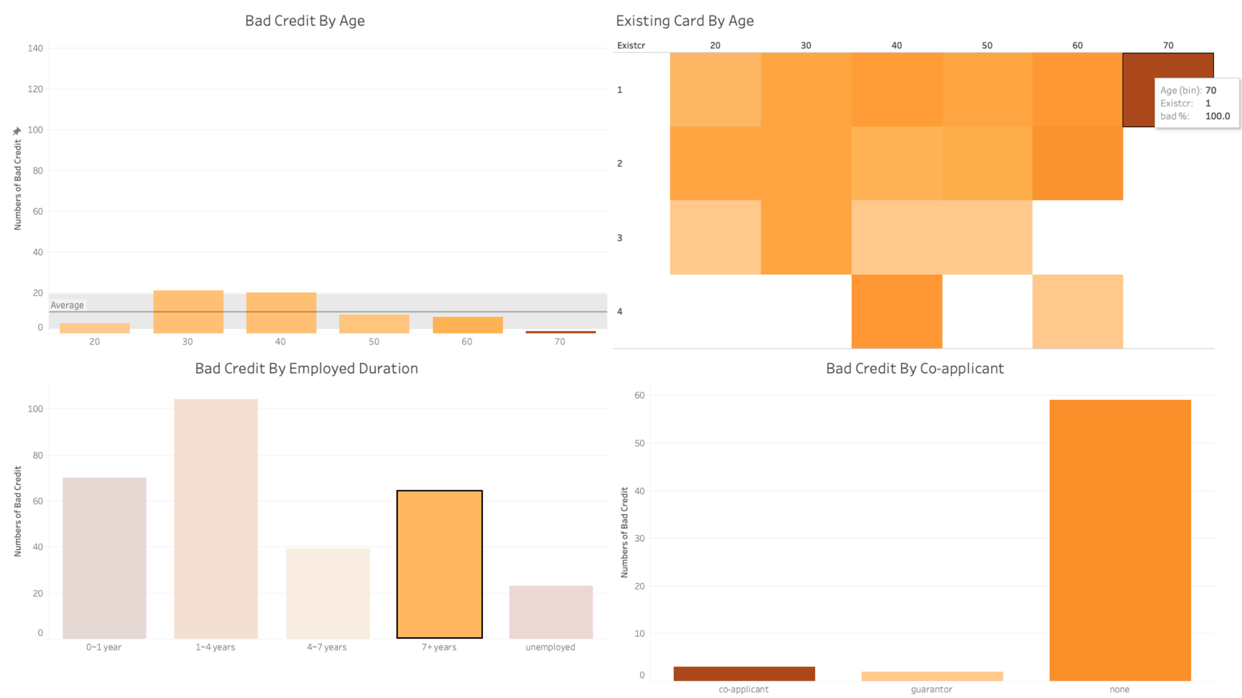
When filtering only to show this chart with the co-applicant, it links to the previous graphs that shown before. The 20's are the only bin that their case number are more than the average among all the data which proves that people in 20's may try to find someone to be their co-applicant.

Figure 6



Furthermore, mostly the co-applicant case people have working experience less than 4 years, meaning that they have start working but their income may not be stable enough to apply the credit card by themselves but rather to find more people to apply together. As mentioned earlier, the age seems to affect their credit, but focusing on the employed duration, figure 6that those who have worked more than 7 years, except the one outlier (the only one case in 70’s with a 100% bad rate which is the case itself), clearly shows that this group of people’s color shown in the graph are light color meaning that this group have a lower risk and tent to ha e a good credit.

Figure 7



Conclusion:

In light of the penetrating analysis conducted on our credit card division's consumer data, it is evident that our current risk management protocols require strategic refinement. The elucidated patterns of bad credit incidence among younger demographics—especially those under the age of 30 with pre-existing credit commitments—demand a recalibration of our credit evaluation procedures. The findings invite us to establish a more discerning and vigilant approach to credit approvals, particularly for this high-risk category.

Furthermore, the unexpected revelations concerning co-applicant cases—where shared financial responsibility does not equate to reduced credit risk—necessitate a critical reassessment of our underwriting standards. A more comprehensive vetting process that evaluates the collective financial profile of co-applicants will be instrumental in mitigating associated risks.

As we move forward, the bank must embrace these recommendations as cornerstones of a robust risk mitigation strategy. The implementation of stringent credit approval processes, coupled with a thorough appraisal of employment history, will act as bulwarks against the proliferation of bad credit. Our commitment to a deeper, more nuanced understanding of risk will not only enhance the stability of our credit portfolio but also affirm our dedication to responsible lending.

This report, therefore, does not mark the end of our inquiry but the beginning of a strategic shift towards a more secure and judicious credit landscape. By integrating these insights into our operational ethos, we stand to fortify our defenses against credit default while fostering a culture of prudent financial management amongst our clientele.