Understanding the Risk

Teaching the Risk

classification
segment
loan
hostility
number
random
default
antagonism
finger
danger
financial
bank
uncertainty
model
doubt
cash
credit
air
prediction

Discovering the Risk

<< High Risk customers are those who have a high probability to generate a financial loss resulting from a failure to repay a loan >>

1. Deep into the category:
  *Understand its behaviour backforward ==== **DISMEMBER**
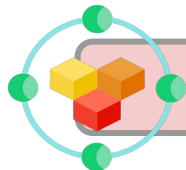
2. Establish own parameters:
  *Set up the conditions for new variable ==== **SCORE**

3. Check new classification:
  *Analyze the distribution of data ==== **TESTING**
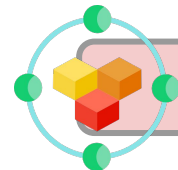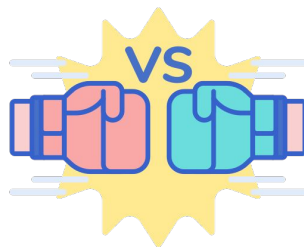
Scoring the Risk

MODEL 1

1 - Annual income couldn't be 3.5 times less that Total Credit.

2 - External scoring uper than 0.7

```
risk_category_4   High Risk   Low Risk        All
target
High Risk            14756      10069      24825
Low Risk            168611     114069     282680
All                 183367     124138     307505
```

Accuracy ==== 42%

VS

MODEL 2

1 - Initial default probability based on loan term and accumulate def projection from 5 to 25 years.

3- When accumulate default uper than 60%.

```
category     High Risk   Low Risk        All
target
High Risk       14939       9886      24825
Low Risk       181797     100883     282680
All            196736     110769     307505
```

Accuracy ==== 38%

Isolating the Risk

1. HOW TO DEFINE CORRECT SCORING: ☝️ ➕ WIND
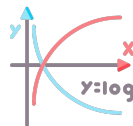
2. BANKING CREDIT RISK: 📁 INTERNAL DECISIONS

3. CREDIT RISK TARGET: 👥 SIMILAR DISTRIBUTION

4. BEST DEFAULT MODEL: 📈 IMPROVE MATH UNDERSTANDING

CONTINUE?

YES/NO

CREDIT 0