

East Africa Series: Corporate Credit Risk Scoring



Corporate Credit Scoring

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Corporate
and
Wholesale
Scoring

Obligor Counterparty
ratings

Facility Ratings

SME scorecards

Corporate
and
Wholesale
Scoring

Corporate
Scorecards

SME
scorecards

Corporate and Wholesale Scoring

Types of Commercial/Wholesale Credit scorecards

Current Practice

Application of scorecards

Common Challenges

The PD mapping, data scarcity

Covid19 Implications

The Future – Data analytics, ML

Corporate
and
Wholesale
Scoring

Basel Requirements

IRB Approach. Ratings

Regulatory

Collateral

Typical
Wholesale –
Corporate
Scorecard

Financials

Sector

Management

Banking Activity & CRB

Company

Corporate Scoring- Our Experience

- o Sector strategy policy to drive the sector ratings
- o Credit Analyst has a final role
- o SME models. More on sales , marketing
- o Altman's Z score
- o KMV Moodys
- o Used for pricing
- o Risk Appetite

Wholesale Credit Scoring- Our Experience

Challenges

Scanty data for SMES

Delayed Audits

SME?

- No audits
- Poor bookkeeping
- Basic data missing - Turnover

Challenges

Delayed Audits

Culture of regular ratings.

Scanty data for SMEs

- No audits
- Poor bookkeeping
- Basic data missing - Turnover

Financial performance and Credit ratings are lagging indicators of risk

Expertise – Smaller financial institutions

Policy

- o Board Approval
- o Regular Review of the scorecard
- o Sector Analysis and Predefined sector ratings
- o Regular review of sector based on Overall Bank Strategy
- o Independent Validation
- o Regular updates: Annually At least
 - o Quarterly for high risk , Early Alert
 - o Half yearly for the Top Exposures

PD

Probability of Default

- Needed for Pricing Decisions
- This is needed to map to each risk bucket or risk classification
- Scarce default data for Wholesale and commercial Segments
- Map to external ratings Agencies data. Publicly available

Covid19 Impact

Poll Question

What was the proportion of restructured loans in Kenya due to covid19 as at Dec 2020.

- A. 54%
- B. 34%
- C. 44%
- D. 64%

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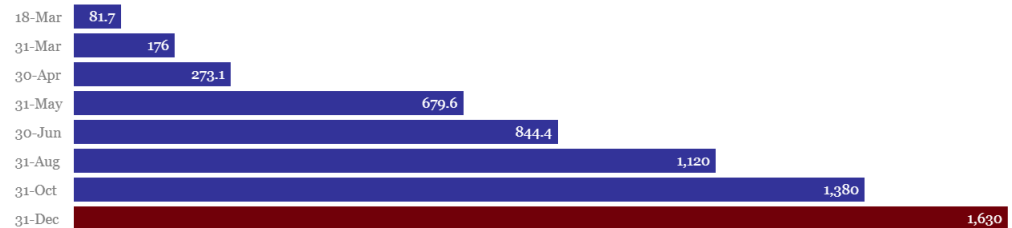
Poll Answer

Source:

<https://www.businessdailyafrica.com/bd/markets/capital->

Restructured loans

(Sh bn)



54.2 percent(Sh1.63trn) of the Sh3trn loan book has been restructured

Source: CBK

Development

Engagement

- Talk to credit analysts and Customer facing staff to understand the customers.
- One scorecard versus many:
System capabilities and implementation considerations
- Comply with the credit underwriting standards.

Development

Other Considerations

- Management of Overrides.
- SMEs. Tend to have extremely positive ratios but less stable.

Regulations

Other Considerations

- Differentiated pricing
- ICAAP process
- IFRS 9

Regulations

Other Considerations

- Systems and automation is Important to manage model risks
- Excel could do, but not stable.

Other Considerations

- The PWC presentation on IFRS9

Pricing

Return on Solvency

Cost of Risk

Reporting

Management
reports

- Overdue Ratings
- Migration matrices
- Stability
- Handling Old
financials
- Audits
- Overdue ratings

Short- and Long-term Challenges



- COVID effects all industries, business sectors and locations in a disproportionate manner
- The effects of the government's COVID-related legislations are difficult to capture
- Financial performance is a lagging indicator of risk
- Forbearance program alignment is suboptimal



- Relationship between qualitative risk factors and ratings in normal time doesn't hold
- Non-financial risks play a more critical role under COVID
- Credit ratings are lagging indicators of risk
- Credit decisioning does not capture all relevant information



- Credit decisioning is time-consuming
- Problem credit management is backward-looking

Framework Overview

