CASE STUDY

Fractal™

Loss Provisioning Requirement Reduction

Retail bank reduces loss provisioning requirement by 46% deploying Fractal's MortgageMetrics application scorecard

SUMMARY

Client
A young and aggressively growing Indian private sector bank*

Challenge
To optimize the credit approval process, reduce bad rate and loss provisioning

Solution
Fractal's advanced MortgageMetrics application scorecard

Result
The bank reduced its loss provisioning requirement by about 46%. The improved credit approval process also increased the productivity of credit officers and provided better management control

* *This case study is based on a Fractal client that has requested anonymity*

The Business challenge

The client, a relatively young private sector bank in India was growing aggressively in the retail segment. The bank's home loan portfolio constitutes a significant portion of its retail assets portfolio. The client wanted to implement better credit norms in its credit approval process, have better management control on approvals and improve the productivity of its credit officers.

The Solution

Fractal developed the MortgageMetrics application scorecard for the bank's home loan portfolio to reduce bad rate and loss provisioning by filtering out risky applicants at the credit approval stage. The scorecard was built using the repayment behavior data of the banks existing customers.

The scorecard takes the application form data as input. It incorporates factors such as collateral, capacity to repay and loan features, among others, and statistically assigns weights to them. The application scorecard then assigns a 'score' to every new applicant. Based on the score, the applicant is categorized into pre-defined risk zones. This helps in segregating the good and bad customers at the application screening stage.The score also gives the probability of default associated with that applicant.

Result

The bank deployed the MortgageMetrics scorecard and reduced its loss provisioning requirement by about 46%. The overall collections expenses are also expected to go down significantly. The bank also benefited through the deployment of an improved credit approval process based on the scorecard, leading to increased productivity of the credit officers. This has also enabled a better management control on the portfolio health and the approval process as the management is now able to change the 'cut-off scores' to suit the desired risk appetite.

INDIA
Fractal Analytics Ltd
Level 4, Corporate Enclave
B D Sawant Marg
Andheri, Mumbai 400099
Tel: +91 22 6704 2444 / 5
Fax: +91 22 6704 2446

SINGAPORE
Fractal Private Ltd
138 Cecil Street #03-02
Cecil Court
Singapore 069538
Tel: +65 6222 5101
Fax: +65 6222 5102

UNITED STATES
Fractal Analytics Inc
2500 Plaza Five
Jersey City, NJ 07311
Tel: 201 633 8728
Fax: 201 484 7201