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Title: Credit Risk Management: Expert Opinion

Bankir.ru discussed credit risk management with Daniel Zelenski, head of Decision Analytics in Russia and CIS, Experian

1. At which stage of development is credit risk management in Russia?

I would re-phrase this question to retail credit risk management as this is what we specialize in, and corporate and risk management have very different dimensions, I will be talking about retail credit risk industry.

Given the rapid expansion of the consumer financing market and growing delinquencies banks are forced to introduce and perfect their risk management practices.

However, even large organizations often lack risk management mechanisms, whereas in Western countries this is an integral part of the banking business. The retail credit risk practice does not only contribute to the delinquency rate, it has a direct impact on the competitive proposition of the lender's products. Still in many organizations, we see a very manual and de-centralized credit decision processes.

Human resources market is another element showing the stage at which the retail credit risk management industry is. As of today, there is a huge lack of experienced personal in the industry, which is explained by the fact that this is a new to the market.

The appearance of credit history bureaus and Western credit risk management strategies and tools should to help correct this situation. So I would say credit risk management practices in Russia are at the early stages of evolution.

2. Which consumer finance segments have the highest level of risk?

Risks differ significantly from segment to segment. The main reasons for that is that banks practice different approaches to evaluating their customers and insuring against risks.

The highest-risk segment is express loans. These loans are issued in the minimal amount of time with the lowest level of verification and credit risk assessment. It is therefore understandable that banks charge the highest interest on express loans.

Car loans imply a far lower level of risk. However, market experts note that car loan delinquencies are on a rise and exceed the growth rate of the market. Mortgages are the safest loans for a bank. Delinquencies in this segment are almost non-existent.

3. Which factors will promote the development of credit risk management practices in Russia?

I would point out several factors here. First, the development of credit history bureaus. This is one of the most important tools used in credit risk analysis. Most of lending decisions in Western countries are based on information received from credit history bureaus. And we have a long way to go to achieve similar figures.

There are several reasons why credit history bureaus are not developing as quickly as one

would like. First of all, many banks are still reluctant to share information on their borrowers with credit history bureaus. And it will take time before the important role of credit history bureaus is fully realized. Second, although credit history bureaus have accumulated a wealth of information already, lenders need to learn how to use the information from the bureaus. This could be achieved by the practices of decision making implemented.

Another factor that would promote lower lending risks throughout the consumer financing industry is information exchange on fraudulent credit activity. Credit fraud is a serious problem in many countries and Russia is not an exception. One of the ways to overcome this problem is to use sophisticated anti-fraud systems supplied by decision analytics companies like Experian. Our system is called Hunter and it is already implemented in a number of Russian banks. As banks become more willing to share information on credit fraud in their operations, fraud rates will slow down or decrease.

Finally, I would say Russian credit risk management practices would benefit tremendously from a greater number of qualified risk analysts which are in great demand. Most banks currently point to the lack of such experts.

4. What solutions exist for managing credit risks?

The tools for managing credit risks have been around in the West for many years and are gradually gaining acceptance in Russia. As a global leader in decision analytics, Experian also offers its product portfolio to Russian banks to help them manage and keep risks in check. Credit risk management tools include scoring, credit strategy management, anti-fraud products, collections , limit management, etc

One word of caution to Russian bankers: trying to save on credit risk management may turn out to be very costly for a bank. The specialized solutions offered by decision analytics companies are worth their price. The advantage of these companies is that specialized solutions incorporate the experience of other banks and are continuously perfected to match market realities. In addition, specialized providers are experts in consumer financing and software. Many credit risk management solutions like scoring can be outsourced and are offered on a per-transaction pay basis. This is far less expensive than developing an in-house system, very few of which stay effective in the long-term, or integrating solutions into a bank's existing information infrastructure.

5. Did the U.S. mortgage crisis affect credit risk management practices in Russia? How?

Yes, I think it did, as we could see some lenders closing their credit programs and/or increasing the level of rejected applications. I would say this was an immediate reaction to the increase of funding prices.

However, it has an indirect effect forcing lenders to invest in the retail credit risk function helping in longer term to improve the overall industry.