



Credit Decision Indices: A Flexible Tool for Both Credit Consumers and Providers

Executive Summary

Credit information providers have increased their focus on developing new information solutions, enriching the existing framework of credit ratings, upgrading technology, streamlining credit data processing and providing solutions around real-time risk management. Credit information consumers have reduced their dependence on third-party information and are also beginning to restructure their own credit appraisal frameworks for managing risk in decisions. The parallel information flows of credit information consumers and providers are bound by a common outcome – i.e., the credit decision.

Aggregating credit decisions and feeding the aggregated indices back in the decision-making process can provide a feedback loop, thus bringing a new dimension to decision making. Credit Decision Indices (CDI) provide a unique value dimension in decision making by leveraging multiple credit frameworks, integrating risk perception and providing real-time feedback. Credit Decision Indices can be drawn across industries or geo locations, or they can take the form of a credit decision index for a company, and they represent useful data for the worlds of both credit seeker and credit provider.

On the premise that credit decisions are already being stored for record keeping through existing risk-management solutions, Credit Decision Indices are dependent on implementation of an aggregation engine and computation of a rule-based

indices set. As CDI is an analytical extension of existing risk management solutions which store the decision footprint, credit information suppliers will find that Credit Decision Indices are aligned to their business stratagems of creating new information markets, up-sell to the existing customer base, product innovation and product enrichment. Credit Decision Indices can have various manifestations including credit decision reports, credit decision trend lines or credit decision analytical add-ons.

Credit Decision Index

Business data, particularly credit information, are critical decision-making criteria for credit managers. The global financial crisis has brought new challenges in lending decisions, resulting in an increased focus on credit information worldwide. Taking a cue, credit information providers are redefining risk ratings frameworks by adding new or enriching existing ratings and scores, investing heavily in technology upgrades to provide real-time credit information and enhancing their credit information solutions for more effective usage during the lending process.

However, usage of credit information itself varies across financial institutions and all other things being equal the same credit information may result in different credit decisions depending on risk perception and institutional frameworks. Analyzing credit decision trends using the same credit information can be a valuable input for managing risk. However, existing credit reports,

ratings and scores are based on source data collection and statistical analysis is based on financial performance – rather than decision trends.

For the credit information supplier, aggregating credit decisions and providing the feed on decision trends as a credit decision index completes the information loop in the supply chain framework.

Let us consider a situation where a credit-seeking company A approaches bank B for credit. The credit manager of bank B will use credit information supplied by a credit information provider C for an approval, deny or hold decision on the proposal.

Company A has operations in multiple locations and credit proposals across banks Y, Z, etc. which are using the services of the same credit information provider C. While the credit manager of bank B approves the loan, bank Y holds the decision for 10 days and bank Z denies it. For all three cases, credit information provider C had provided the same reports and scores for company A. However, the usage of the same information resulted in different decisions, which can be attributed to different credit proposals (credit quantum, proposal risk, etc.) and different perceptions (organization framework of the lending institution, credit manager opinion factors, etc.).

In this example, credit information provider C can add a credit decision index on company A along

with its existing reports, scores and ratings, thus giving its subscribers B, Y, and Z a value dimension to help them make decisions. The credit decision index can be captured by the credit information provider through its existing credit solutions, and would reveal credit perception at a faster rate than conventional methods of information collection. Aggregating credit decisions can provide insights on approval and denial rates and holding duration.

Leveraging Credit Solutions for Closed Loop Credit Information

A leading credit information provider recently transformed its credit solution offering for its consumer base of small and medium business credit managers. Apart from providing credit information reports and daily credit scores, the revamped solution also provides credit assessments to facilitate record keeping and single point of reference and access to credit information history. The modified solution asks for the credit quantum and credit decision from the user and keeps a record of the credit information at the decision point. Additional features such as alerts on credit information are also provided for users, to intimate changes in credit information as per user-defined parameters. The solution stores the credit quantum and credit decision and uses the data for retrieving credit history.

As the framework is already present in the form of decision point reference, the decision data, if aggregated throughout the solution's user database, can easily transform into a valuable credit decision index; further, advanced metrics

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Two Types of Credit Information Flow

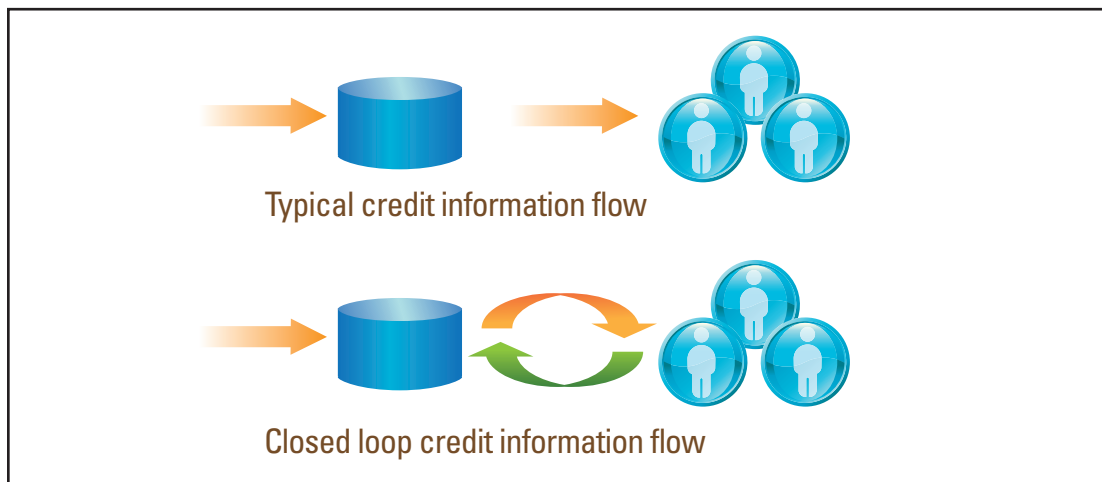


Figure 1

can be applied to the aggregated data and the results fed back into the solution. This set of information can be used by the different companies seeking loans/credit from the lending/supplier companies.

Advantages of Closed Loop Credit Information

Closed loop credit information provides a unique value dimension in decision making; it leverages multiple credit frameworks, integrates risk perception, is a real-time feedback and also has potential to generate advanced metrics around the information. For credit information providers, it is valuable information which can be obtained from existing solutions with a low processing cost.

Future of Credit information

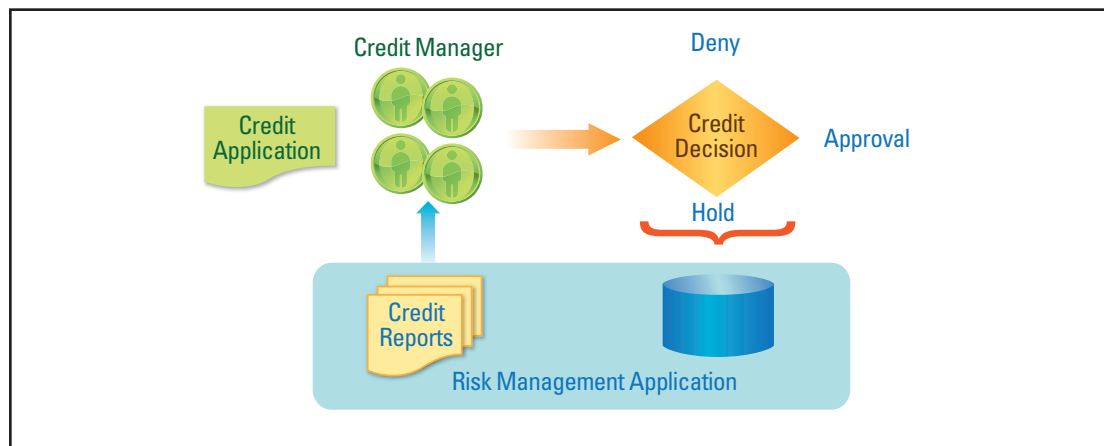
Credit information reports, scores and ratings are established frameworks for decision making. However, networked feedback and credit decision

trending is a "perception" score and reflects the credit image on various credit proposals of the credit seeker. Decision making in the lending process may be dependent on several factors apart from credit reports; however, the risk management framework would definitely like to incorporate the aggregated decision trends that combine the invisible and indeterminate factors in a credit model. The role of credit information providers will evolve into credit decision aggregators, and this transition will be easier for the leading providers if they have solutions in hand.

Business Case: Credit Information Services Provider

Risk management solutions help the credit manager make decisions based on various financial indices and indicators. The company's primary services have gone a step further and allow the credit manager to mark his or her decisions in the application and record the credit

As-Is Process



To-Be Process

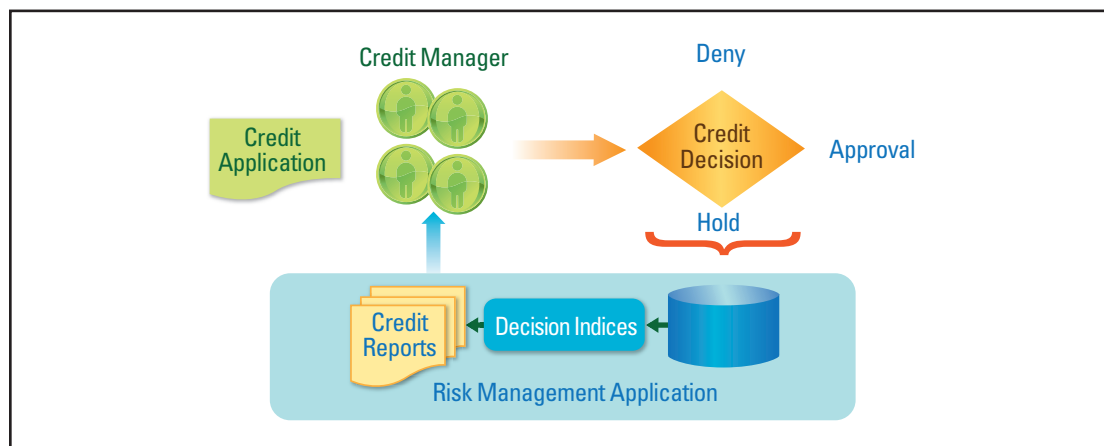


Figure 2

criteria that prevailed at the decision point. When aggregated, this valuable information – i.e., the decision footprint – reflects the market’s opinion of credit information and is a potential input to the credit decision-making process itself in the form of Credit Decision Indices.

CDI is a new concept which can be targeted to a new segment of customers closely associated with the credit decisions. The credit trends and CDI can be used by the credit managers and like-minded people to gauge the market trends and improve their own decision reference points.

The existing set of customers who are already using the company’s reports and credit application to make their credit decisions can benefit from CDI and decision trends because it not only equips them with the parameters of how they take decisions but also supplies the trends which will strengthen their decision rationale.

CDI is a continuation of the service offerings under the company’s risk solutions umbrella. It requires analysis of data already existent in the system so it does not require much new investment.

There has been no solution in the market which provides the credit indices described here. This is the first of its kind in the market and will provide the company the competitive edge over other market players.

Approach

Credit Decision Indices leverage existing risk management solutions; hence, the approach to

implementing CDI is as an extension and integration within the risk management solution framework. The broad steps of the approach are:

- Decision Collection.
- Decision Aggregation.
- Decision Indices.
- Report/Index/Trend Line Output Feed.

An established decision collection mechanism is required to implement a framework on Credit Decision Indices. Such a decision collection mechanism is prevalent in new generation risk management solutions, which facilitates record keeping of credit decisions.

As credit decisions and decision parameters are already being stored for retrieval by end users, the next step of providing CDI is dependent on implementation of an aggregation engine and computation of a rule-based indices set.

The aggregation engine will be aggregating the decisions in a cubic model so that analytical trends can be developed. A cubic aggregation will enable end users to answer questions like trends by customer, parent customer, location, time (month, quarter) and credit quantum. Indices on decision can be rule based and extend to customizable indices apart from the approval rates, denial rates, holding time, geo-quantum ratios, time based measures, etc.

After the implementation of aggregation engine and rule-based indices are set, the next step is to develop output feeds in the form of reports or add-ons. This can be done by leveraging the

Governance Model Survey Results

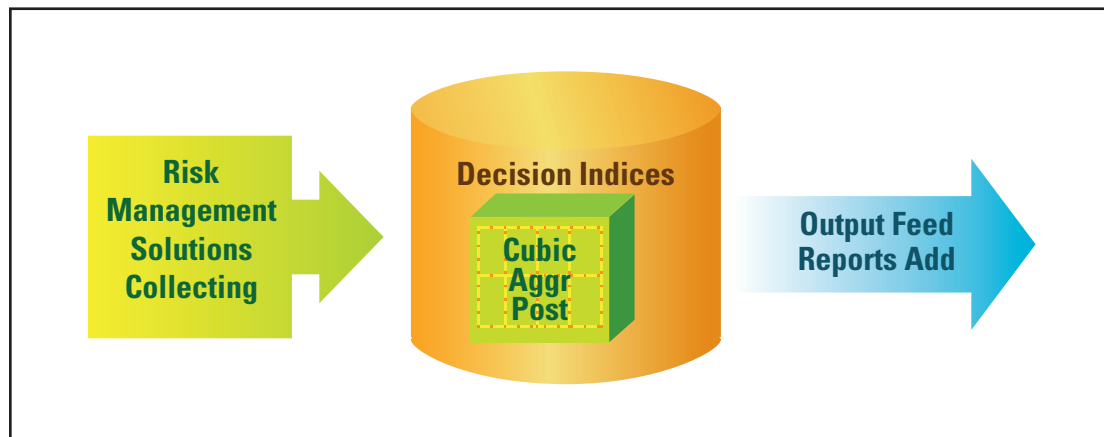


Figure 3

existing framework of credit information reports or analytical add-ons and integrating the output feed with the same.

Viable Options

As CDI represents market decisions on credit information and closes the gap between information and decisions' life cycle, the following models can be considered as ways to generate revenue.

- Credit Decision Report.
- Credit Decision Analytical Add-on.
- Decision Trend Lines.

Credit decision information can be developed as a separate report or as an additional report bucket in a company report, or both. A credit decision report can provide detailed indices and information on market trends for a particular company or its parent company, whereas a credit decision bucket can provide the basic decision indices of approval rates, etc.

The credit decision analytical add-on can be an additional feature which end users purchase to view the market analytics performed on the credit information.

Decision trend lines can be structured to form innovative product offerings on credit information which can be offered to credit information users. Decision trend lines can offer a graphical representation of the decision indices and a query interface.

About the Author

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Risk

Credit decisions are being taken every day and at every corner of the globe. However, CDI is based on a subset of these decision-making events with the condition that decision makers are subscribing to the decision collector tool by the credit information supplier. The reach of the credit information supplier and subscriber base and usage rates of the decision collector tool is critical for CDI. Early success and acceptance of CDI will depend on information availability about market decisions, which in turn is dependent on reach, usage and adaptability of existing risk management solutions. This adds up to a classic chicken-egg scenario, and poses a huge risk associated with CDI initiatives undertaken by any credit information supplier.

Another risk to the CDI initiative is disclosure of decisions and validation. Risk management tools provide a decision collection mechanism; however, validation of the information collected and disclosure of information will be limited to the information provided by end users. Decision footprints left in the risk management tool can sometimes seem different than the actual decisions taken. Although a broad base aggregation will diminish such aberrations, if the decision collection information base is not significant such aberrations may not be a true representation of the market decision.



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