



CLAIN2015

XIX CONGRESO LATINOAMERICANO DE
AUDITORIA INTERNA
Y EVALUACIÓN DE RIESGOS



Nombre de la Conferencia
Effective Risk Management in
Retail Lending

Ganesh Viswamani



Ganesh Viswamani

ganeshviswamani@gmail.com

- 23 years experience in Retail , Small Business and Micro Lending
- Analytics , Risk Management , Collections , Risk Technology and Audit
- Asia , Africa , Middle East , Caribbean, Central America , Latin America , and Canada



BARCLAYS

Standard Chartered



HSBC



Since May 2010

Vice President -
Global Risk Management
Retail & Small Business –
Audit

2008 to 2010

Risk Management
Asia/Africa/ MENA/

2005 to 2008

Risk Management - Asia/Africa
And Middle East

1997 to 2005

Risk Analytics and Risk
Management
Middle East and Africa



CLAIN2015
XIX CONGRESO LATINOAMERICANO DE
AUDITORIA INTERNA
Y EVALUACIÓN DE RIESGOS



- **What is effective Risk Management**
- **Risk Directives**
- **Risk Governance Framework**
- **Critical elements of Risk Management**
- **What is risk Appetite Strategy**
- **Risk Management Process overview**
- **Risk identification in retail lending**
- **Risk Measurement and Management**
- **Risk Reward example**
- **Retail lending Income Dynamics**
- **Risk Capability assessment**

What is effective Risk Management ?

Objective understanding of earnings and loss volatility and create strategies, and actions which mitigates volatility.

Retail Risk Directives

Value and type of risk willing, should be determined by current risk capability and not sales capability.

Results in benign economic environment should not be construed as good risk performance .

Normal credit Loss is cost of doing lending business . Abnormal credit loss is the cost of imprudent risk culture

Shaping the right growth , and not stopping the business growth

“Proactive” is risk management “Reactive” is crisis management

Present inaction adversely impact future risk performance

Management by exception is the foundation

Governance Frame work - Example



What are the key components to

Achieve Effective and Proactive Risk Management framework

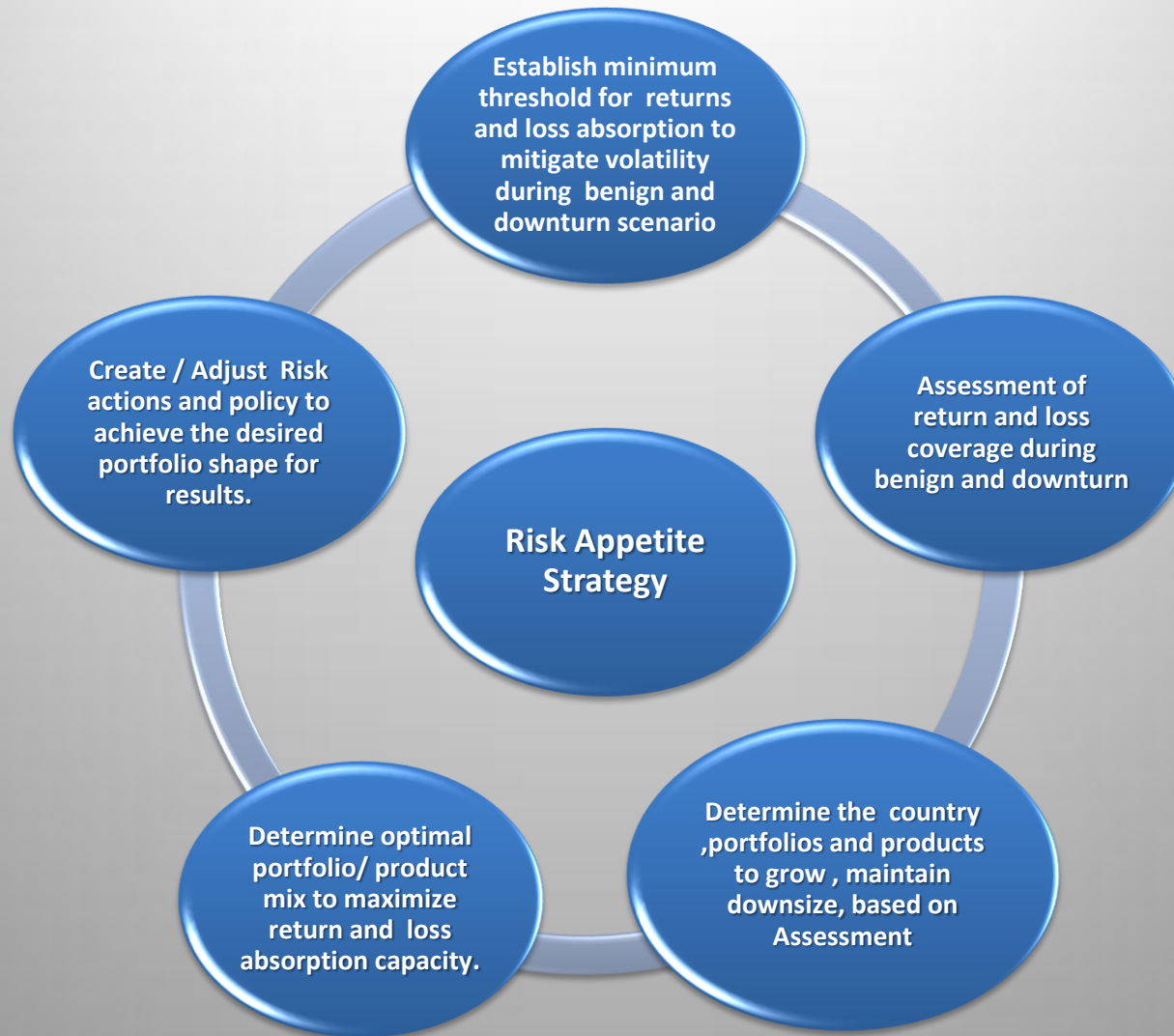


Risk Readiness is key to sustainable results

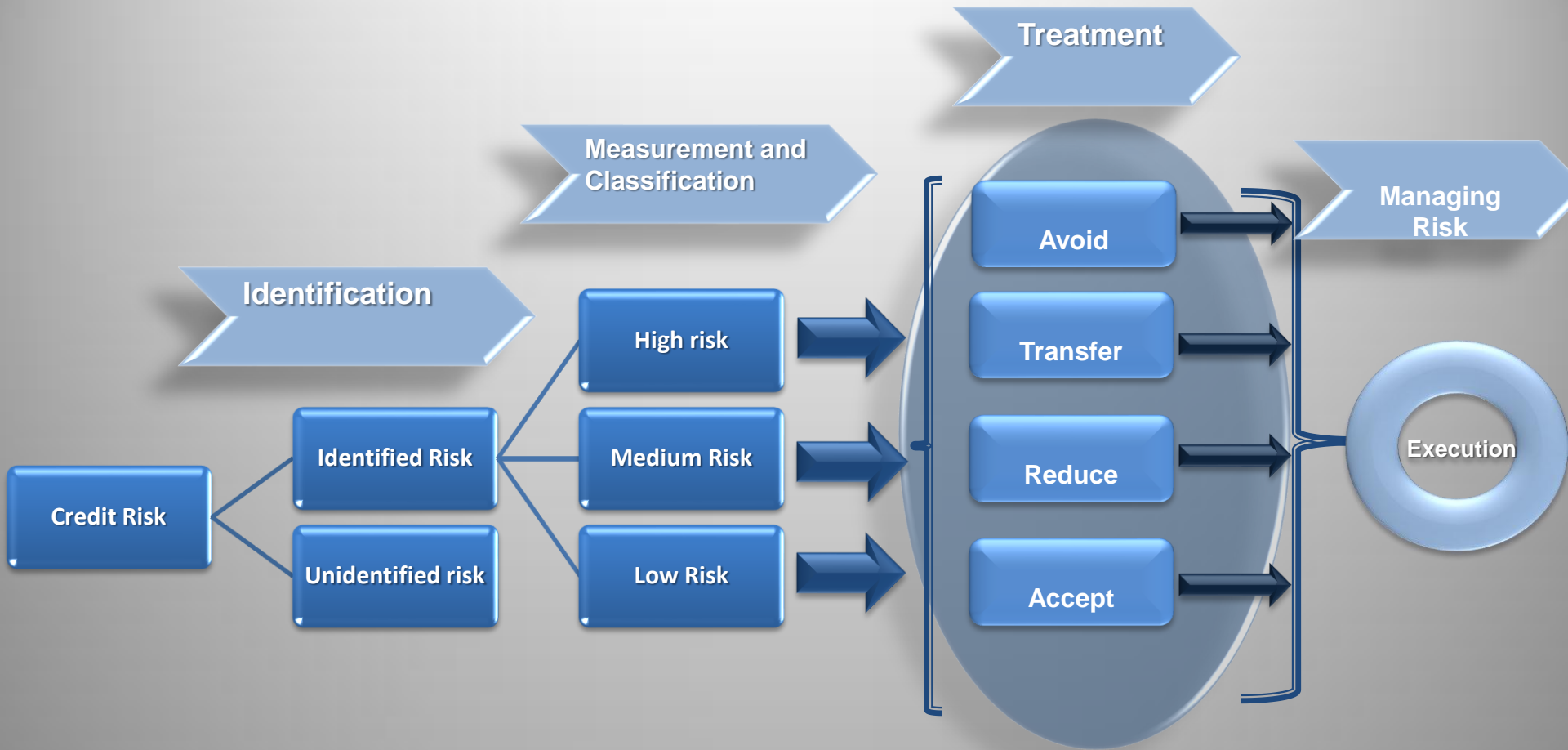


Ongoing Risk Capability Assessment - to be fit for growth

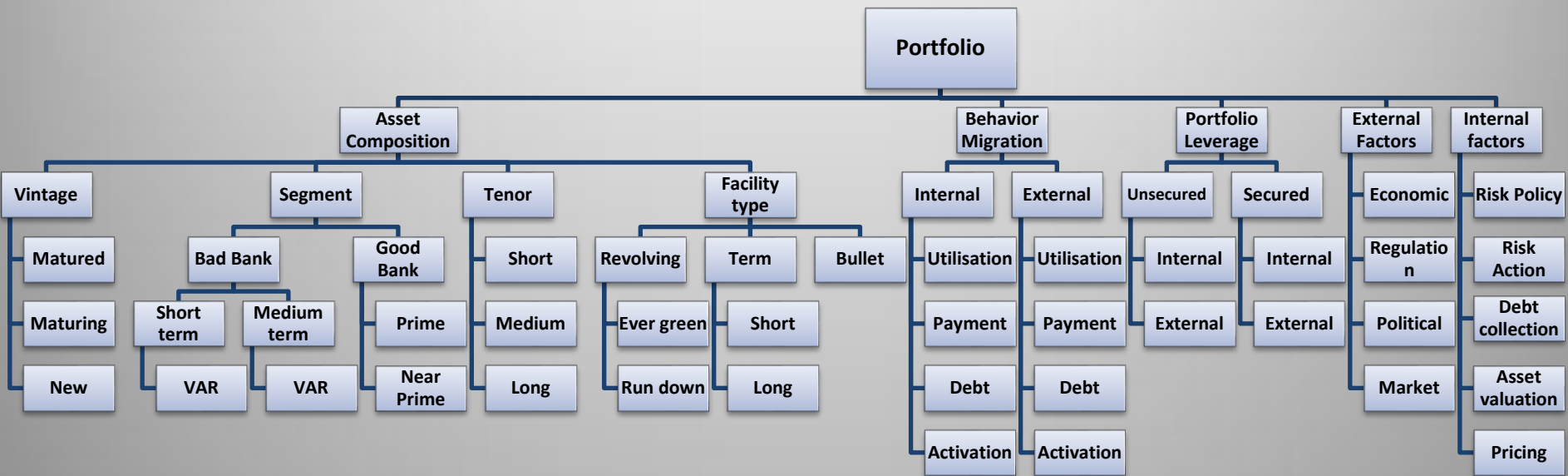
Risk Appetite Strategy



Risk Management Process Overview



Risk identification in retail



Risk Measurement and Management

Risk Measurement

Risk Management

Measure Portfolio Risk
(Expected Loss, Earnings at Risk)

Identify Risk & Reward Drivers

Stress for Risk & Reward Drivers
(Stress Loss)

Risk/Reward -Product/
portfolio/ product
comparison

Yes

No

Risk/Reward
Adequate?

Strategic Considerations:
e.g. Reduction , discontinue

Strategic Considerations:
e.g. Expansion , maintain

Routine Risk
Monitoring
(Ongoing Risk measurement & Assessment)

Internal Strategy

External Strategy

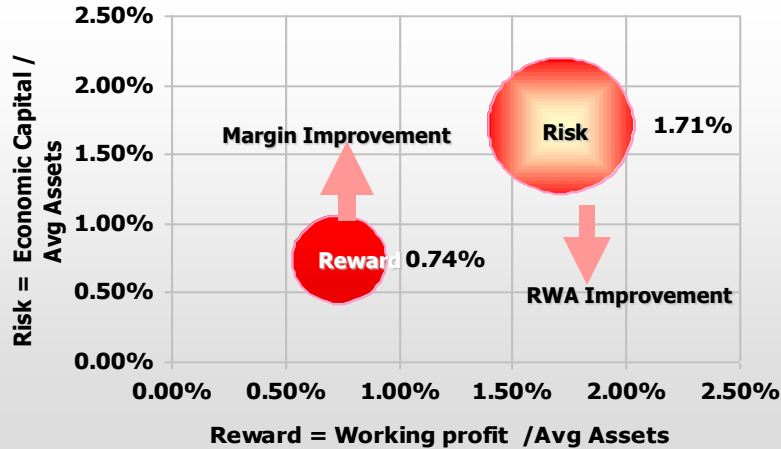
Manage through, acquisition strategy , Credit
policy, underwriting,
Risk-Based-Pricing , Re-pricing and
Product target market

Manage through Capital Markets
Instruments Credit Derivatives, Risk
Insurance, Securitization, ...



Risk Reward Assessment – example

Retail Risk Reward Metrics for Retail & Small Business - Domestic



A simple example to show imbalance in risk reward metrics

Possible interpretations

- Pricing not aligned to the perceived risk
- Opportunity to improve parameter models
- Opportunity to improve portfolio management strategy (Unutilized accounts) with respect to Revolving credit products
- Opportunity to review retail lending product mix

Risk Reward Metrics for Domestic Commercial

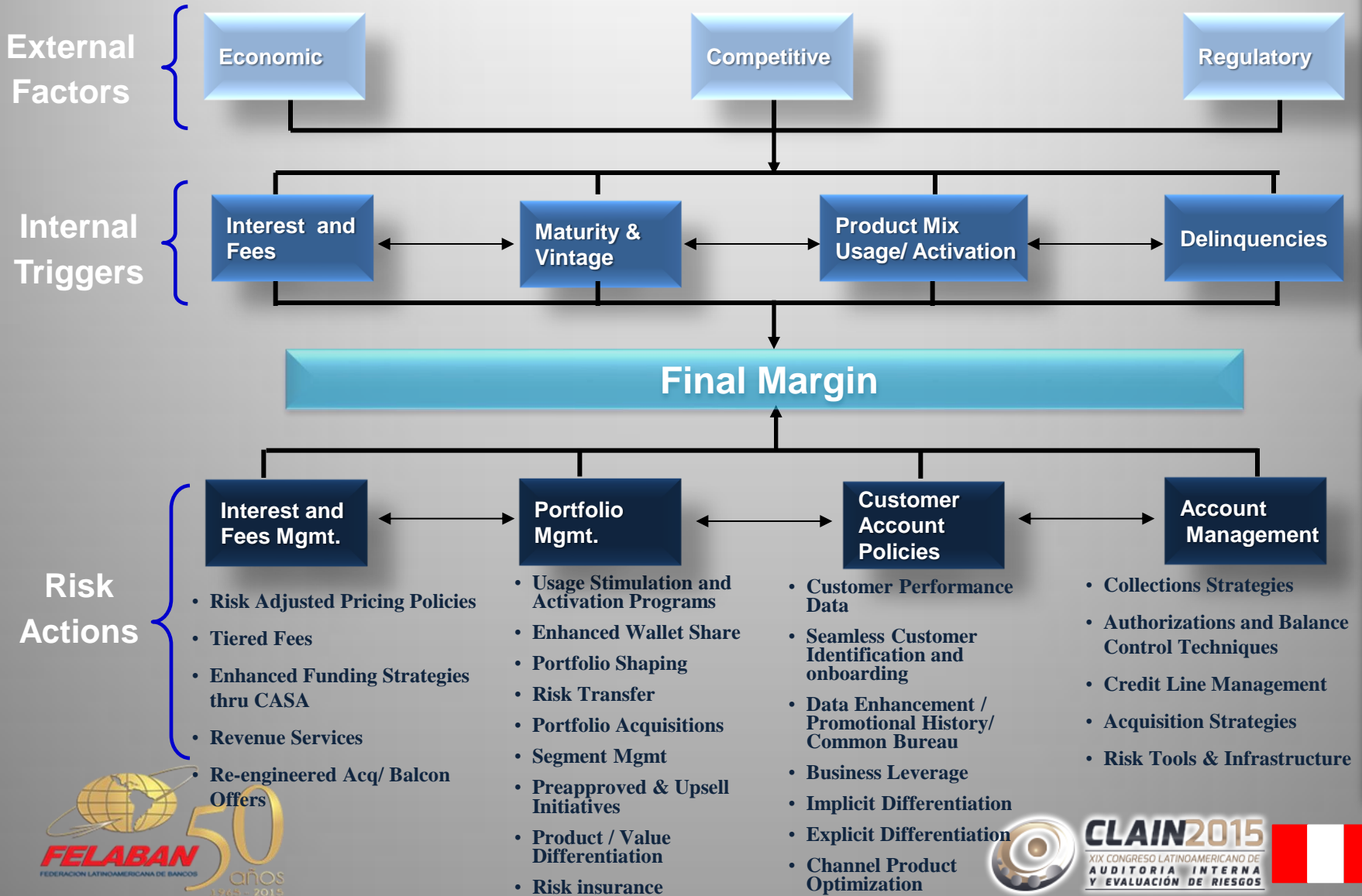


Risk = Economic capital / Avg Assets

Reward = Working Profit / Avg Assets

Working profit = Total income less Total Cost

Retail Lending - Margin Dynamics

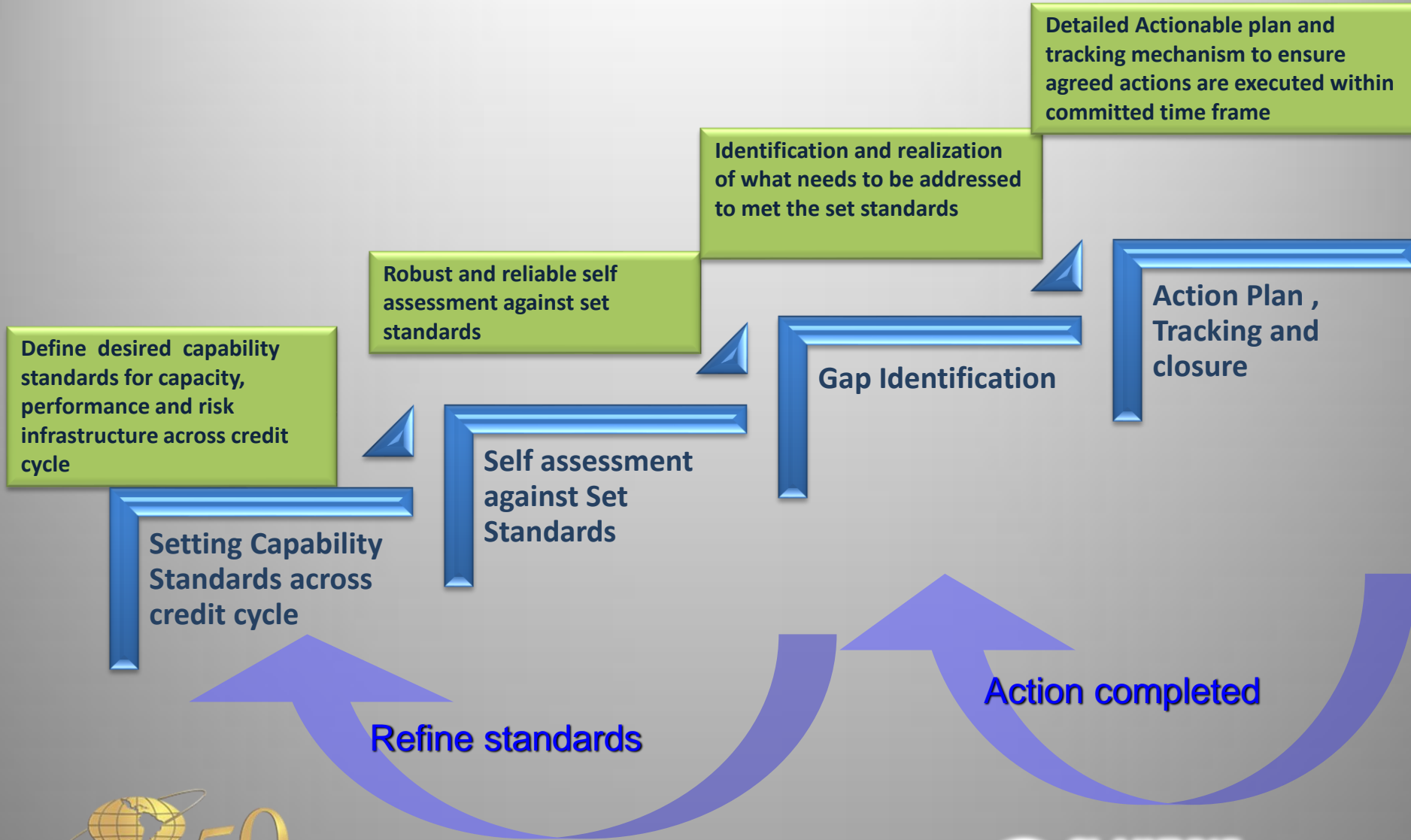


Restraining Forces

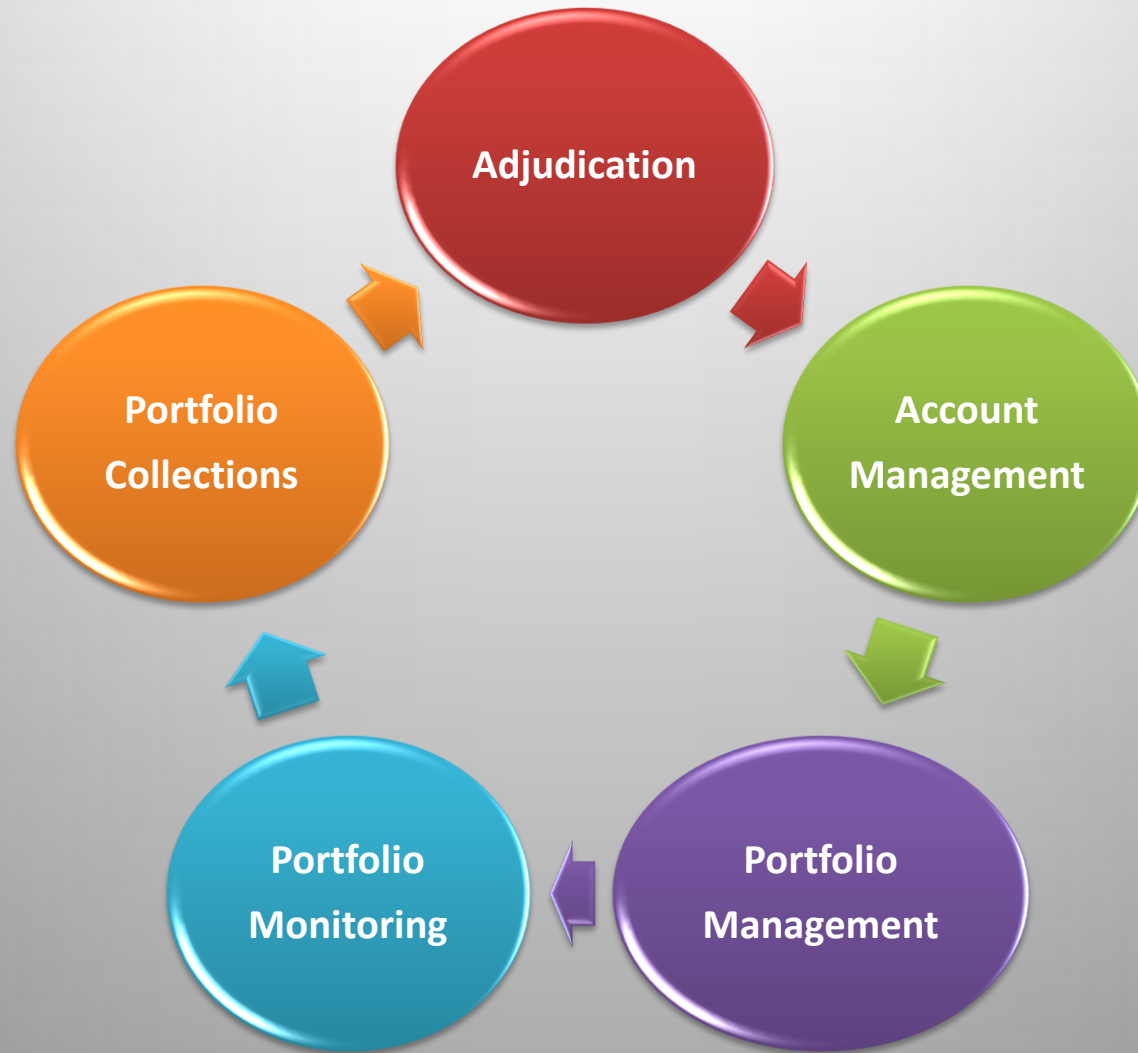
Driving Forces



Risk Management Capability Assessment

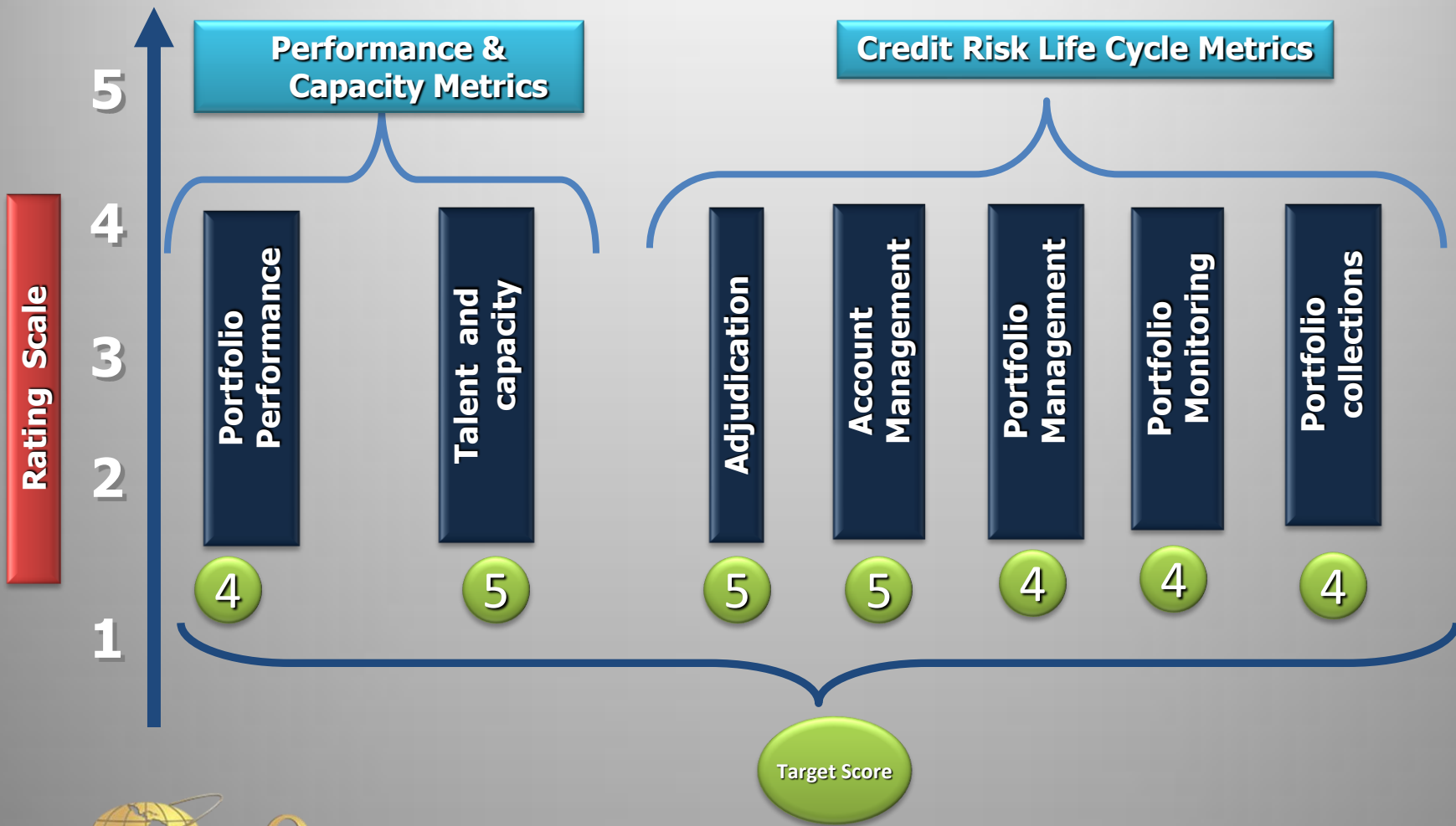


Credit Risk life Cycle



Risk Capability Scorecard

1 - Poor 2- Below Avg 3 - Average 4 - Ideal 5 – Superior



Example of Performance metric

Metrics	Score 1 = Poor	Score 2 = Below Average	Score 3 = Average	Score 4 = Ideal	Score 5 = Superior
Portfolio Quality	< 50% of the portfolio not in top 2 grades	< 35 % of the portfolio not in top 2 grades	< 25 % of the portfolio not in top 2 grades	< 15 % of the portfolio not in top 2 grades	< 10 % of the portfolio not in top 2 grades
Portfolio margin = Working Profit / Avg earning assets	< 20% of Plan	< 10% of Plan	As per Plan	>10 % of Plan	>20% of Plan
Risk Adjusted Margin % = NIM % - Loss rate %	<= 60 % of Net Interest Margin	<=70 % of Net Interest Margin	70 to 74 % of Net Interest Margin	75 to 84 % of Net Interest Margin	>=85 % of Net Interest Margin
Loss coverage = Working Profit / total impairment	< 1.5 times	1.5 to 2.5 times	2.6 to 3.4 times	3.5 to 5 times	> 5times
Portfolio Risk % = EC/Avg Earning assets	>= 120% of portfolio margin	90 to 119% of portfolio margin	< 89% of portfolio margin	< 75% of portfolio margin	< 65% of portfolio margin
RWA / Avg Earning assets	>= 50% of Avg earning assets	45 to 49% of Avg earning assets	35 to 44% of Avg earning assets	< 35 % of Avg earning assets	< 25% of Avg earning assets

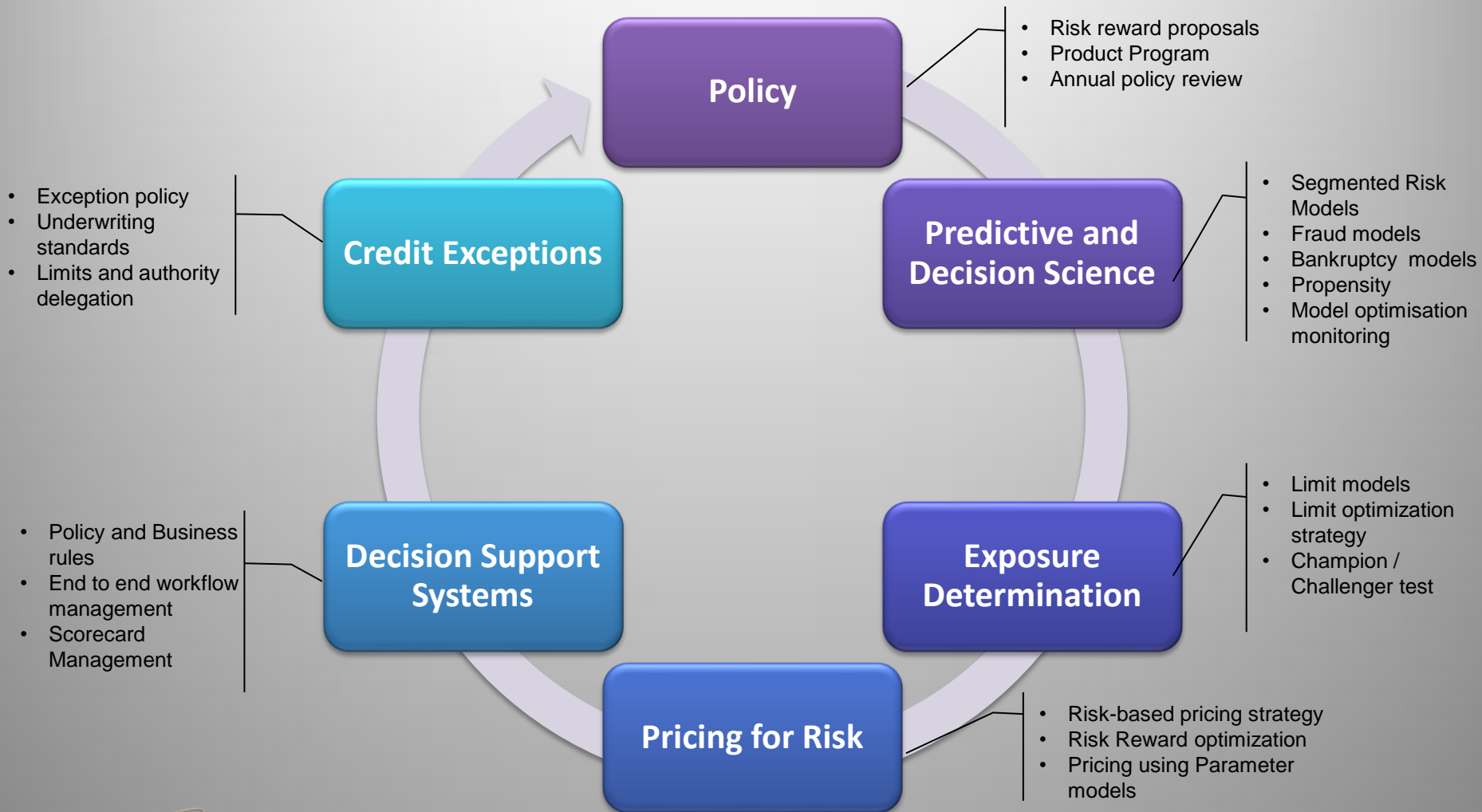
Portfolio Performance Scorecard

1 - Poor 2- Below Avg 3 - Average 4 - Ideal 5 - Superior

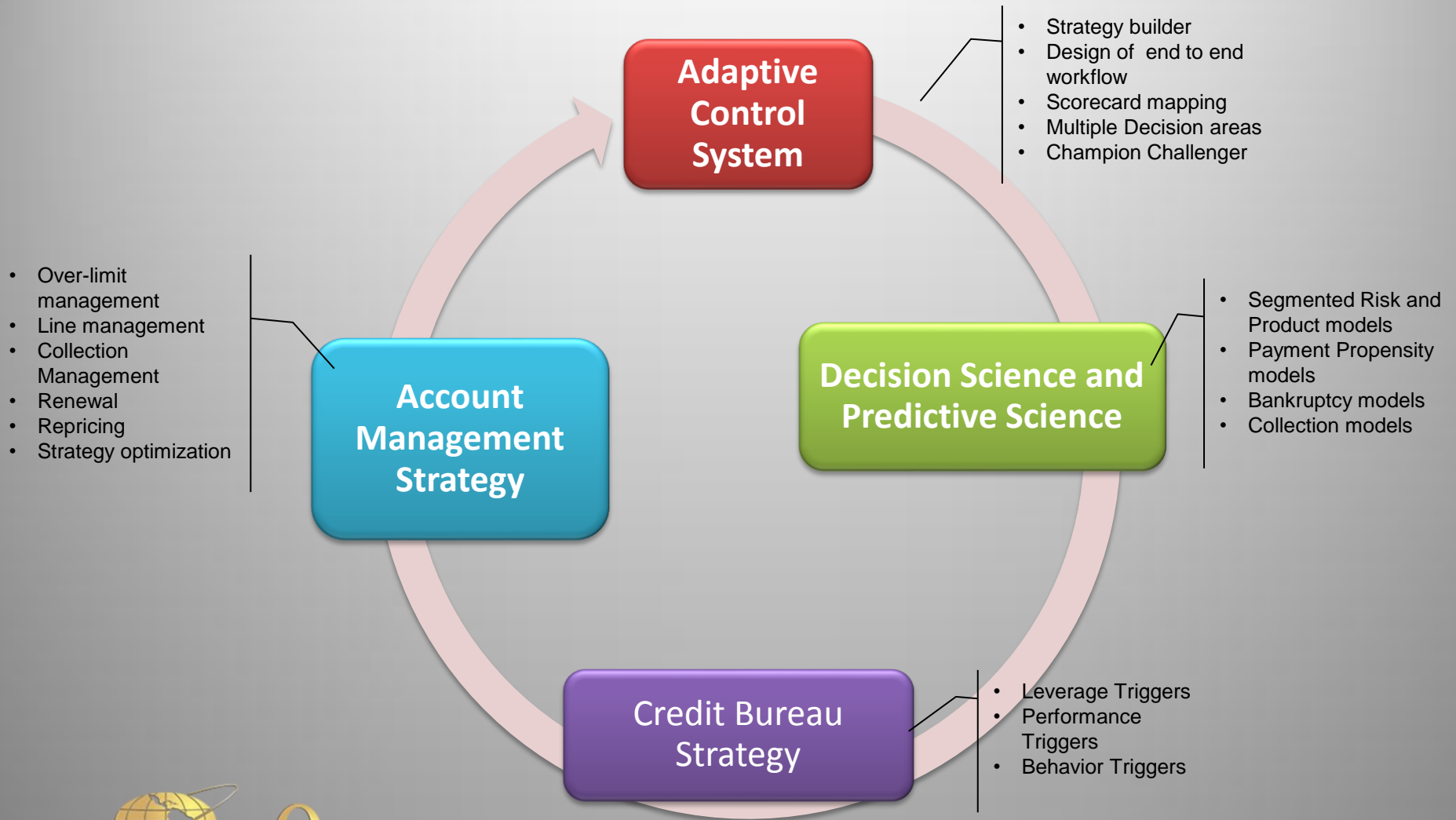
	Actual Score	Target Score	Max Score	Min Score
Portfolio Quality		5	5	1
Reward % = Working Profit / Avg earning assets		4	5	1
Risk Adjusted Margin		5	5	1
Loss coverage = Working Profit / LI		5	5	1
Risk% = EC/Avg Earning assets		4	5	1
RWA / Avg Earning assets		4	5	1
		27/6 =4.5	30/6 =5	6/6 =1



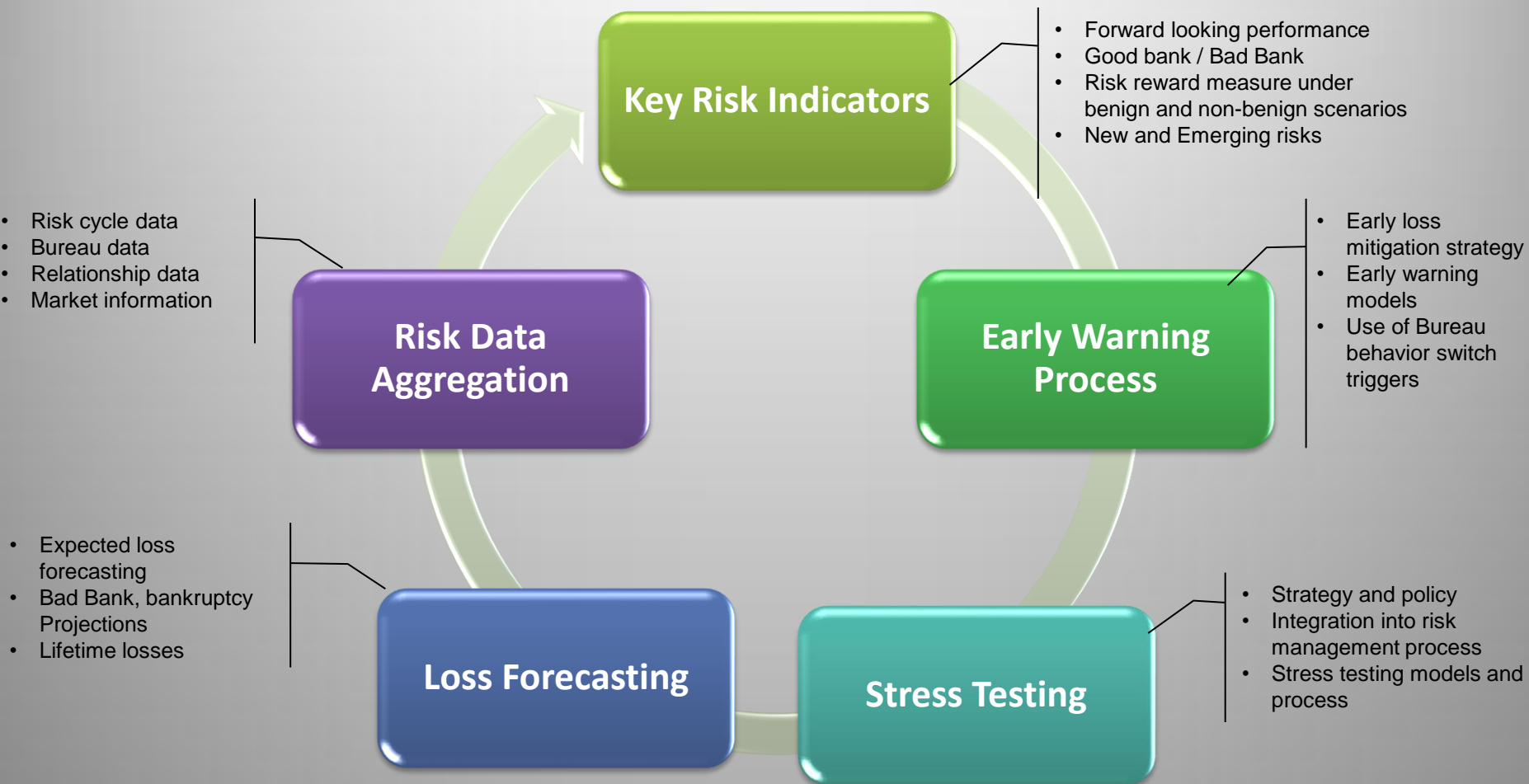
Adjudication- capability assessment factors



Account Management – capability assessment factors



Portfolio Monitoring – Capability assessment factors



Points consider in managing risk for retail lending

- Risk Readiness for growth
- Risk capability measurement process
- Risk appetite tied to my risk capability
- Risk strategy mitigates significant loss event
- Robust ,exhaustive and farsighted risk identification process
- Accurate measurement and quantification process to help build fit for purpose risk strategy.

Información de Contacto

- ganeshviswamani@gmail.com
- +1-416-576-5450
- <https://ca.linkedin.com/in/ganeshviswamani>

¡Muchas Gracias
por su atención!