Loss forecasting under IFRS 9

Achieving a strategic competitive advantage under IFRS 9

Helping you to meet the requirements for loss forecasting under IFRS 9

IFRS 9 regulation requires financial institutions to take into account forward looking forecasts of future economic conditions when determining significant increases in credit risk and when measuring expected credit losses. Also the time horizon to be considered for credit loss estimates has changed significantly for exposure not yet impaired but already showing an increased credit risk since origination.

This will have a significant impact on the provisions financial institutions set aside for credit risk loss.

Experian is uniquely placed to support all the requirements of loss forecasting modelling under IFRS 9. Loss forecasting requires data; analytical expertise across both credit risk and economic disciplines; economic forecasts; and specialist consultancy expertise.

Our solution covers all these elements. From the development of risk parameters including macroeconomics factors, through validation activities, and consultancy, we support efficient usage of results to enable financial institutions to achieve strategic alignment of all IFRS 9 impairments requirements.

Our partnership approach enables lenders to achieve these objectives through:

1. Expert, analytical support

- Lifetime loss forecast modelling including economics
- Account or customer level Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD), and repayment models
- Translation of Basel models into lifetime loss forecasts
- Vintage survival analysis
- Transition matrices
- Monitoring of models and estimations

2. Extensive, relevant data (according to each market regulation and data availability)

- Market data for lifetime losses and settlement rates by vintage and roll rates
- Benchmarking data for PD, LGD, EAD and loss forecast model development
- Experian Bureau Data to support change in credit risk determination and input into models

3. Economic modelling and forecasting expertise

- Time-series econometric modelling to predict economic impacts on historical and future loss rates

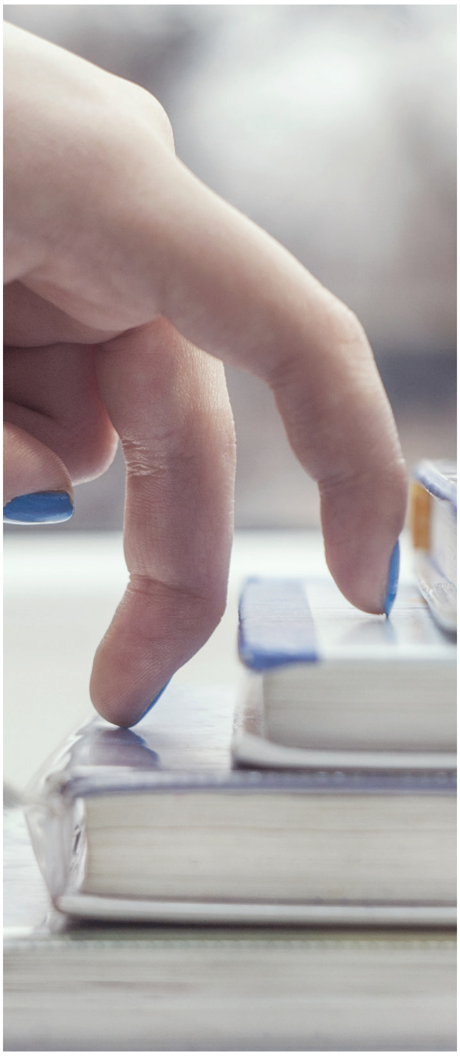
- Economic forecasts at the macro, regional and household level
- Forecasts of the probability of an economic and/or credit downturn for inclusion in credit risk stage assessment

4. Strategic and operational implementation of IFRS 9 models and estimation

- Gap analysis of the current tools in place aligned to regulation requirements and impacts
- Roadmap to implement IFRS 9 requirements with regards to the best lending and credit policies
- Deployment of IFRS 9 on the Experian PowerCurve platform

How can Experian help you with the transition to IFRS 9?

Revising loss forecasting methodology is not a "one-size-fits-all" exercise: the approach to IFRS 9 depends on many factors.



Current challenge	How we can help
Does the current loss forecasting methodology provide a sound foundation for IFRS 9?	Our Consultancy team has a deep understanding of the dynamics of credit risk, loss forecasting, exogenous economic factors, and retail credit management best practice. Our proven methodology for applying this knowledge to the real world constraints faced by clients means we can assist you in not only meeting your obligations with regard to IFRS 9, but also enhancing your capability to strategically planning across the credit and customer life cycle.
What is the appetite for integrating IFRS 9 with IRB models?	The loss forecasting work enables an understanding of the differing arrears and loss rates across the range of lending products and customer life cycle starting from origination. Our approach also provides the ability to assign forecast losses across various segmentations and down to the individual asset level. This delivers a solution and which accommodates future changes in lending profile and market conditions, which is also able to feed into risk concentration analysis and Basel requirements.
Do data and models adequately capture default risk?	Experian Bureau data (where available) can supplement your own data to help you in instances such as; an insufficient depth of relevant history, low volume of arrears on which to model EAD and LGD or an incomplete view of customer risk at point of origination.
Where can you re-use or augment existing models and where should you start from scratch?	We are experienced in working across several modelling techniques and understand the requirements, advantages and disadvantages of each. We can work through the modelling options with you, drawing upon our extensive expertise to find and put in place the approach that best suits your business.
Do you have robust processes for developing, validating and weighting economic forecasts?	Our expertise in both economic forecasting and applying the impact of these forecasts to credit portfolios is recognised in the industry. We can work with you to help ensure that your approach is appropriate, and provide the necessary supporting evidence for disclosure to the regulator.
Are results robust enough to withstand portfolio changes and lending practices?	We can offer you on-going monitoring, benchmarking and consultancy support to help you understand how and why your actual and forecast losses are changing over time, both in terms of credit policy and the economy.