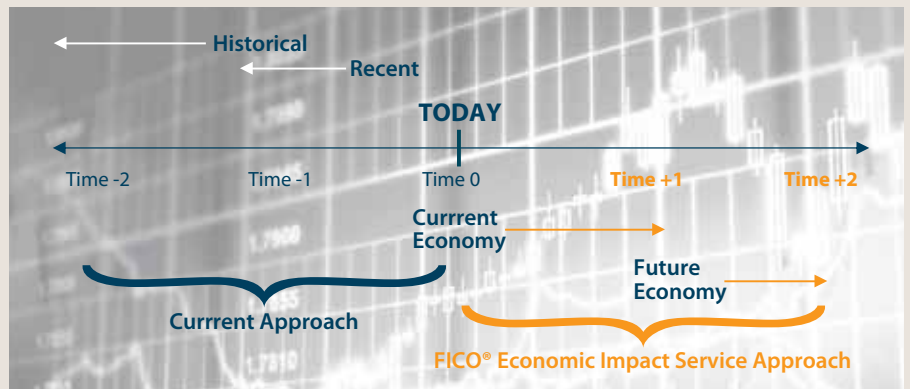


professional services

## Advance your risk control by adjusting to change before it happens

FICO Economic Impact Service gives you a better way to anticipate the effect of future market conditions on account risk. With this new technology, you now have a risk measurement tool better aligned to the future performance of accounts, allowing you to make more informed decisions across the customer lifecycle and more quickly adapt to changing market conditions.



Traditional scoring tools examine historical account performance to determine the risk level associated with scores—making the assumption that future risk will look like past risk. FICO Economic Impact Service extends upon this approach to incorporate the impact of current and projected economic conditions on expected odds.

Today's risk management tools are able to make an accurate assessment of credit risk based on past performance. But there's one challenge—the future never looks exactly like the past. How will accounts perform if the economy gets dramatically better or worse? If the competitive landscape or your lending policies change?

FICO Economic Impact Service brings an entirely new perspective, taking effective risk management to the next level. With Economic Impact Service, you can not only assess risk based on past performance, but also adjust for current and future conditions to make more informed, accurate and ultimately profitable decisions.

### » Better measure—and anticipate—risk

Based on past dynamics, Economic Impact Service models the relationship between a score and systematic changes in consumer behaviour—driven by macro-economic changes, competitive dynamics and changes in your lending strategies.

Using this derived relationship, you can input current or anticipated market conditions to

predict the future risk levels expected for a variety of scores.

You can then leverage that guidance to confidently adjust your strategies across the account lifecycle, evaluate portfolio profitability and more accurately calculate loss provisions and capital requirements.

### » Projecting the future odds-to-score relationship

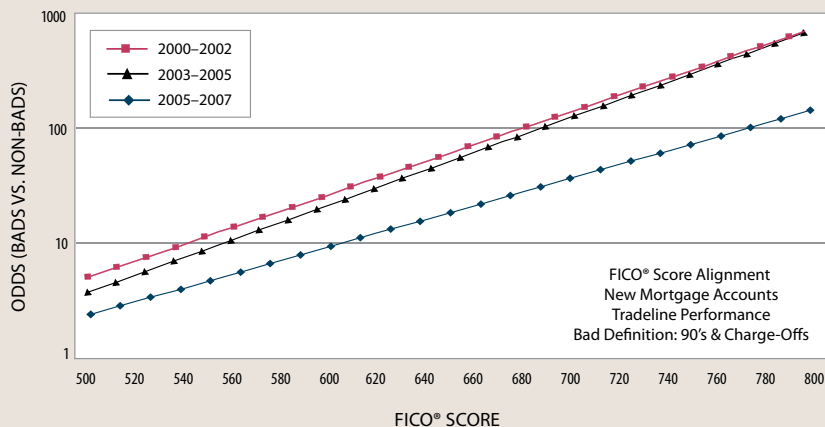
Using our patent-pending methodology, FICO captures the relationship between market factors and the odds-to-score relationship. Using this model, you can enter current or projected economic scenarios for evaluation of future odds related to the score. This methodology can be applied to a variety of scores, such as origination scores, behaviour scores, broad-based bureau scores like the industry-standard FICO® Score, and Basel II risk metrics.

With FICO's current offering of the Economic Impact Service, we work with you to apply the methodology to a chosen portfolio and score. We build and deliver econometric models custom tailored to capture the relationship between market factors and the selected score's odds-to-score relationship.

### With FICO Economic Impact Service you can:

- **Limit your losses**—tighten credit policies sooner and for the right populations during an economic downturn
- **Grow your portfolio responsibility**—understand when you should proactively loosen credit policies as markets recover
- **Quickly integrate into existing systems**—Economic Impact Service builds on your current risk management tools
- **Better prepare for the future**—simulate the impact of future macro-economic conditions on your scores to better adjust long-term strategies based on risk preferences
- **Meet regulatory compliance**—create more accurate, empirically derived capital requirements (e.g., estimates of the Basel II parameter metrics)

## FICO® Score Odds Alignment—New Mortgage Accounts



FICO Economic Impact Service shows you how changing market conditions can affect account performance. In this example, based on FICO® Score Trends Service data, new mortgage accounts with FICO® Scores of 700 are behaving like accounts scoring 620 had been behaving before market changes. Economic Impact Service can help you anticipate this type of performance shift.

Two outcomes are provided to assist you in implementing the results. The first is a set of alignment parameters, giving you the means to align your current scores to forecasted odds. These parameters can be implemented into your originations or account management system, such as FICO® TRIAD® Customer Manager.

The second output is an expected odds chart that you can use to adjust strategy cut-offs and calculate loss/capital requirements. With these two outputs, you have the choice for how best to incorporate the new insight you derive from the FICO Economic Impact Service into your operations.

Using the delivered econometric models, you can also conduct “what if” analysis to understand how the odds-to-score relationship can change under a range of economic conditions. Given this additional insight, you can make more informed strategic decisions, stress test your portfolio, better

control capital requirements and address Basel II compliance.

FICO’s experienced business consultants can work with you to get immediate value from the Economic Impact Service, working hand-in-hand to best incorporate the results into your risk management infrastructure.

### » Case study results

The effectiveness of FICO Economic Impact Service was recently validated on a prime US credit card portfolio. To measure the benefits, three behaviour scores were compared:

- A raw behaviour score.
- A score aligned to historical performance using the parameters the lender had in place at that time.
- A score adjusted to current economic conditions and aligned to forecasted odds using the Economic Impact Service.

The validation showed strong results in three areas:

- **Accuracy.** The economically aligned score provided a much more accurate prediction of risk over time. Over a three-year time span, the economically aligned score reduced the error rate between the actual and predicted bad rate by 25% on average, compared to the lender-aligned score.
- **Robustness and stability.** The economically aligned score proved much more stable over time at a given odds. The economically aligned score was centred more consistently around the target score for the given odds, with half the standard deviation over time compared to the lender-aligned score and raw score.
- **Business benefit.** To determine the benefit of making better business decisions, the three scores were tested in the lender’s current credit line decrease strategy. The results showed that the strategy using the economically aligned score was able to identify significantly more losses, for a yearly net savings of \$1.6 million on a portfolio of 2.8 million accounts.

### » The next step in risk management

FICO has pioneered the development and application of the critical technologies in risk management. FICO Economic Impact Service is the next step forward, enhancing current decisioning processes by filling a key knowledge gap in developing more profitable, proactive strategies.

**For more information, contact us at [info@fico.com](mailto:info@fico.com).**



**For more information**

**International**

+44 (0) 207 940 8718

**US toll-free**

+1 888 342 6336

**email**

[emeainfo@fico.com](mailto:emeainfo@fico.com)

**web**

[www.fico.com](http://www.fico.com)