Grow business. Keep risk at bay.

case study: scores

Client	**Samsung Card** is a leader in the Korean credit card industry with nearly 10 million cardholders. Established in 1988, Samsung Card has grown wildly popular with its extensive and innovative services.
Challenge	With stable cardholder base and against a dynamic global economic backdrop, Samsung Card wanted a solution that would enable it to optimise its credit exposure, especially since its card services even include financial products such as loans and cash advances.
Solution	To fine-tune cardholder credit limits, Samsung Card turned to FICO™ Credit Capacity Index™. Working closely with FICO Business Consultants to incorporate the solution in their credit strategies, Samsung Card is now able to identify cardholders with the capacity to handle additional credit, as well as those who are risky.
Results	Adoption of FICO Credit Capacity Index started in 2009 and Samsung Card is steadily ramping up its use. The Index will be scaled up to increase credit limit for customers with high scores.

"Because we believe that there are still some uncertainties in the financial market, the business goal is not to increase our market share dramatically, but to become more effective in identifying whom we can safely offer credit to."

—Woochul Lee
Senior Manager,
Credit Risk Management Division
Samsung Card

» CHALLENGE

Samsung Card was established in 1988 and has grown into one of the most popular cards in Korea with nearly 10 million cardholders, and annual transaction volume in excess of US$42 billion. The secret to its success is to offer innovative products and financial services that meet customers' various lifestyles. Samsung Card also uses industry-leading analytics solutions from FICO to ensure profitability.

To meet its vision to be the most competitive player in the market by providing "non-stop benefits", Samsung Card provides loan services and leases for new cars without collateral. Leasing extends to electronics, furniture, office equipment and other durable goods. Samsung Card even has a comprehensive range of e-Commerce services including shopping, travel ticketing and insurance sales.

With this very wide range of services, Samsung Card has to package its products carefully. While still pursuing new opportunities, Samsung Card needed to be risk conscious and tighten credit standards. This has been particularly crucial during the world economic crisis that has exacerbated Korea's own economic issues. This has caused the cardholder base to stagnate; so further growth would have to come from transaction volume.

As a major financial institution, what Samsung Card needed was a solution that would comb through its customer base to identify customers with the capacity to handle additional credit; further differentiating between customers with the same risk score. "We wanted to identify customers we can offer more credit to, especially for our financial products such as loans and cash advances," says Mr Lee Woochul.

» SOLUTION

FICO, the leading provider of analytics and decision management technology, has created a predictive measure designed to help lenders identify customers who can handle additional credit: FICO® Credit Capacity Index™ .

Traditionally, lenders use income and income-based measures along with FICO scores to gauge a consumer's ability to handle incremental debt. But income is often inaccurately reported, subject to manipulation or interpretation and difficult to verify. Also, traditional risk scores cannot consider information not yet represented on credit reports; i.e. incremental future debt.

Finally, different user profiles could result in the same FICO score while the customers have totally different behaviour with regard to increased credit capacity. For example, one with mild delinquency and low utilization may enjoy the same score as another with no delinquency but high utilization. They may have the same score but would represent different sensitivity to incremental debt.

The question for Samsung Card, and other financial institutions is then: "For consumers who look equally risky, who could more safely manage additional credit?"

The FICO® Credit Capacity Index™, using FICO's patent pending technology called Future-Action Impact Modeling, extracts new value from credit bureau information. It isolates consumer sensitivity to new behaviors not currently present on the credit report and infers tolerance for incremental future debt.

Based solely on credit repayment history, Credit Capacity Index generates a forward-looking risk measure that predicts which consumers can safely manage new or increased credit. It can be applied equally across all consumer segments and is fully compliant with the US Fair Credit Reporting Act.

While FICO scores reflect consumer risk based on present credit mix, Credit Capacity Index measures a consumer's ability to on future incremental debt, in both new and existing credit accounts.

Used in combination, FICO scores and Credit Capacity Index helps lenders better target and set initial credit amounts and product terms, and refine account management actions such as credit line assignment and authorizations.

» RESULTS

Samsung Card is the first lender in the Asia Pacific to use FICO Credit Capacity Index in its credit decision-making; and is reporting encouraging results. With the successful implementation and satisfactory results, Samsung Card will use the Index to identify customers who are able to safely take increased credit limits.

"We have observed that Credit Capacity Index works well, and we hope to implement it more fully in our credit limit and authorization strategies," says Mr Lee. "We will continue to develop and test new strategies with Credit Capacity Index and find new ways to improve our credit limit calculations."

Like all other lenders, Samsung Card has to tread that fine line between the need to be risk-conscious and tighten credit standards, while pursuing new opportunities. The good news is that with a new breed of analytics like Credit Capacity Index, lenders can walk that fine line of growing business without over-extending risk.

Value of measuring credit capacity

- **Greater control over exposure & reserves.** Lenders can refine credit line assignments in favor of consumers best able to repay debt while limiting exposure to those with high default risk.
- **Grow profitability.** With finely honed credit line assignments favoring consumers who can safely repay debt, profitability rises as a natural consequence.
- **Demonstrate responsible lending practices.** Proactive management of consumer debt loads would help address consumer group and legislative pressures with regard to over-indebtedness.
- **Improve customer satisfaction, retention and corporate image.** Promoting responsible lending will enhance the lender's brand and boost customer ties and loyalty as well.

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