

Abstract

Credit Scoring as a Strategic Management Tool

Over the past thirty years or so, credit scoring has been used to support a range of micro-level decisions. Perhaps, the most obvious and common one is to decide whether or not to grant a new facility to an applicant. However, it is also used to decide on whether or not to renew or upgrade a facility or how to manage limits. Further, it is used to manage accounts, through card authorisations and cheque payment, for example. More recently, scoring has been applied in the collections area and, treating scoring as a simple application of statistical model-building, it has also been used to predict response, fulfilment, and attrition.

However, credit scoring and its methodology is also being used increasingly to help to address some fundamental strategic management issues.

In this paper, we shall discuss the reasons for this and what type of organisation is leading the way.

We shall then explore three examples of scoring being used at a macro level within a lending organisation. One will be within the modelling of provisions, another is in setting the medium-term strategy and the third is assessing the value of the underwriting process.

Finally, we shall consider some future applications for the use of scoring methodology within consumer lending.

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