

CASE STUDY

A Chinese Bank Strengthens its Credit Risk Assessments

THE CLIENT:

A Chinese commercial bank

Coronavirus-era defaults and bankruptcy filings are surging globally, and investors are pointing to industries like real estate and retail that are particularly vulnerable. China is no exception, and the country's central bank recently warned of financial risks that have accumulated over the years, as well as shocks from overseas uncertainties.

USERS:

The asset management team

The asset management team at this Chinese bank is responsible for thoroughly evaluating the credit quality of companies before any investments are made to make sure they are financially viable. In addition, the team needs to keep a close eye on companies that are already in the bank's investment portfolio to quickly pinpoint any changes in creditworthiness that could result in potential losses. Given the COVID-19 pandemic and its impact on economic performance, the team recognized the need to undertake more in-depth and timely risk analysis.



Pain Points

The asset management team wanted to enhance its approach to assessing creditworthiness to minimize any potential risks for the bank. The team's existing approach was very manual, time consuming, and open to errors and needed to be upgraded with a solution that could deliver:

- **A quantitative approach** to credit risk assessments for more in-depth and reliable analysis.
- **Extensive coverage** for both rated and unrated public and private entities.
- **An early-warning system** to quickly pinpoint any deterioration in credit quality.
- **The ability to automate** and streamline workflows to increase efficiencies.
- **An independent and objective tool** to share information between the asset management team and risk management.

The team reached out to S&P Global Market Intelligence (“Market Intelligence”) to discuss the firm's offering.

The asset management team needed a more automated and detailed approach to assess the creditworthiness of rated and unrated companies of different sizes to protect the bank from potential losses, especially during such uncertain times.



The Solution

Market Intelligence discussed its Credit Analytics solution set that blends cutting-edge models with robust data to help users reliably assess the credit risk of companies across the globe. These capabilities would enable the asset management group to:



Assess the creditworthiness of smaller-sized companies

Probability of Default Fundamental Model (PDFN)

enables users to evaluate the one- to five-year default risk of public and private banks, corporations, and REITS. PDs can be mapped to quantitatively-derived credit scores (i.e., 'bbb') for increased comparability. Workflows may be optimized by accessing a pre-scored database leveraging comprehensive and timely data on over 50 million¹ companies globally. Users may also determine the default risk of a single company or a portfolio of companies.



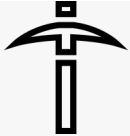
Assess the creditworthiness of mid- and large-cap companies

CreditModel's suite of statistical models, trained on credit ratings from S&P Global Ratings,² enables users to quickly evaluate the long-term creditworthiness of mid- and large-cap, public and private banks, insurance companies, and corporations globally. The models utilize financial statement and macroeconomic data to generate a quantitative credit score that statistically matches a credit rating from S&P Global Ratings. These scores can be mapped to observed

¹ All coverage numbers as of March 2021

² S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence. Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD credit model scores from the credit ratings issued by S&P Global Ratings.

default rates to quantify risk. Analysis can be streamlined by accessing a database of over 58,000 pre-scored entities, going back more than 15 years.

**Dig deeper on risk**

RiskGauge Reports available via Credit Analytics help streamline counterparty credit risk assessments with comprehensive business credit reports for over 50 million companies worldwide.

**Create an early-warning system**

The Market Derived Signals Model is a statistical model that evaluates credit default swap spreads to provide an early warning of potential credit changes and captures the market's daily view about a company's perceived risk.

**Investigate private Chinese companies**

China Credit Analytics is a one-stop solution to assess the credit profiles of Chinese small- and medium-sized enterprises (SMEs). This robust platform integrates S&P Global Market Intelligence's localised credit analytics, providing data from over 23 million Chinese private companies, with its quantitative credit models that are calibrated to local default data. A dual language user interface supports both Chinese and English languages.



Key Benefits

Members of the asset management team saw many benefits to subscribing to the Market Intelligence offering, including the ability to rely on:

- **A well-recognized information provider** trusted by companies around the world.
- **A straightforward yet reliable approach for both PDFN and CreditModel** that evaluates risk over a number of time horizons for firms of different sizes.
- **Batch scoring** to easily generate a list of credit scores that broadly align with ratings from S&P Global Ratings to quickly screen potential investments.
- **An early-warning system** with PD Model Market Signals to react to changing market sentiment regarding different entities.
- **A RiskGauge Score** comprising elements of a company's PDFN, PD Model Market Signals, and CreditModel scores.
- **Credit insights on Chinese SMEs**, along with access to one million larger Chinese SME's pre-scored PDs with industry- and provincial-level benchmarks.
- **Transparency** to understand where the risk lies in a company's fundamentals and where to focus attention for analysis.
- **Flexible delivery** via the Market Intelligence platform and Excel® Plug-ins that automate activities and streamline workflows.
- **Detailed user guides and technical documentation** for the models, plus access to a 24x7 support group.

[Click here for more information on some of data and tools discussed in this Case Study.](#)

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