

CASE STUDY

Minimizing Credit Risk at a Large Global Bank

THE CLIENT:

A leading international bank

USERS:

The Asia-based credit risk modelling team responsible for internal ratings-based credit models globally

This large global bank serves customers in over 150 markets worldwide. It follows an advanced internal ratings-based approach (AIRB) to credit risk management, to determine capital requirements and to cover potential loan losses. Under AIRB, the bank can use its own quantitative models to estimate probability of default (PD), exposure at default (EAD), and loss given default (LGD) if it meets certain regulatory requirements that demonstrate the use of a sophisticated approach. The Asia-based credit risk modelling team is responsible for assessing risk in all markets served by the bank. Team members need access to an extensive database of the credit ratings performance of companies and securitized transactions to calibrate and benchmark their internal assessments, in order to minimize exposures using the AIRB approach.



Pain Points

Reliable PD, EAD, and LGD estimates are essential to determine minimum capital adequacy. Since the bank is well-established, the credit risk team had access to a great deal of internal default data needed for these estimates. Team members wanted additional information, however, to cover new sectors of interest and validate calculations that were based solely on internal performance data. In particular, they wanted:

- **Additional default data** to derive new PDs and enhance existing ones.
- **Recovery data** to better understand the implications of LGD.
- **Macroeconomic indicators and details on financial institutions** to assess correspondent banking relationships.
- **All information delivered via an efficient data feed** to drive models residing on an internal system.
- **The ability to download select data** to an Excel® spreadsheet to automatically refresh a bank template that is shared with front-office colleagues.

The team felt that S&P Global Market Intelligence (“Market Intelligence”) provided the solution they needed to run sophisticated models to minimize exposures using the AIRB methodology.

The credit risk team needed additional default and recovery data to fill a number of data gaps and to validate results generated by internal ratings-based credit models.



The Solution

Market Intelligence discussed two offerings: CreditPro® and the Market Intelligence platform. These solutions would enable the credit risk modelling team to:



Access additional default, transition, and recovery data

CreditPro offers an extensive database that provides a strong statistical foundation to assess ratings migration, default, and recovery rates across geographies, regions, industries, and sectors. Based on S&P Global Ratings default and ratings migration data, the database covers 16,000+ companies, 180,000+ securities, 210,000+ structured finance issues, and 150+ sovereign ratings across the globe.¹ Recovery analytics, trends, and performance data are also provided based on credit loss information dating from 1981 and compiled on \$1,020+ billion in defaulted principal from U.S. companies.



Evaluate the creditworthiness of correspondent banks

The web-based Market Intelligence platform provides detailed information on 56,000+ public and private financial institutions. The financials are adjusted for nonrecurring charges to support apples-to-apples cross-company comparisons. In addition, source tagging enables users to quickly go to the original documents to see what adjustments have been made. Easy-to-use workflow tools help users stay on top of developments with counterparties, retrieve news items, and be alerted to changes in a customer's creditworthiness. In addition, comprehensive profiles provide information on company contacts, competitors, financial auditors, and business descriptions

¹ All coverage numbers as of June 2020.

**Obtain a reliable data feed to drive internal models**

Xpressfeed™ is a data loading and maintenance technology that efficiently delivers information from the Market Intelligence platform to internal systems. Financial data and ratios can be customized in advance of the first download, so they can be readily ingested into internal models. Xpressfeed's loader runs client-side, providing greater control over when and how data is processed. In addition, Excel-based templates can be automatically refreshed using the Excel Plug-in.



Key Benefits

The Market Intelligence solution provided the information and tools needed by the credit risk modelling team to make informed decisions based on the AIRB approach. The team is using the solution set and benefiting from having the ability to:

- **Validate the internal rating system** with comprehensive external transition and default rates of similarly-rated obligors and debt instruments.
- **Strengthen estimates of LGD** utilizing recovery data.
- **Support lending activities around the world** with global assessments of banking counterparties.
- **Stay up to date on market developments** with breaking news and alerts on changes in creditworthiness.
- **Enhance analytical consistency** with access to a single source of data that can be used within the credit risk modelling team, as well as across other bank departments.
- **Receive data** in a flexible format that conforms to the team's methodologies and templates with customized data feeds and an Excel download.

To learn more about our capabilities for supporting internal ratings-based models, visit www.spglobal.com/marketintelligence/en/solutions

Contact Us

Asia-Pacific

+852-2533-3565

Europe, Middle East & Africa

+44-207-176-1234

The Americas

+1 877 863 1306

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