

# **Risk-weighted Growth**

*Commercial Credit Practices Today*

Prepared and Presented by

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*for the*

**Credit Research Foundation**

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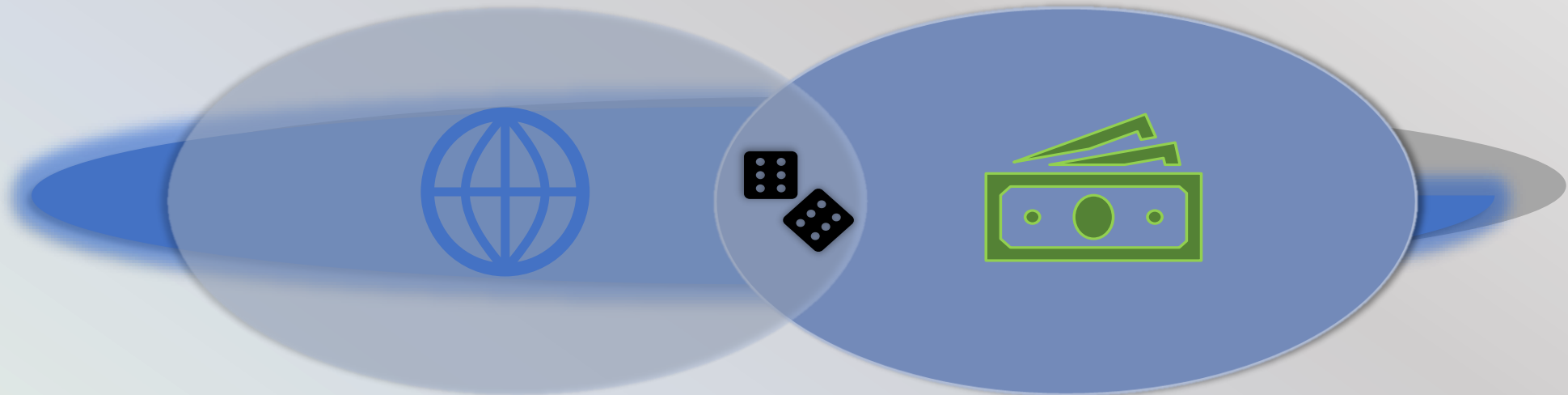
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**Credit Risk**  
*and*  
**Specific Risk**

Risk Type	Description
Systemic	Affecting the whole, from within the system
Systematic	Affecting parts, including whole portfolios



Risk Type	Description
Idiosyncratic	Risk that is not obviously related to a portfolio/market
Specific	Risk at the company – counterparty – customer level

# Examples

Systemic

Global Pandemics

Civil Wars

Energy Supply Shocks

Systematic

Hurricane Katrina

Subprime Mortgages

Japan Earthquake 2011

# Define the Score

Situation	Systematic Causation: define the score
e.g.: 40% of our SMB customers are located in Eastern TN and Western NC	Actual. Hurricane Helene. Systematic risk score >0. Define the score.
e.g.: 26% of our sales are exposed to natural gas futures price volatility	Actual. Russia invades Ukraine and triggers commodity price volatility. Systematic risk score >0. Define the score.
e.g., war in the Mideast is preventing typical movements of cargo ships and oil tankers. Dry bulk tanker cost increase cannot be fully passed along.	Hypothetical, but plausible. Systematic risk score >0. Define risk score.
e.g., we are a key service provider to casinos and gaming. Las Vegas has experienced a natural disaster.	Hypothetical. Systematic risk score >0. Define the score.

# Economic risk and commercial credit risk overlap only slightly



**Economics is efficient at determining systemic and systematic risks.**

**Commercial credit risk is efficient at determining specific risks.**



CUST_ID	DEBT_2EQUITY	AVG_DAYS_LT	NBR_VENDORS	OPACITY_LVL	NEW_ORDERS	NEW_TERMS
abc1	2.5	11	32	5	Y	Y
abc2	3.7	14	20	2	Y	N
abc3	1.5	45	6	8	N	Y





**What is risk-weighted?**

**Cohorts (portfolios) of customers WHERE risk is higher than typical, AND that the risk requires more detailed, special methods to manage such risk, AND to grow sales within the riskier cohorts.**

# Incremental Growth

**This is Your Job**





**Risk-  
weighted  
incremental  
sales growth**



- 1. Build the cohort of smaller customers.**
- 2. Leverage credit policies within the risk framework to incrementally increase annual sales of smaller customers.**



Data Quality

Risk-weighted Analysis

**Risk-weighted  
incremental sales  
growth**

Enterprise alignment

Incremental growth

## Data Quality

## Risk-weighted Analysis

## Enterprise alignment

## Incremental growth

Unique attribute per column (a/k/a field)	Leverage data quality to drive risk analytics	Conform to enterprise standards	Use tools and evidence to drive growth
Data type optimization per field	Discover and maintain dynamic refresh of sources	Governance throughout all phases of activity	Increase sales with stronger cohorts
Data type consistency	Build cohorts and groups of customers	Maintain evidence throughout all activities	Feed your winners. Constrain your losers.
Conform to enterprise standards	Maintain unique strategy per cohort	Know the role of credit risk management in the org	Divide weaker customers into specific cohorts
Table-enabled to support Business Intelligence (BI)	Update sales leads with cohort status periodically	Update names and roles of non-credit partners	Understand your markets at the micro-level
Manage nulls and blanks consistently	Increase tools to drive incremental sales growth	Manage SLAs and expectations	Be a part of the product cycle
Reduce file size continuously	Help to increase sales during weaker macro cycles	Be a part of the greater purpose	Use >Tech and >Teams to manage stress

Data Quality

Risk-weighted  
Analysis

Enterprise  
alignment

Incremental  
growth

Implementation: Tools and Techniques

If data quality is below standards, then Risk-weighted Analysis will be negatively impacted.

Foundational data should be standardized across the enterprise.

Allocate resources to risk-weighted growth. Optimize tools and resources for risk-weighted cohorts.

Larger, stable customers may require fewer resources.

Socialize team alignments based upon standardized systems.

**R**esponsible  
**A**ccountable  
**C**onsult  
**I**nform

Combine resources and methods to support growth within the riskier cohorts of the A/R portfolio.

Set sales goals within riskier customers and riskier cohorts.



Data Quality

AI

ML

BI

### Implementation: Tools and Techniques

If data quality is below standards, then Risk-weighted Analysis will be negatively impacted.

Foundational data should be standardized across the enterprise.

Advanced tools may assist with data quality controls.

However, tools rely upon the underlying data at the ingestion level of the data source.

If the source data has problems, then the tools will work from incorrect foundations.

This could result in errors in the execution of the tool.

# From Liquidity to Governance

Competence

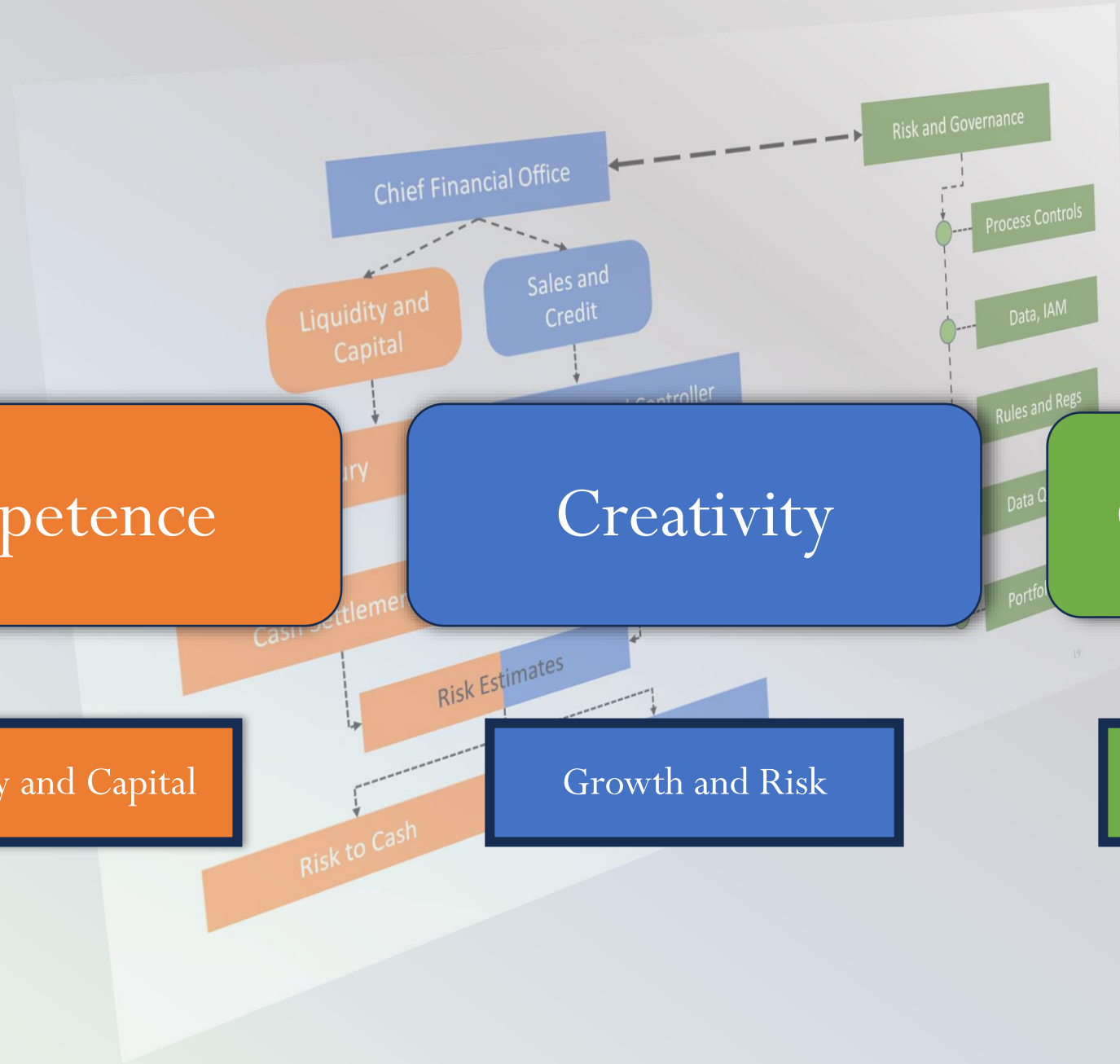
Creativity

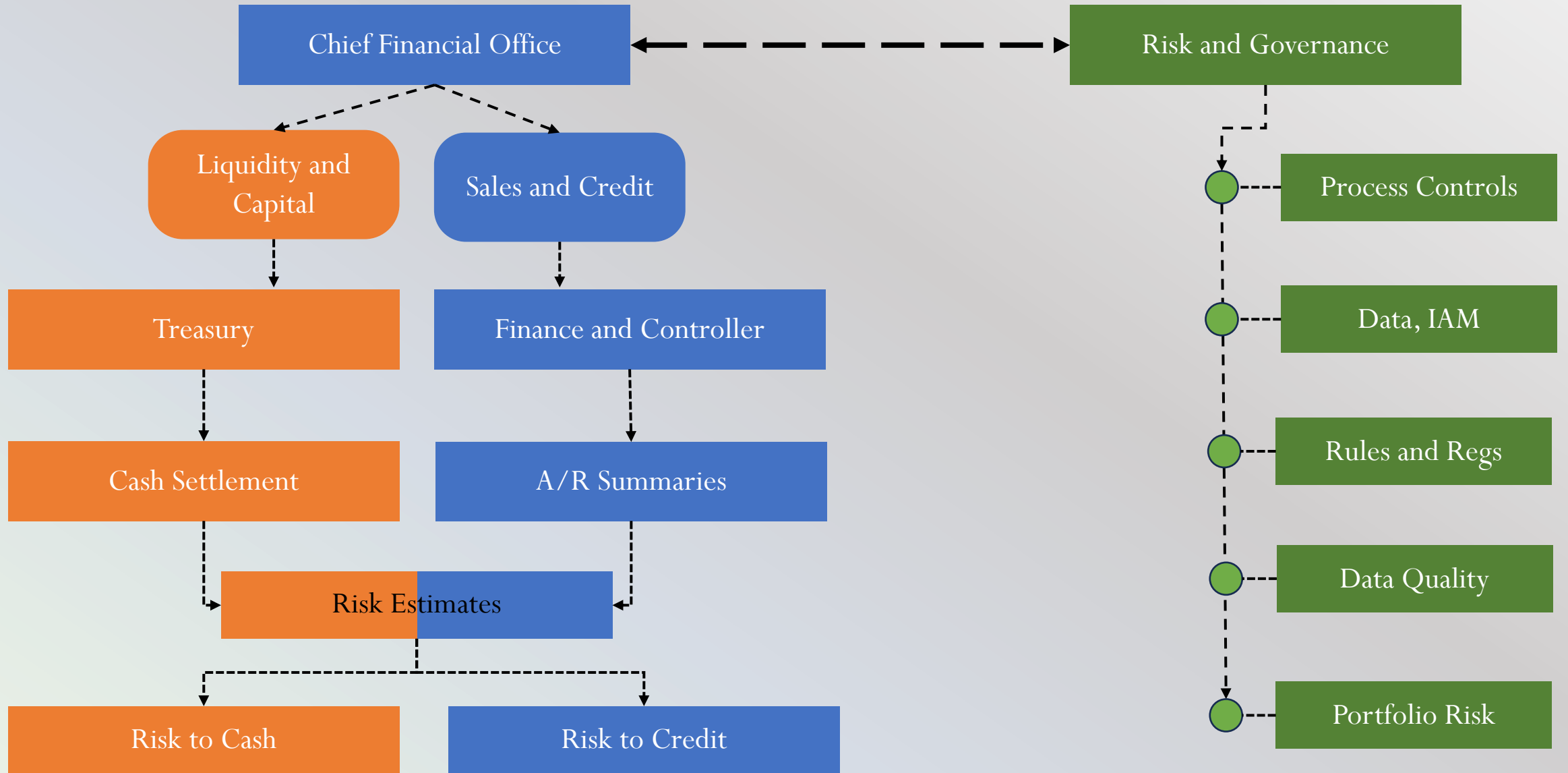
Conformance

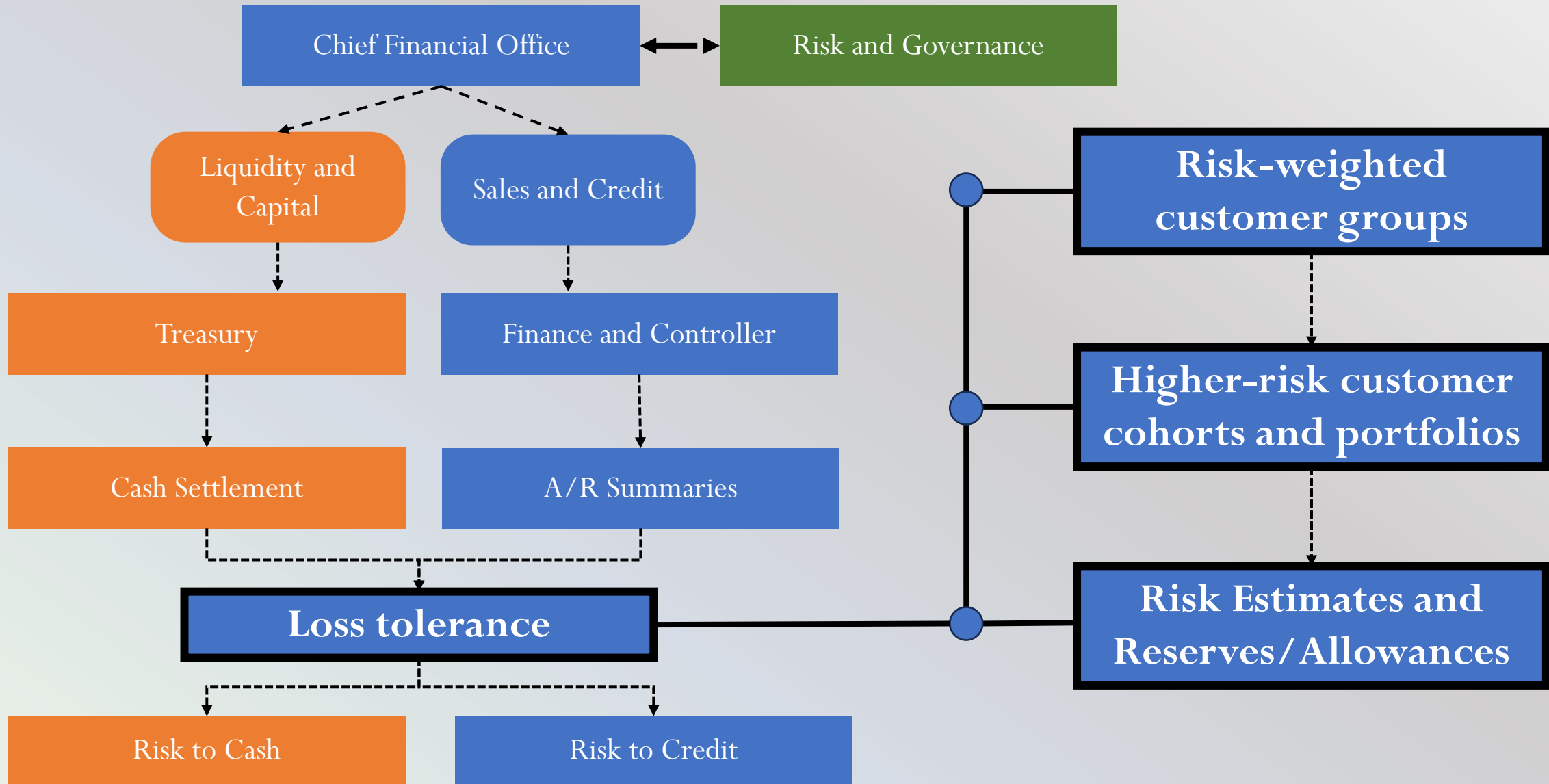
Liquidity and Capital

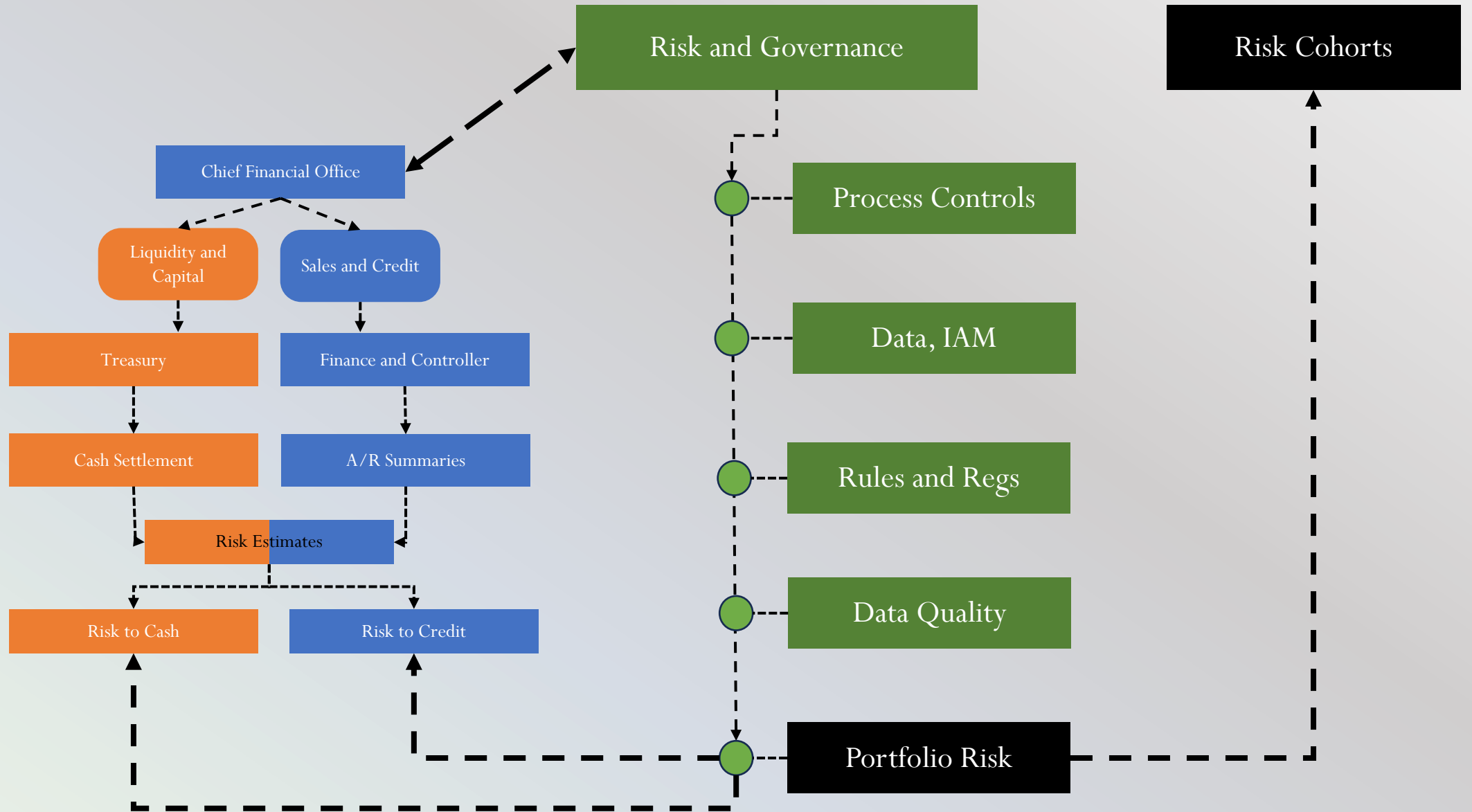
Growth and Risk

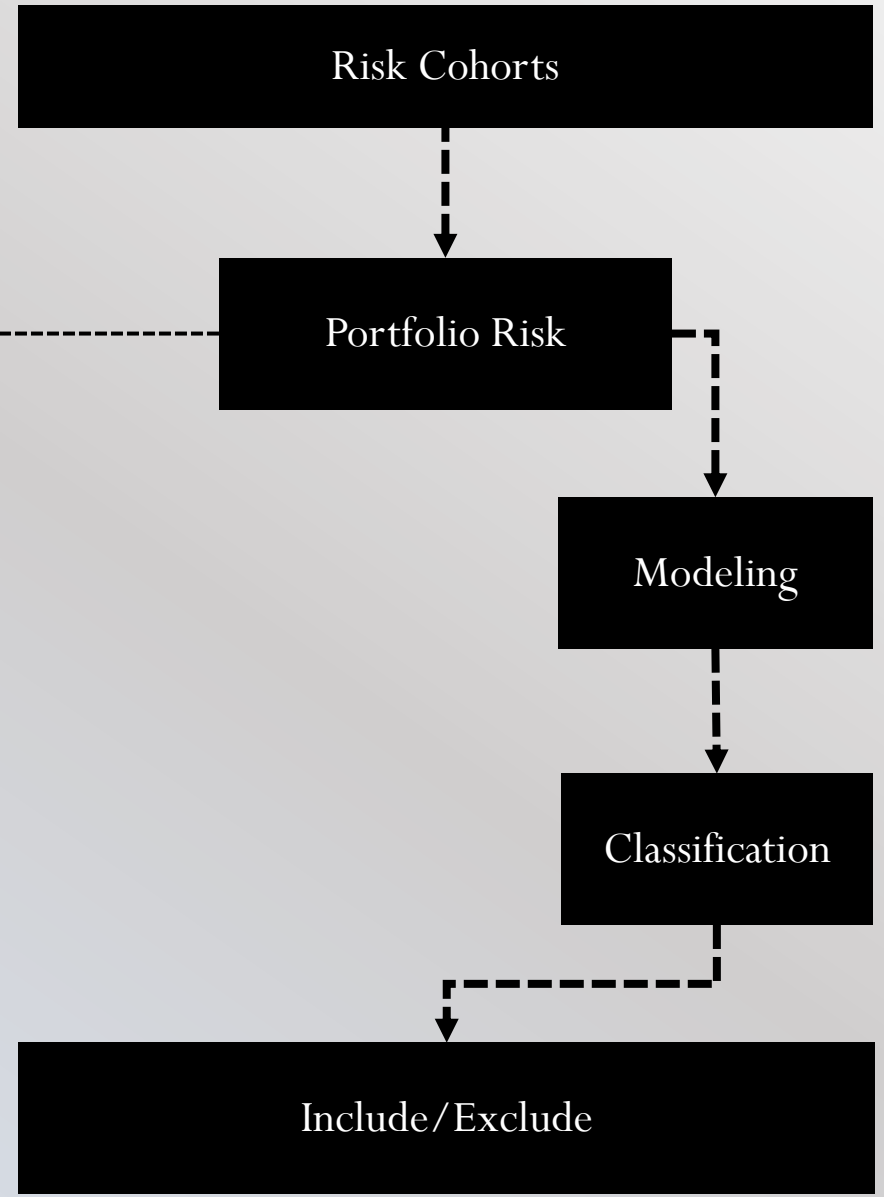
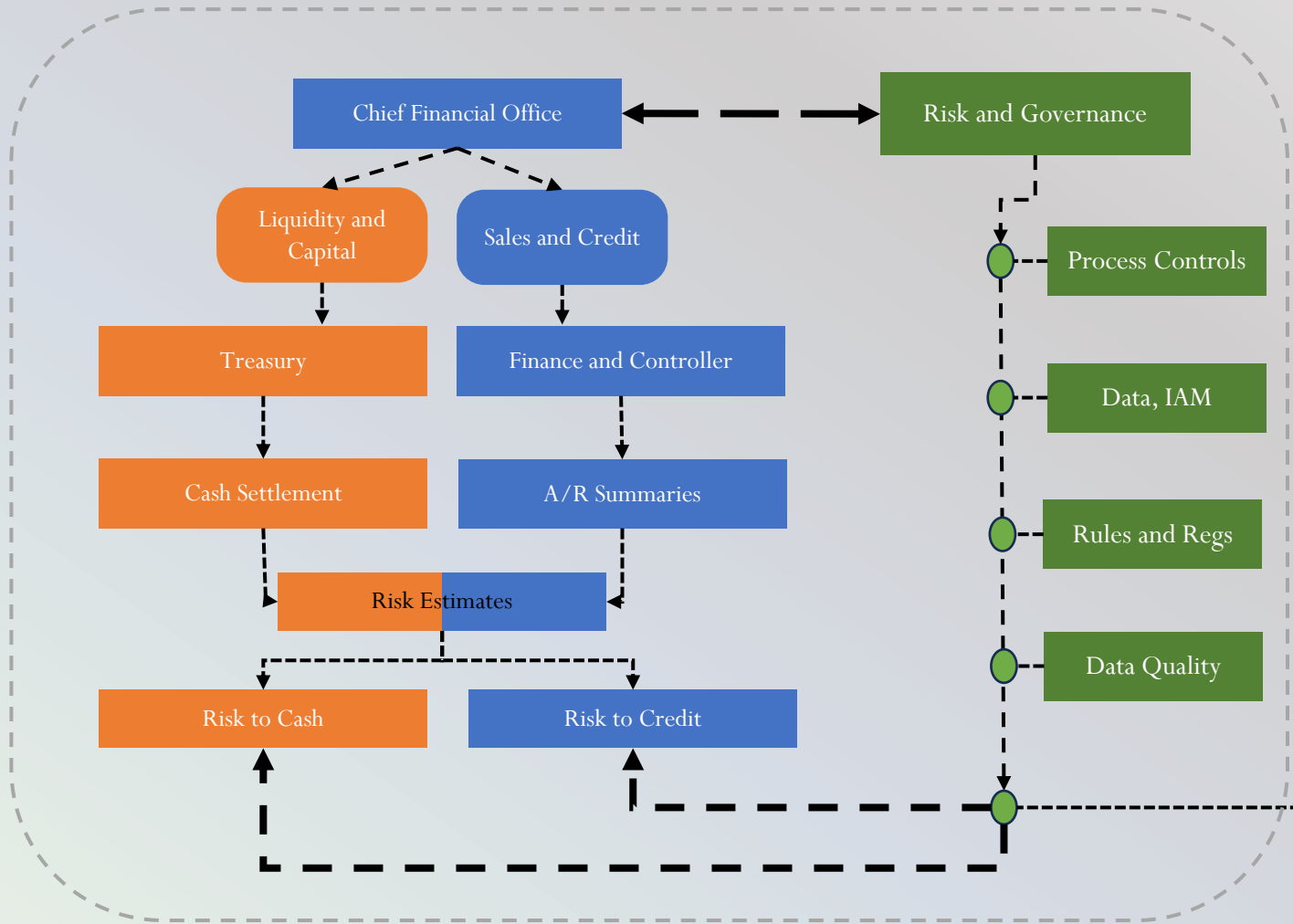
Governance and Compliance





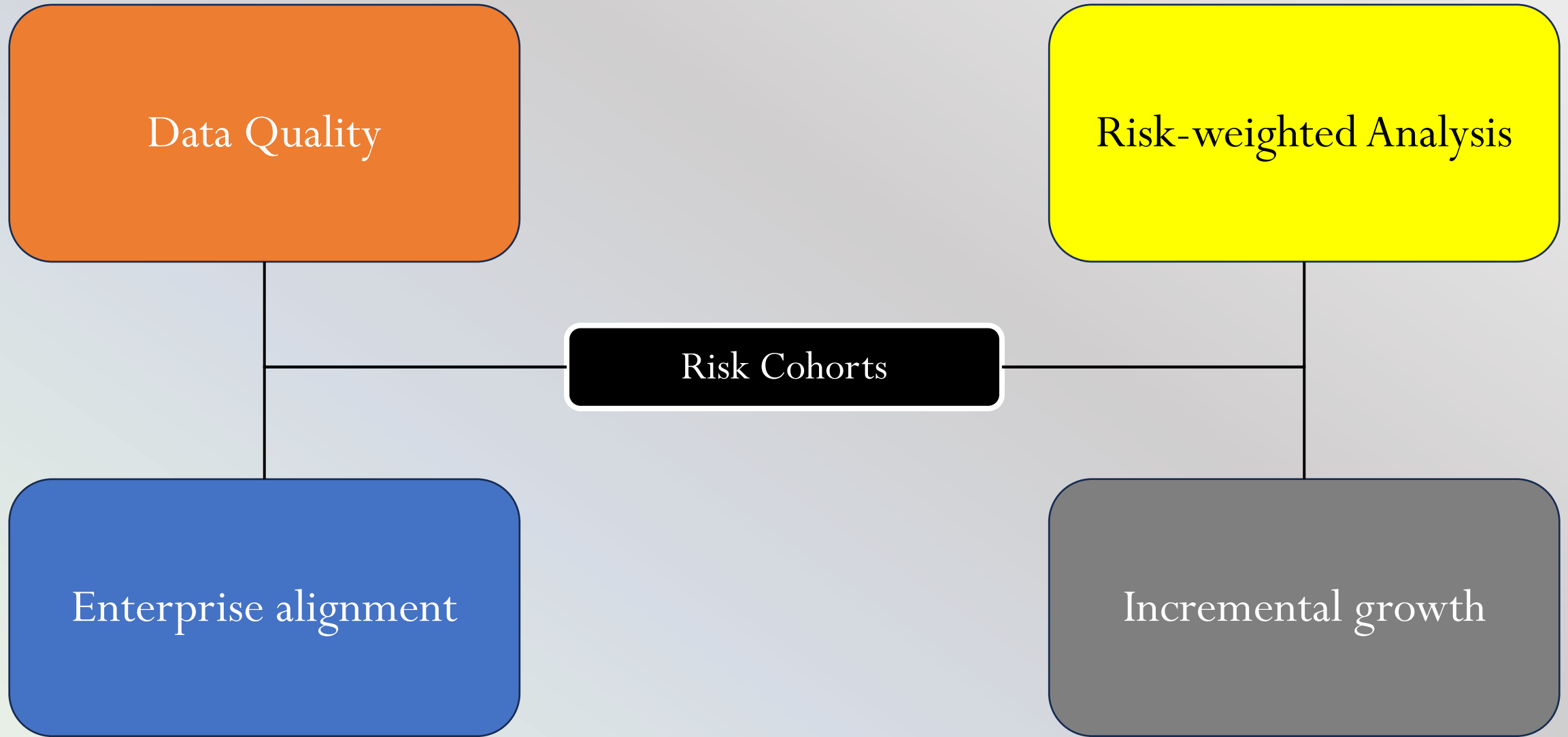






# Attribute Uniqueness in Risk Analysis





**Classification determines Risk Cohorts.**

**In the contemporary model of risk modeling, Classification is dependent upon Data Quality and Data Dimensions.**

**If data is not structured correctly, then Classification becomes unstable.**

**Risk Cohorts**

Data Quality

Classification

```
SELECT DISTINCT
    c.customer_nm,
    c.customer_postalcd,
    c.annual_sales,
    c.default_risk_score
FROM
    credit_active_db c
WHERE
    default_risk_rtg <= .075
    AND
    systemic_lvl > 5
    AND
    opacity_lvl > 5
```

**Focus on your smaller and mid-market customers**

**Query your customer database to find the eligible customers for incremental growth**

**Especially SMB customers with low fraud risk, low default risk, and low opacity levels**

# Attributes

CUST_ID	SYSTEMIC_LVL	SYSTEMATIC_FLAG	SYSTEMATIC_LVL	REMEDIATION_FLAG	SPECIFIC_LVL	OPACITY_LVL
abc1	2	Y	3	Y	7	2
abc2	1	Y	8	Y	5	4
abc3	10	N	0	N	9	9
abc4	4	Y	3	N	8	10
abc5	4	N	0	Y	3	1
abc6	9	N	0	Y	5	1

# Implementation

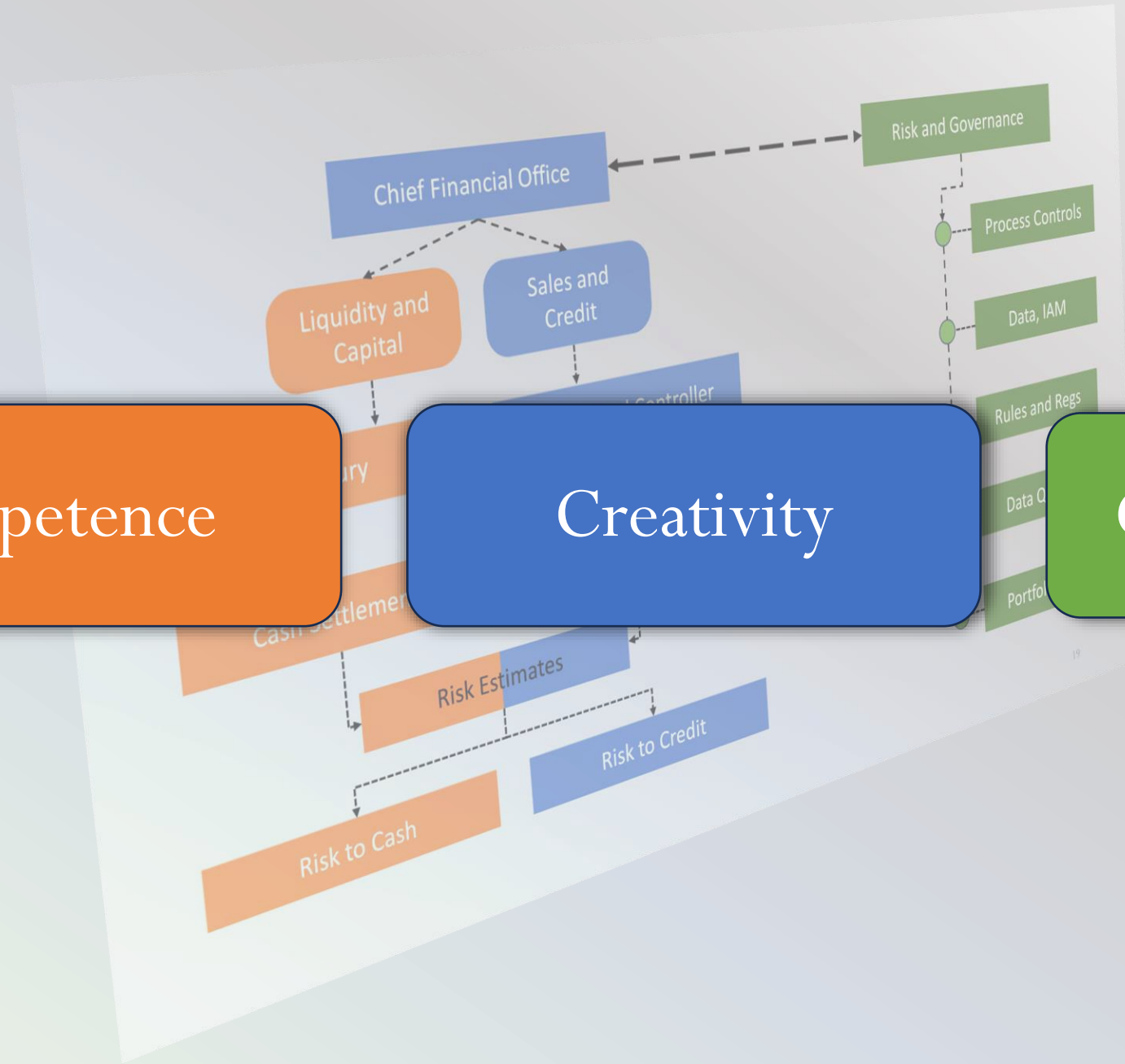
Process	Credit	Technology	Finance	Governance
Identify and Classify	R,A	R	A, C, I	C, I
Approve to Include	C, I	C, I	R,A	R,A
Monitoring and Due Diligence	R,A	R	I	I
Periodic Inclusion Review	R,A	R	R,A	R

R, Responsible; A, Accountable; C, Consult; I, Inform

Competence

Creativity

Conformance



Questions?

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