Executive summary

The economic crisis revealed that the traditional approach to portfolio management is flawed. The “post model adjustment” method of calibrating risk models — applying a generic adjustment to predict future risk — confirms there are additional tools needed to manage losses. Today’s marketing models designed to target profitable consumers are too correlated to risk, and are unable to identify quality prospects who will deliver revenue. The old model was unable to keep pace with the rate of change and failed to be predictive as the economy recovered. The new regulatory environment caused additional strain by rendering large portions of lending portfolios unprofitable. New regulations mean limited options to increase revenue in an attempt to compensate for poor risk management and marketing strategies. These factors all lead to an undesirable return on capital.

Because lenders have been focused on managing risk, acquisition strategies have become very conservative and lenders are primarily targeting prime and super-prime consumers. This tendency has increased competition in these segments, but often at the expense of profitability to the overall portfolio. To achieve confident growth, prospecting, acquisition and portfolio management strategies will need to be updated to create a new understanding of a consumer’s risk and revenue potential.

This white paper demonstrates that a different way of understanding consumer behavior is the key to creating the necessary strategies to create a profitable portfolio. It will show that considering only a current view of consumer credit does not provide the necessary and precise knowledge about how to market to or underwrite that consumer. You will discover that a “trended” view of the consumer will provide the information required to redefine static lending approaches and to create the breakthrough strategy that will deliver profit.