

in-house rules



Development of scorecards within the organisation may offer some advantages when time is of the essence. Mark Stirling looks at some of the “building” issues involved

Given economic recession, government legislation and competitive forces, credit departments come under increasing pressure to deliver even better services for their customers, and to increase profits.

A successful way of achieving these targets for credit managers has been to re-evaluate their business approach and employ new technology within the organisation rather than farm out the development of their decision making processes.

Accepting the requirement for automated decision processes and taking scorecards as the accepted (and demonstrated) best tool for the job, there are three principal choices: develop scorecards using external developers; develop an internal scorecard development system; take advantage of new technology and scorecard development software.

Best options

In some circumstances, the option of using external developers may be a less attractive option.

The need to move quickly and efficiently may make it awkward to rely on people who are not actually part of the organisation.

Add to this, the inherent problems with an external supplier understanding the organisation and business rules governing any product, and the development process can become awkward.

Alternatively, developing an in-house system or relying on general-purpose software is a route so strewn with potential pitfalls that only those with existing investment or legacy systems consider the option.

The remaining option is to use purpose made scorecard development tools.

Today credit managers are faced with a choice of scorecard development packages, some from specialist software vendors and more recently from consultancy companies who have re-packaged their own internal development tool kits.

Behind the modern package are not just many man-years of programming, but also many years of scorecard development experience.

The series of questions asked in the development process include ones such as: How do I define the good/bad definition? Which modelling technique is suitable for my data? How do I determine if the

model I just produced is any good?

Many more questions like these are an integral part of some of the new packages.

It might seem that obtaining one of these packages could save a credit manager man-years of effort simply in the statement of their requirements alone.

Taking control of the scorecard building process may sound like a daunting prospect, but scorecards and monitoring systems are not magical self governing entities.

Tools for automating rules

They are simply business tools for automating rules, which the business itself has set in place.

The person best able to decide on the rules and to interpret the data is not an external consultant or an industry expert but the people actually involved in the running of the operation.

Consultants who may possess skills in statistical techniques and modelling methods cannot replace the actual understanding of the way in which a business works and the way its customers act/react.

Indeed an external consultant will spend much of his time during the course of a development project determining these facts whether by design or default and while it is always useful to gain an unbiased perspective on the operation, why not use your own knowledge of your operation rather than spending time and money to pass this on to somebody else?

Practical experience of companies moving this process in-house has shown that surprising facts may come to light concerning previously accepted conventions.

Criteria as basic as the definition of a “bad” account are often overlooked when the process is not internally owned.

Of course there are pitfalls to be considered as well, not the least of which is the price of failure.

Building a scorecard

Building a bad scorecard is no small matter, and after all consultants exist to soak up that kind of pressure don't they?

The answer to this is that a consultant or a bureau scoring department is unlikely to “get it wrong” and indeed their input may be a major

contribution in important projects, but “not getting it wrong” is not the same as “getting it right”.

Analysis of customers

The people who understand the company operation, its customers and the day to day running should, given the right tools, produce answers which will fit into their operation more easily and match their needs and their analysis of their customers more closely.

After all if you aren't producing the best possible results can you consider this a success?

Another concern for the novice scorecard builder is, how do you measure your results?

If we can produce a scorecard, how well will it work and how do you judge the better of two similar scorecards?

This is a very real concern and one, which, in the ultimate analysis can, still justify the use of external expertise.

Many statistical measures are available to compare the discriminatory power of two systems, however the voice of experience may triumph over these to say that a nominally less powerful system may be easier to implement or be more robust in real-life operation.

Easy access

For this reason it is most important to select a tool supplier which provides easy access to help and support for scorecard developers.

The best and only true measure of this service is to approach reference sites from the supplier's existing customer-base.

In conclusion, it seems that as an industry, we have an opportunity to take advantage of modern technology and the increasing spread of scorecard development knowledge to focus the control of the risk operation in the place it belongs, within the credit organisation.

Using smart tools with a large degree of built-in expertise and the back-up of a knowledgeable support service we can take control of our destiny and provide a more comprehensive, quicker and more comprehensible solution to our problems.

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