

Towards a Better Credit Risk Management: Overview of Portfolio Management Approach

**Project Management Institute
Jakarta Chapter**



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Introduction

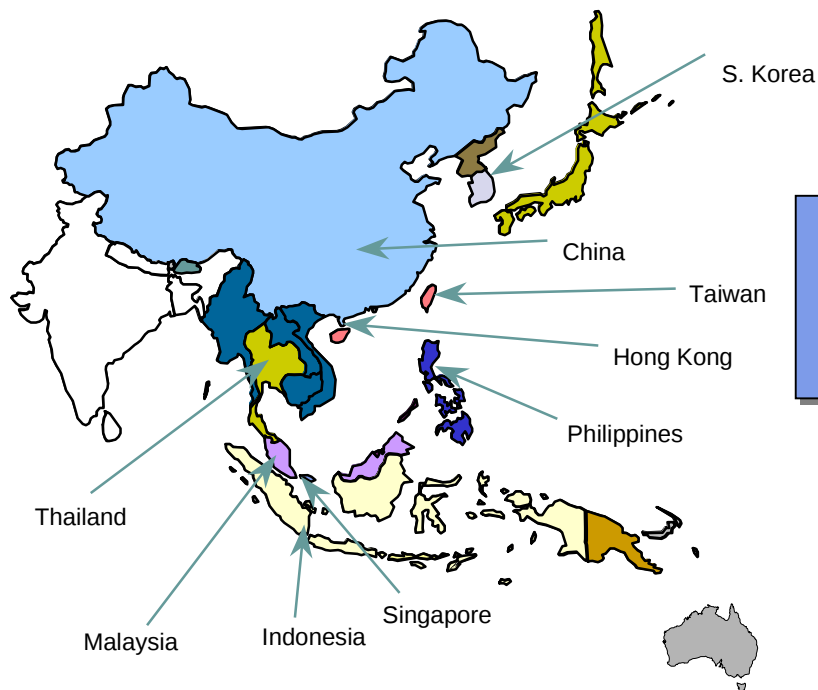


- Typically in banking and other financial service industry players, there are various business risks to consider.
- This short presentation will focus on one way to enhance credit risk management.



Background

The recent economic crisis and its consequences: high NPLs, capital erosion and significant and ongoing bottom line impacts, have brought into question the credit risk management practices of a substantial number of Asian banks.



NPL (%) 2000	
Australia	1%

VS

NPL (%) 2000 ¹	
S. Korea	18%
China	28%
Taiwan	5.5%
Hong Kong	4.5%
Philippines	16%
Singapore	5%
Malaysia	12%
Indonesia	26%
Thailand	5.5%

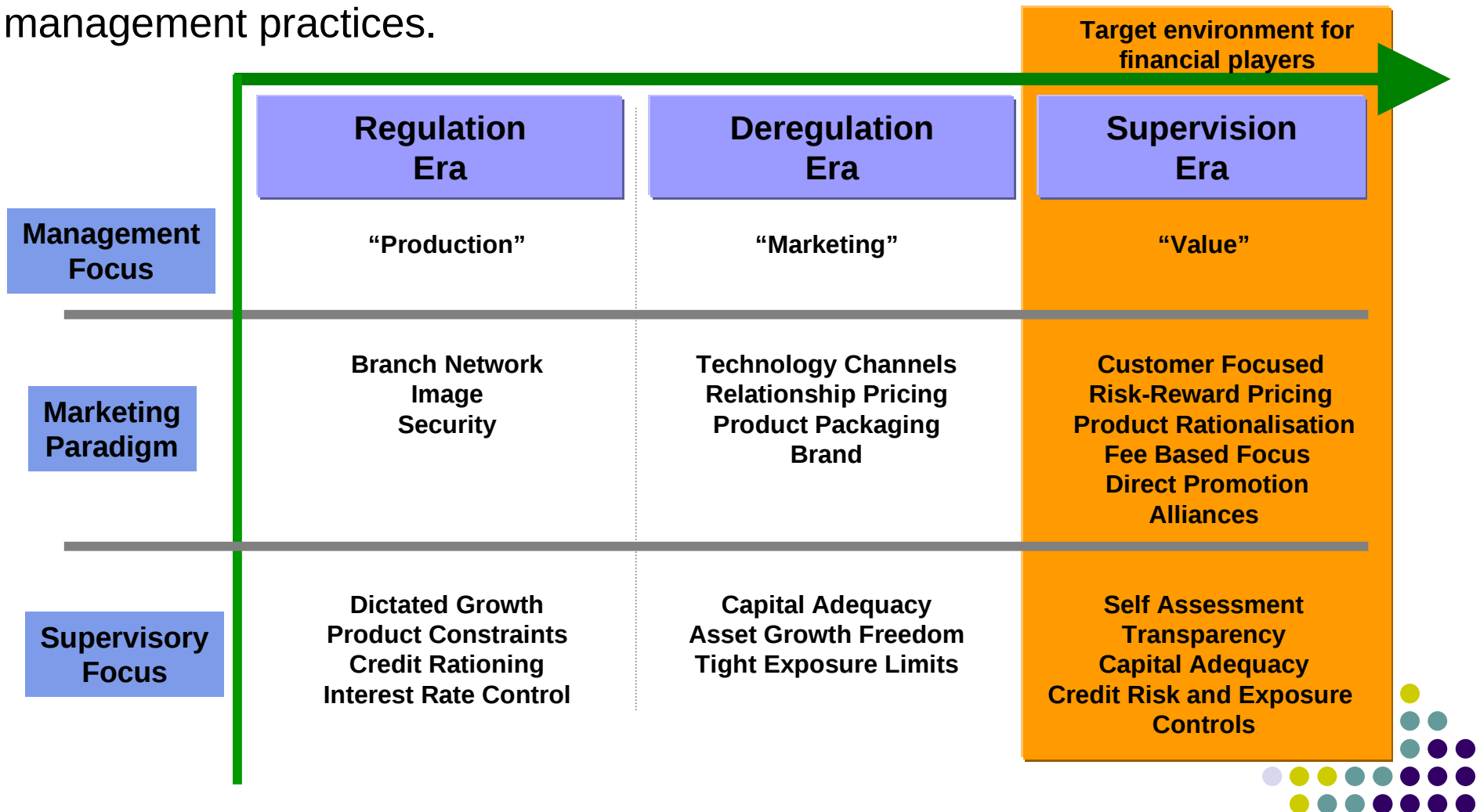
Source:

- Asiaweek Financial 500 (2000)



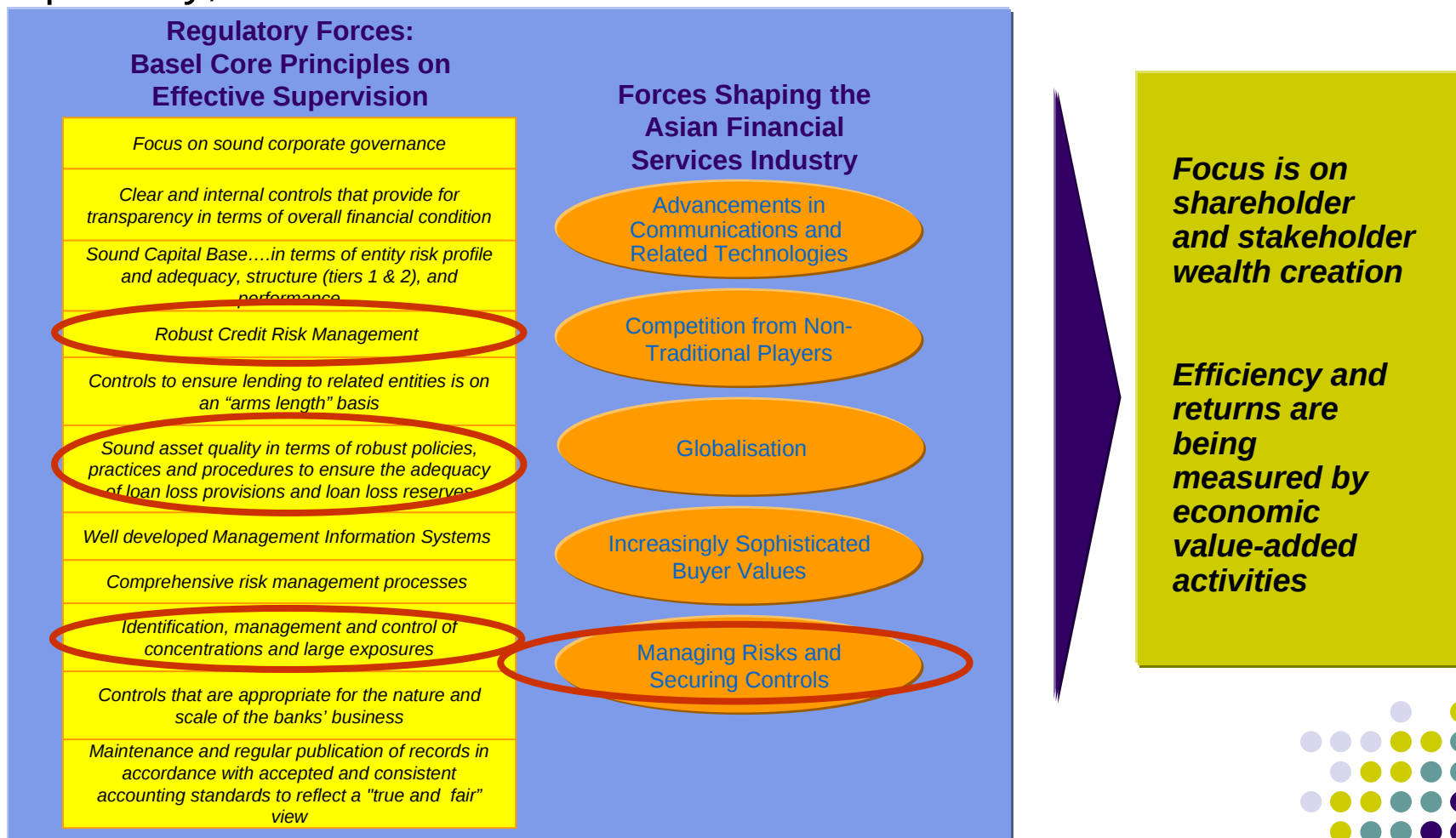
Background

The regulatory changes force banks and other financial service industry players to adopt a value orientated focus and significantly improved credit risk management practices.



Background

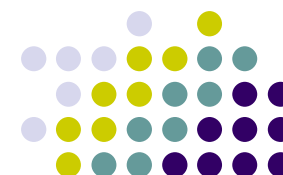
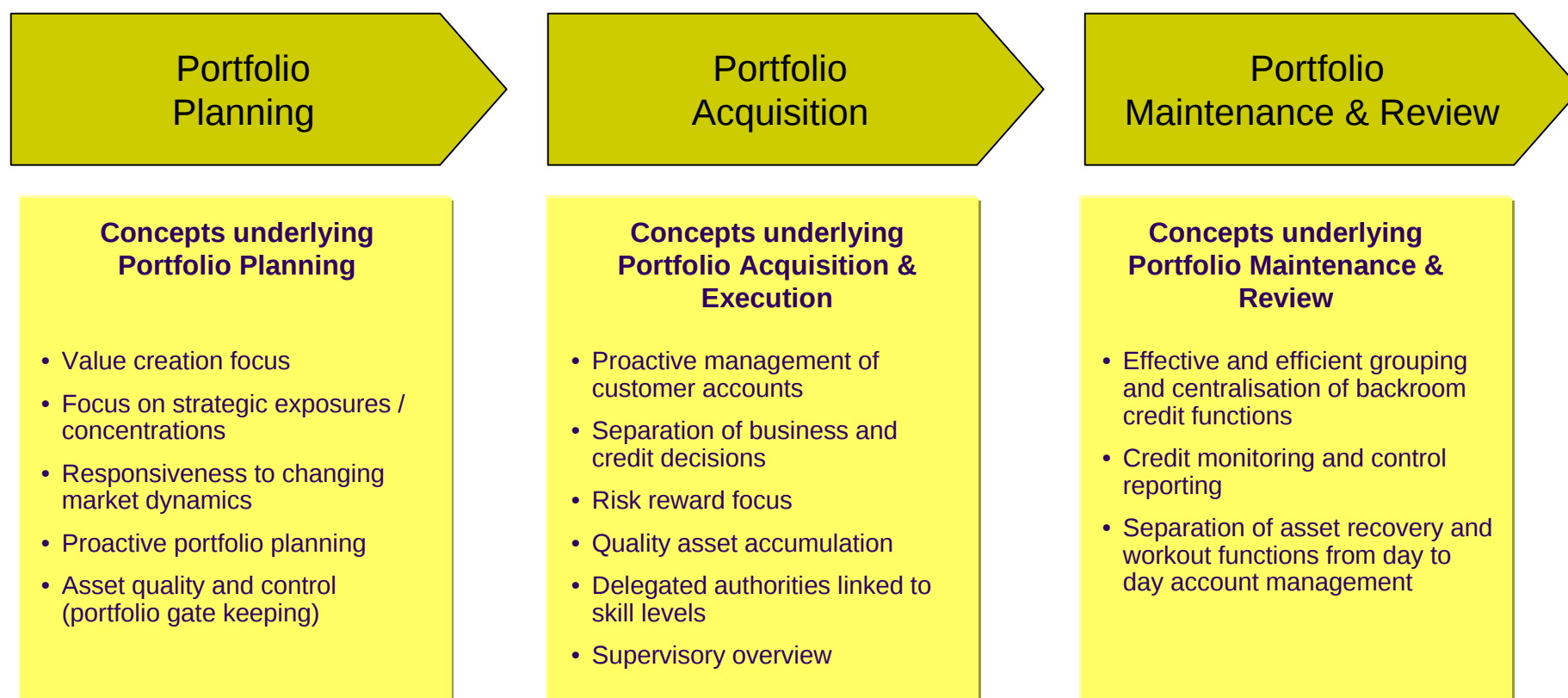
A focus on significantly improved risk management is key to ensure banks are equipped to respond to demands for higher levels of prudence, transparency, disclosure and economic value creation.





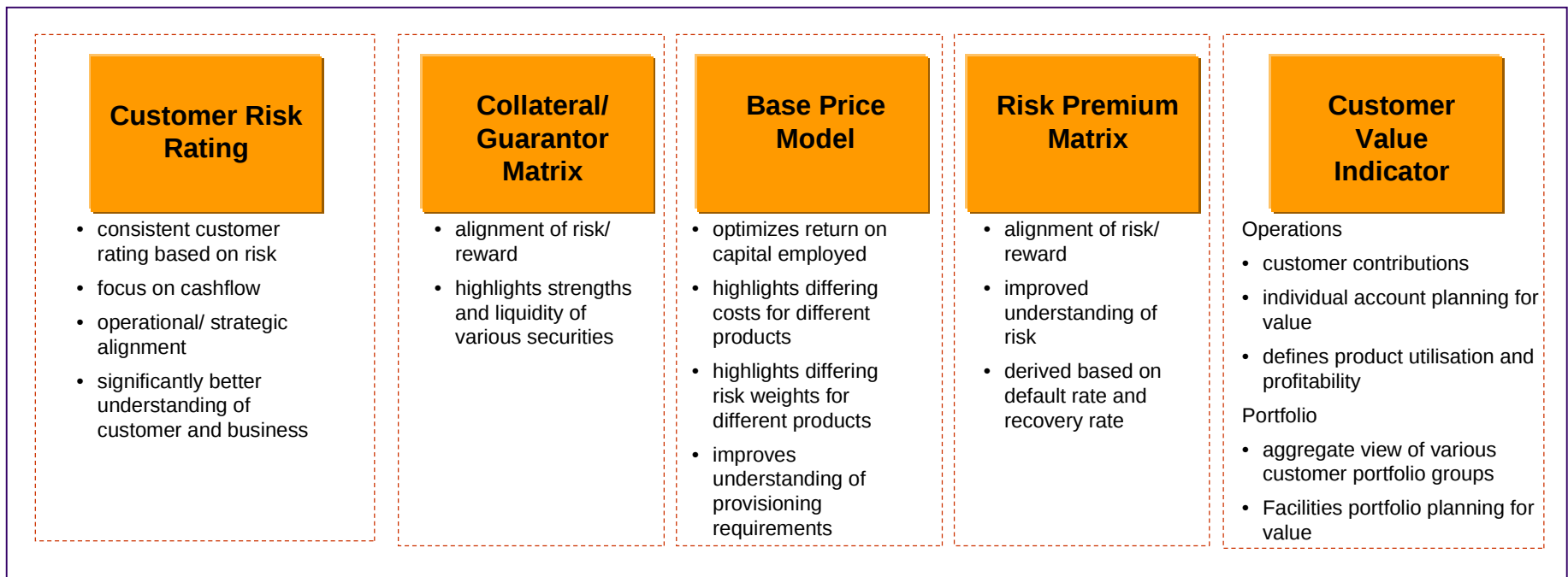
Portfolio Management Approach

Portfolio Management Approach is one way to enhance credit risk management.



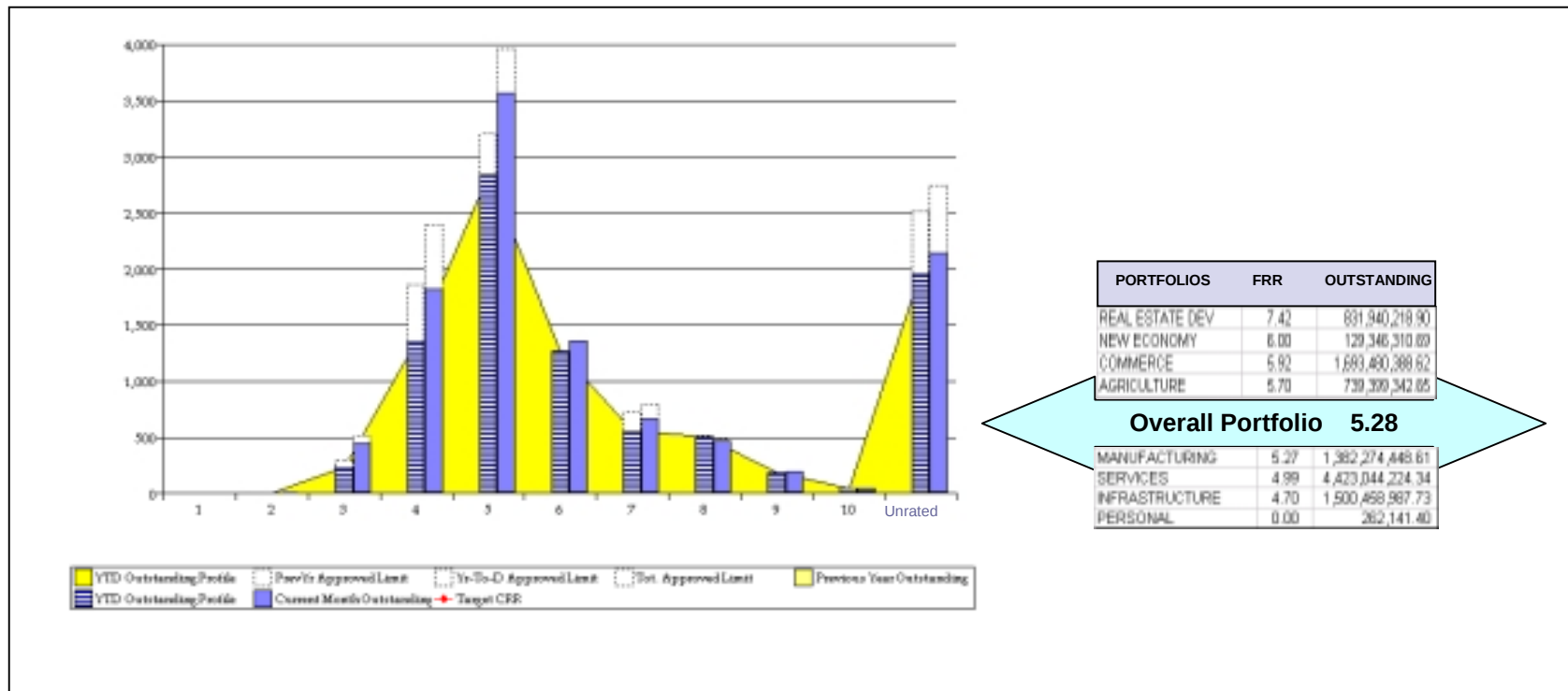
Portfolio Management Tools

The Portfolio Management Tools (PM Tools) was designed to facilitate a consistent risk reward focus at all management levels.



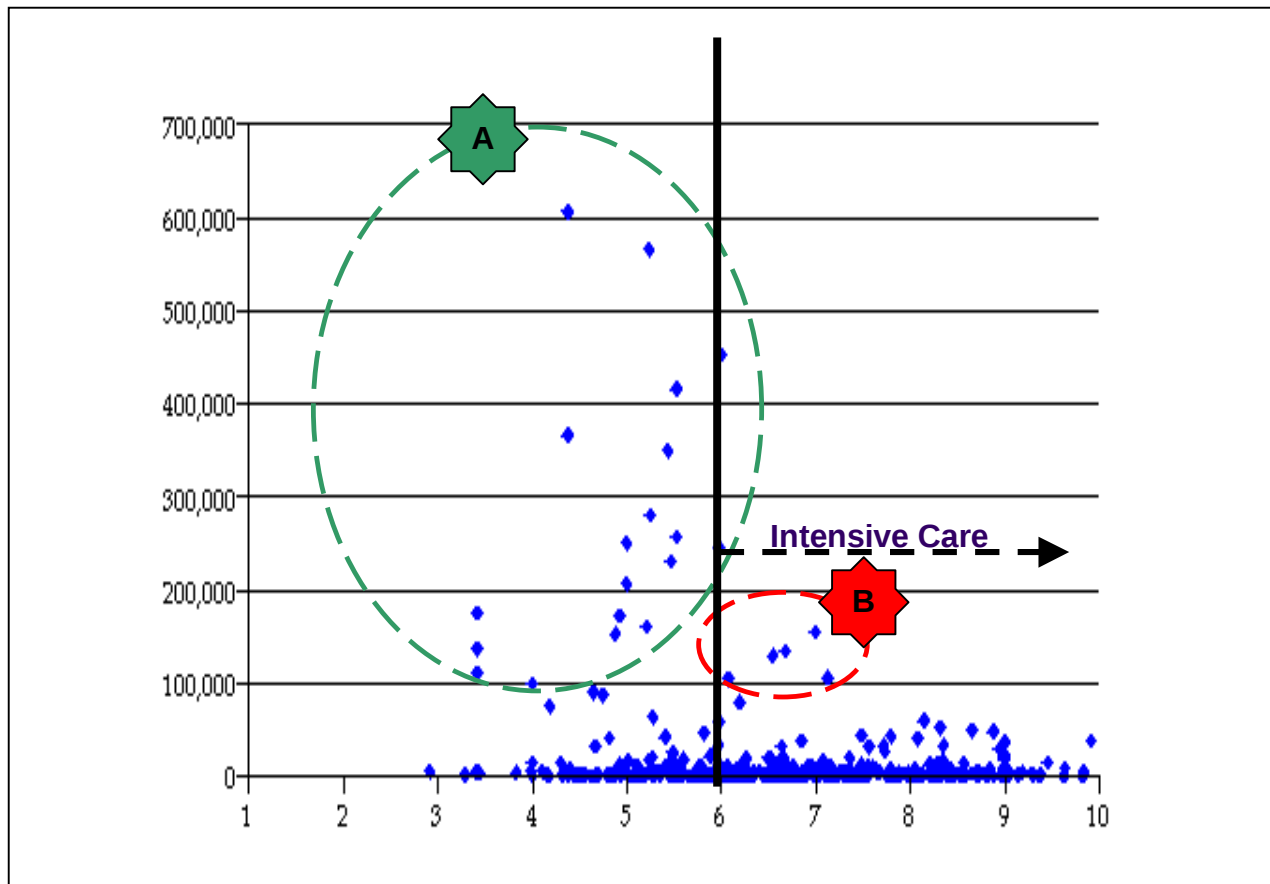
Sample – Risk Rating Report

The Risk Rating report shows the portfolio distribution by risk rate.



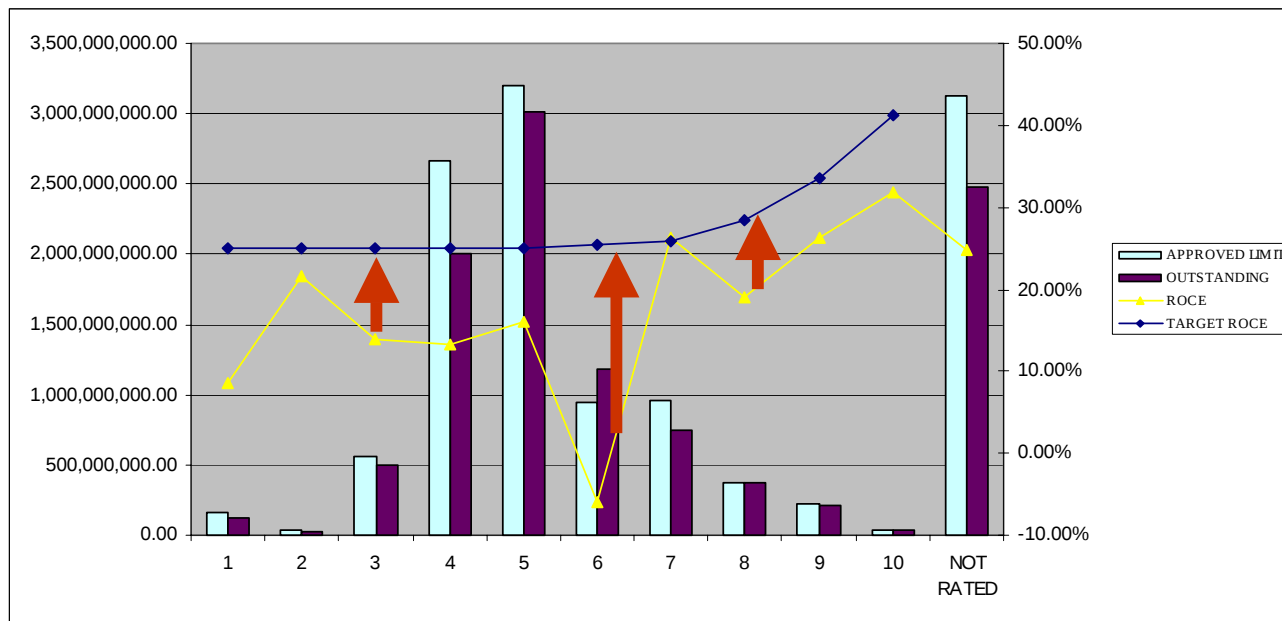
Sample – Customer Concentration Report

The Customer Concentration Report highlights large customer exposures by risk rating.



Sample – Return by Risk Rating

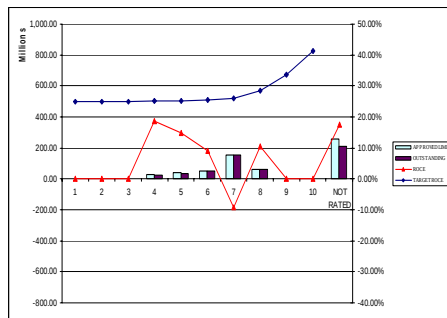
The Return by Risk Rating report shows the gaps between the actual and target return.



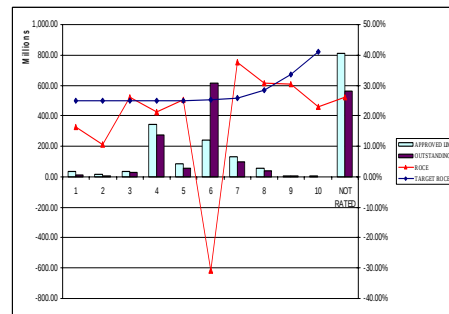
Sample - Return by Industry

The Return by Industry report shows the gaps between the actual and target return by industry.

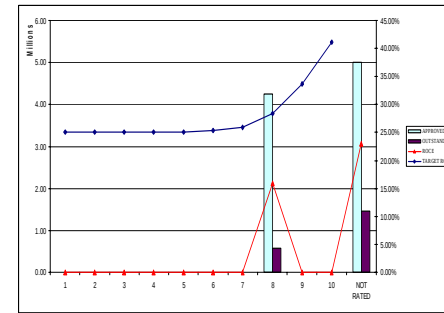
Agriculture



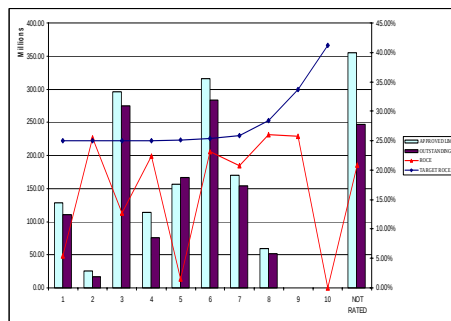
Commerce



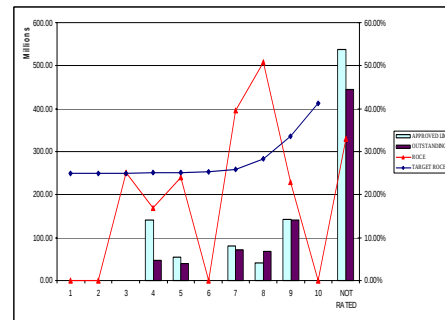
Infrastructure



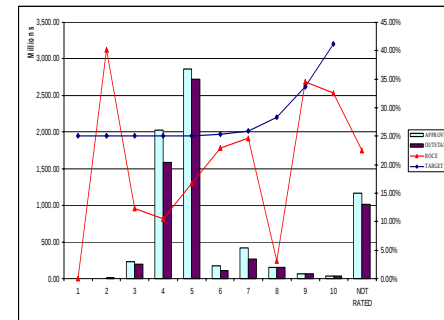
Manufacturing



Real Estate

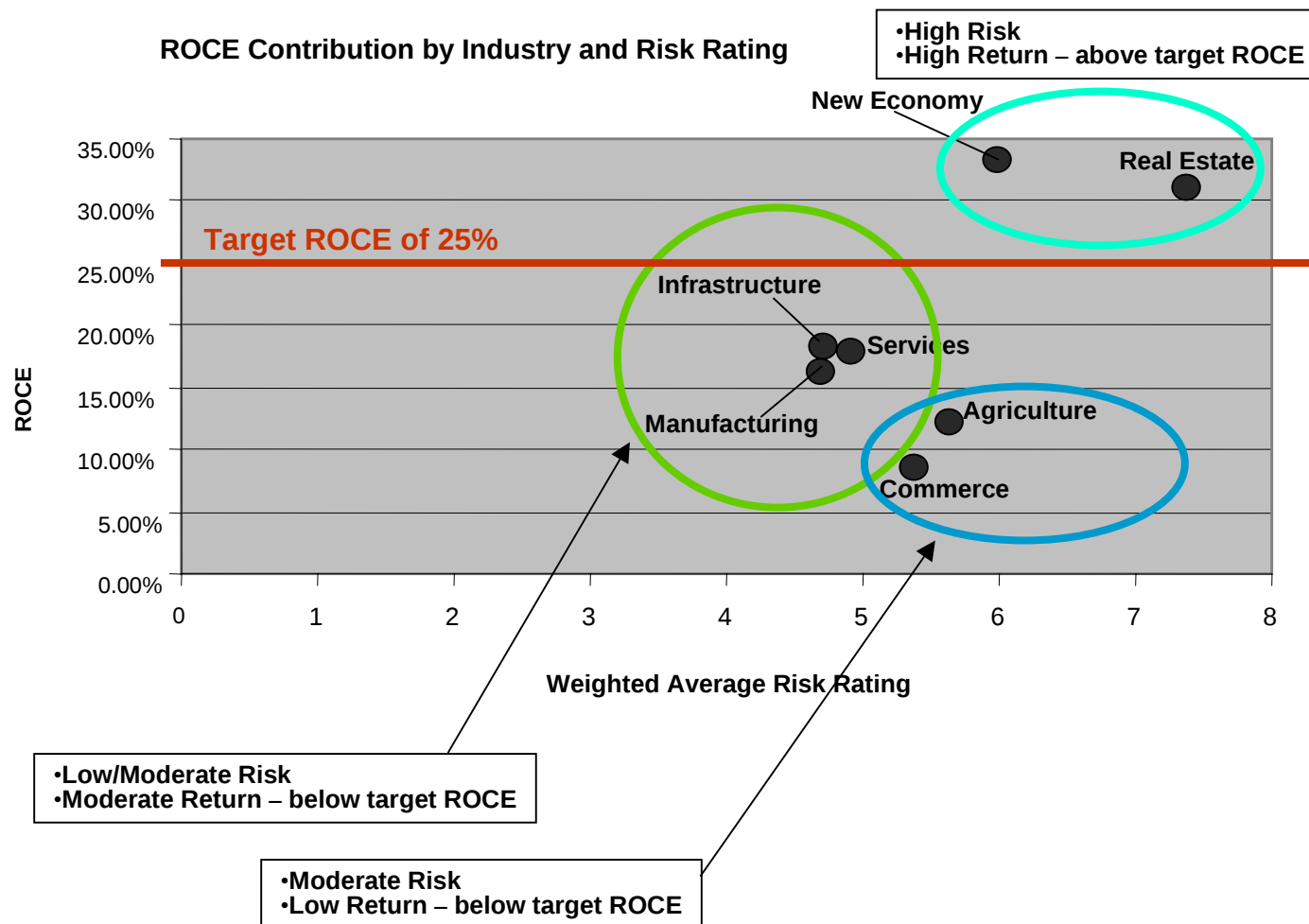


Services



Sample - Return by Industry

Further analysis of the Return by Industry report shows the risk/return relationships of each industry based on current portfolio.





Conclusions

In summary,

- ❑ Better credit risk management is inevitable for financial industry players, both to address external pressures (regulatory, market) and to meet internal / shareholder expectations.
- ❑ Better credit risk management demands a consistent, rigorous, continuous process, from credit planning, acquisition, until maintenance and review.
- ❑ Portfolio management approach provides a consistent risk measures that allows a continuous portfolio monitoring.

