

The Credit Diagnostic

LEVERAGING 25 YEARS EXPERIENCE IN CREDIT

CGI Banking clients include

- 45 of 50 top banks in the Americas and Europe
- 21 of the top 25 U.S. banks
- 7 of the top 7 Canadian banks
- 6 of the top 7 Latin American banks
- 11 of the top 11 European banks

THE RIGHT SERVICE AT THE RIGHT TIME

At CGI, we've been helping banks and financial institutions through good times and bad for more than 25 years. Our credit specialists have a detailed understanding of the linkage between credit operational levers and financial performance, and how best to affect those levers for rapid impact. Most importantly, we've been through cycles before, and we know when it's time for long-term strategic planning and when its time for short-term action.

For Banks: A Positive Long Term Outlook, But Challenges in the Short Run

Amid the widespread deterioration of the housing and mortgage market, and the ensuing near-total stoppage in the credit securitization markets in Fall 2007, American consumers and businesses are under the type of intense financial pressure that has not been seen in recent years. The financial sector is reeling from slashed market valuations, the potential for another wave of write-downs, and limited access to additional capital. In response, many institutions are taking aggressive steps to shore up their financials: some are shuttering their mortgage operations, while others are cutting dividends and eliminating stock buy-backs to preserve capital.

In retail banking, consumers directly affected by the "sub-prime crisis" are defaulting on loans and declaring bankruptcy in record numbers, but it reaches beyond that as market stress brings uncertainty and forces consumers to reduce their credit usage or extend themselves to cover existing debts. Banks and other financial institutions are in turn feeling the pressure as revenue growth slows and loan and credit line losses increase. In fact, at a number of large banks, loan charge offs are growing almost ten times faster than revenue. Consequently, many institutions are applying stricter originations policies, increasing collections activities, reducing staff, or discontinuing or limiting high-risk products.

What Should Bank Executives Do?

In this multidimensional downturn, it's imperative to confirm that your business processes are as efficient as possible, and that credit policy and risk management strategies are positioned for maximum effectiveness. To survive, and indeed succeed, in this market, you need to be able to **protect** yourself against the tightening credit market and **position** yourself for rapid expansion when the market upturns.

Yet even in this unstable market, the primary levers that impact financial performance remain the same: expense control, loss mitigation, and revenue protection and enhancement. The key, especially during volatile times, is to know which levers to push or pull, and how much and in what combination, in order to yield maximum benefit. Further, the current market introduces layers of intricacy that necessitate trade-offs between risk management and risk mitigation, and making sound decisions requires you to understand those trade-offs:

“How can I reduce or stabilize collections costs amid rising delinquencies?”

“How do I position the credit organization for double digit growth when markets stabilize and consumer confidence rebounds?”

“How can I affect credit policies and put controls in place to monitor and predict their impact on operations, while still encouraging growth?”

You Need A SWAT Team, Not Consultants

To help you successfully weather this cycle, CGI has developed a rapid response service: the Credit Diagnostic. It's a special service delivered by experts in the field of credit management and bank operations. The Credit Diagnostic is designed to quickly pinpoint issues and devise an actionable plan, helping you immediately improve your financial position by staving off the loan losses, minimizing DSO, controlling future credit risk, and enhancing the value of your current best customers.

The Credit Diagnostic is comprised of three main activities:

- An initial **assessment** of the current state of your credit organization, looking primarily at business processes, as well as the influence of technology and organizational structure.
- A **benchmark** based on best practices, competitive performance or industry standards.
- A set of immediately actionable tactical **recommendations** that are designed to address operational pain points and improve financial performance.

Designed to produce quick wins, the Credit Diagnostic can help control losses while positioning you for revenue expansion. Among the possible outcomes our clients have already experienced:

- Rapid improvement in manpower- and productivity-related performance
- Reductions in cost per account
- Better performance compared to industry benchmarks
- Improved business intelligence, insight and anticipation
- Rapid deployment of technology for fast improvement in better automating:
 - > Originations
 - > Collections
 - > Recovery
 - > Account management

AREAS FOR IMPROVEMENT

Cost savings

- Reduced net bad debt, cost to collect, days sales outstanding
- Decreased FTE costs

Revenue enhancements

- Increased approval and retention of profitable accounts
- Increased recovery of charged-off dollars

Business process improvements

- Productivity improvements, economies of scale through standardization
- Strategy enhancements, increased forecasting accuracy

For more information:
www.cgi.com/banking