

Lowering the cost of customer and supplier risk assessment

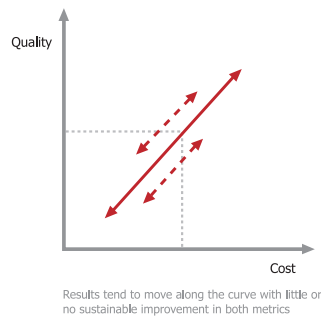
Preserving quality in risk analysis takes on new emphasis at a time when predictive and proactive approaches are more important than ever

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Today's global environment is creating challenges for traditional approaches

Historical Perspectives

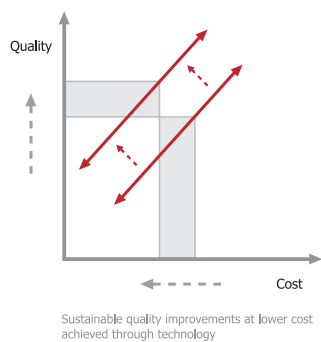
Cost and quality make up one of life's great conundrums and are no strangers to the business world. Any discussion today about lowering cost most often includes quality considerations.



A company's decision to compete on cost or quality can drive the emphasis on one over the other. An emphasis on lowering costs sometimes resulted in performing an existing process "off-shore" with the same number of people, while a quality-driven strategy resulted in applying more people at the same cost.

While benefits were derived as a result of each strategy, achieving improvements in both areas has proved difficult to sustain.

Today's risk assessment professional faces this conundrum more than ever. The business environment is mandating cost reductions interestingly at a time when proactive and predictive capabilities are more critical than ever to high quality assessments.



This paper demonstrates how companies are achieving sustainable improvements in their cost and quality metrics by reviewing today's challenges, current offerings and new approaches to the problem. Through the use of technology companies are "shifting" [and maintaining the shift of] the cost/quality curve. In doing so, companies are lowering their cost while improving the quality of risk assessment.

The dynamic nature of internal operations and external events are driving the need for fresh approaches

Today's Challenges

Certain challenges exist, particularly in today's environment, which prevent companies from fully realizing improvements in both risk assessment cost and quality.

Organizations are being forced to do more with less, while events around the globe seem to be unfolding at unprecedented rates.

Lowering the cost of risk assessment in today's environment has its added challenges. Initiatives often face one or more of the following:

Nature of available information

- ▶ Critical 'early warning' type information is found in highly unstructured sources (News, Websites, Public Filings). Effectively sourcing and rating this information is difficult.

The demand to be more proactive in current environment

- ▶ As global business increases, it is difficult and costly to manage the added volume and diversity of information on global customers and suppliers.

The lack of quality, timely information and ratings in the marketplace

- ▶ Today's large information providers struggle with maintaining disparate global data bases. Burdened with legacy infrastructures ratings providers are unable to keep up with the flow and nature of information resulting in infrequent analysis on global companies.

The nature of the risk assessment process ["work" vs "workflow"]

- ▶ The assessment process is a series of discrete tasks, some unique to your business, several which require a level of specialization (information sourcing and normalizing, rating, portfolio analytics, etc.).
- ▶ Often referred to as "work", these tasks are linked together to form a complete analytical process or "workflow." Often the work is interwoven with the workflow. The result is that vendors focus on specific tasks or "work" and are unable to effectively address the entire process.

Organizations and outsourcing vendors alike are struggling with pricing pressures, lack of process improvement and the dependency on people for process knowledge

Current Offerings

“Traditional” products and services continue to drive the current marketplace. Comprised of discrete offerings, they each solve a piece of the puzzle.

While there have been substantial productivity gains over the years, companies are struggling with the demands of today’s economic and global environment.

Traditional approaches have included:

- ▶ **Software solutions:** Software based solutions provided opportunities to streamline and structure processes though encounter the all-too-familiar issues of uncertain ROI, lengthy implementations, and the flexibility needed to accommodate business changes. In addition, they lack the vital content necessary to make decisions.
- ▶ **Information Providers:** The recent downturn in the global economy has highlighted the industries’ struggle with timely and insightful analysis on global companies. Enron and General Motors are two examples of where some rating agencies deemed them to be of “investment grade” right up to the time when they began their downfall. Providers struggle with the maintenance of their databases. Disparate, legacy systems cannot produce timely, relevant information.
- ▶ **Off-shoring:** Outsourcing vendors have recognized the complexities of the underwriting function as it relates to finance and credit, and as a result market their collection services much more so than their credit related services.

A common approach to providing credit services has been to outsource various tasks or “work” items within the assessment process. The marketplace consists of many service providers who simply apply people to the function. The offerings amount to replicating the same task elsewhere at a lower cost. The processes are predominantly low skill, manual functions supported by basic applications.

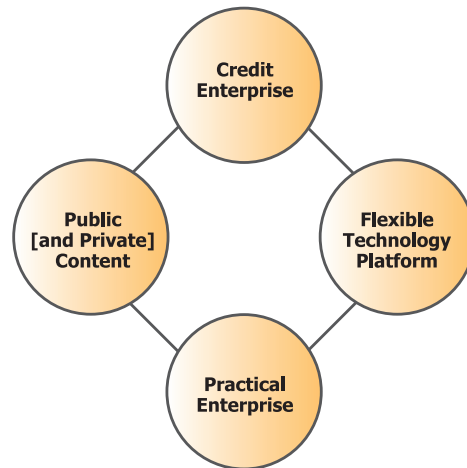
Even with this approach, today’s service providers are intimately aware of the struggle with cost and quality. Vendors are experiencing pricing pressures as they struggle with supporting many custom engagements.

A typical vendor response or strategy has been to seek the “easy” tasks or projects. That is, seek opportunities for Individual “work” tasks of the analytical process. They perform the “work”, or specific tasks, within the analytical process and avoid the added complexity of “workflow”.

By simply applying people to the process, typical outsourcing vendors fall short of implementing sustainable process improvements.

A New Approach

CreditPointe [CP] brings a mix of finance expertise, patented technology, practical experience and rich content to address these issues in the context of risk assessment.



Finance Domain Expertise

The CreditPointe team has over 18 years experience building solutions in credit risk and investment analysis for major global companies. Founded by Dr. Venkat Srinivasan, an internationally known expert in risk assessment 3, 4, the CreditPointe team is comprised of industry practitioners in global credit operations and

equity research. CreditPointe's sector-based analytical teams provide the knowledge necessary to produce high quality company/industry specific research and ratings algorithms.

Patented BPA Technology

CreditPointe employs its own patented Business Process Automation platform designed to not only just perform the "work" (information sourcing, rating, reporting, etc.), but also to perform the "workflow" within the risk assessment process.

This intelligent automation capability drives CP's back office in the production of its analytical products and services. Information sourcing, normalizing, analyzing, rating and report construction are highly automated and supported by sector teams.

Experience

The CP team brings invaluable operational and solutions-oriented accomplishments to the business. Practical experience in managing global

credit operations and in building systems for various types of global companies provides the team in-depth knowledge of the work and workflow associated with various forms risk assessment.

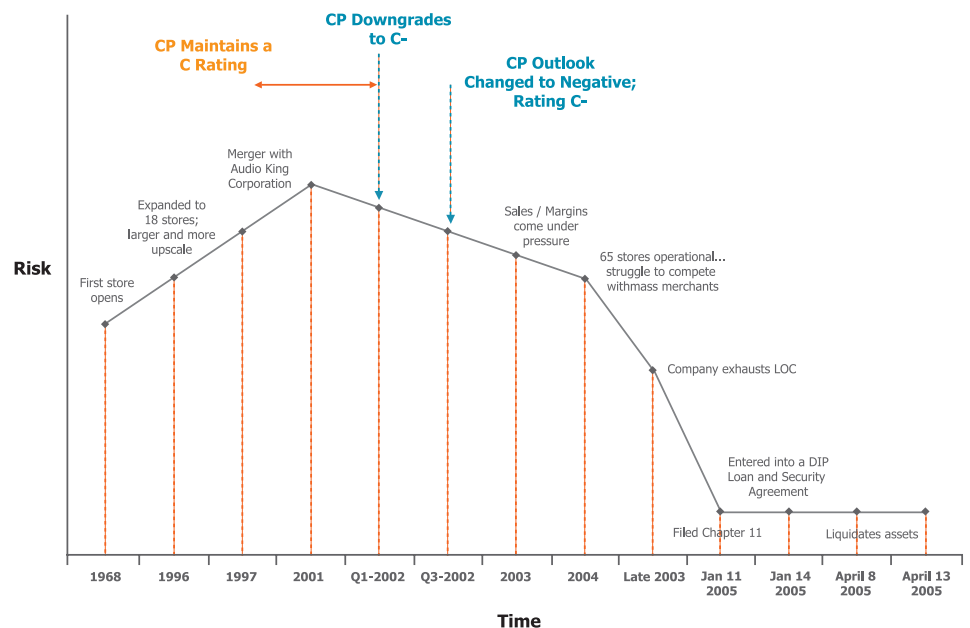
Content

CP sources its own content in a highly automated fashion. Detailed financial and operating data are extracted from filings on global companies while large news feeds are ingested daily. In addition, company and industry websites around the world are crawled for relevant news. Together, this information provides the raw material necessary for timely, high quality risk analysis and represents the first “work” or task in an effective and proactive early warning system.

CP's scoring model would have implied serious credit quality issues with Ultimate Electronics as of Q1 2002

Results

The CreditPointe approach of applying business process automation technology to the "work" and "workflow" provides a foundation for highly effective risk assessment. By ingesting massive amounts of information daily and by applying patented ratings technology, analysis is produced more frequently, trends are realized earlier and appropriate actions taken. Risk assessment groups can undertake proactive measures thereby increasing the quality of their risk assessment.



The results of this experience and approach are reflected in timely, high quality and very cost effective analysis, while providing sustainable process improvement. In the example above on Ultimate Electronics, CP began to downgrade the rating almost 3 years prior to their bankruptcy filing providing interested parties an opportunity to form proactive strategies.

Conclusion

Through an approach which accommodates the “work” and “workflow”, companies are able to lower the costs of customer and supplier risk assessment while actually improving assessment quality. By applying experience and business process automation technology to the risk assessment tasks CreditPointe also addresses the issues of assessment workflow. The result is timely and insightful analysis achieved in scale while improving both cost and quality metrics.

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