CreditLab® Basel: Product Overview

Why BankersLab®?

- Innovator in the development of advanced calculation-based and simulation training for banking associates.
- Offers a suite of products across banking functions and staff levels
- Respected executive team, each with over 20 years financial services and functional expertise
- Leverages proven techniques on how to train executives for the greatest retention and usage of learning

CreditLab® Basel Edition Overview

CreditLab® Basel Edition is a simulation-based training course designed to facilitate a mastery level understanding of retail credit risk management concepts. CreditLab® Basel is developed with flexibility to adapt to your bank's needs and objectives.

Covering both secured and unsecured retail products, CreditLab® Basel enables participants to explore portfolio trade-offs of profitability, risk adjusted return on capital, capital efficiency and other risk appetite metrics.

The multi-day training course is run in a classroom setting and transforms the learner into a player. In order to win the simulation game, players must operate the most profitable bank, subject to risk appetite hurdles. Each team has to demonstrate expertise in portfolio profitability, capital and liquidity management.

Target Audience:

Retail Lending Credit Heads and Managers, Retail Lending Portfolio Heads and Managers, MIS Heads, Capital and Balance Sheet managers, Portfolio Strategy Managers, Retail Risk Modeling Heads, Finance managers and operations managers.

As a prerequisite, participants should be familiar with retail portfolio management, underwriting, collections, and portfolio financials. Class size should range between 15-25 participants.

Three-Day Agenda

Day One	Day Two	Day Three
Round Table Discussion: Current challenges and opportunities	Simulation Game: Collections Management	Internal Control and Governance
Quiz Game Show	Risk Appetite: Best Practices	Activity: Risk Adjusted Performance Case Study
Activity: Regulatory Capital & Economic Capital	Activity: Risk Appetite Role Play	Activity: How to work with Regulators
Introduction to Simulation	Roundtable: Capital Management Strategy	Basel III Impacts on Retail Lending
Simulation Game: Underwriting	Simulation Game: Pricing	Roundtable: What does the Future Hold?
		Simulation Game: Downturn

Simulation Game Structure

- During each module, the team will go through a two-year process of managing a portfolio. Players have three trials to practice managing their portfolio, prior to the final run.
- Each trial run provides the opportunity for players to hone their skills at balancing their competing objectives
- The winning team will have the highest Net Income, subject to Risk Appetite Metric Hurdles on completion of the Final Round.

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Course Module Learning Objectives

Pre-Course Reading	• Constituents of (regulatory) capital
	• The measurement methodologies
	• Fundamental Basel II definitions
	  o External rating
	  o Internal rating
	  o Definition of default
	  o Exposure at default
	  o Probability of default
	  o Loss given default
	  o Expected and unexpected loss
	• Difference between IRB and Standardized
	• Overview of IRB model
	• The rating process for retail
	• Capital adequacy
	  o Standardized approach
	  o IRB Approach
	  o Recognition of collateral
	  o Qualitative and quantitative criteria
	• Current press articles
	• Links to outside resources for further reading

Roundtable Discussion: Current Challenges and Opportunities	• Lessons from the past
	  o Why was the recent crisis systemic?
	  o What were the consequences?
	• What are the 'best in class' practices now?
	• Future impacts
	  o Business models and process, corporate organizations and governance
	  o Asset liability strategies
	  o Risk appetite and policies

Activity: Regulatory Capital & Economic Capital	• In an exercise, practice calculating Standardized Capital for Mortgage. • Then, the scenario changes, with an impact to asset prices, then default rates, and participants recalculate capital. • Discuss how changes in customer behavior and the economy flow through to the capital calculation and presents how this calculation would change for an IRB portfolio and provides discussion questions. • Compare Regulatory to Economic capital for a few different retail lending portfolios. Name the potential drivers behind the differences in the two capital numbers. • Explain what options you have in managing the portfolio to reduce capital.
Risk Appetite Best Practices	• Requirements for Risk Appetite within ICAAP • What are best practices for setting hurdle rates and tolerance levels for Risk Appetite? • What is the difference between Risk Appetite and Risk Aversion? • How do you implement risk tolerance, risk targets, and risk limits?
Activity: Risk Appetite Role Play	• In this scenario, we need to increase overall revenue to ensure we cover our fixed costs. However, a larger portfolio may reduce our overall return on capital. How can we strike the right balance? • You'll be assigned a functional role (product management, risk management, etc.) to represent in the role play. • Present your case to your colleagues with your proposed strategy for this scenario.
Roundtable: Capital Management	• How much capital does a company have? • How much capital should a company have? • How much capital does the company need to maintain its rating? • How do shareholders (markets) value the capital? • How does management value the economic risk?
Internal Control and governance	• What is internal control? • Key Risks of Outsourcing • The types of control breakdowns typically seen in problem bank cases
Activity: Risk Adjusted Performance Case Study	• What indicators should be used? • Defining and operationalizing high level KPIs • What challenges do we face in terms of data, accuracy and management of the metrics?

Activity: How to Work with Regulators Role Play	• Difference between home and host regulators • Which measures the regulators wish to see, why and what are the differences between them • Key points in the ICAAP discussion • Examples of successful discussion and unsuccessful discussions with regulators
Basel III Impacts on Retail Lending	• International minimum standards for liquidity Basel III • Impacts on recent changes on Retail Lending
Roundtable: What does the Future Hold	• What changes may lie ahead in your market? • What can you better prepare for those changes?

Simulation Game Learning Objectives

Underwriting	• Determine the mix of your four portfolios through your marketing budget. • Underwriting. Our underwriting decision is a combination of our use of credit policy, credit scores, underwriting standards, verification standards, etc. Try different strategies in order to create the best portfolio mix that returns profitability and capital efficiency.
Collections Management	• Underwriting: We must integrate new information about market maturity such as the bureau score maturing. Use both an application score and bureau score together, which will be a more powerful discriminator for building the best portfolio. • Exposure: Part of our underwriting decision is exposure. Larger exposure leads to higher interest revenue but may result in high losses and low capital efficiency. Strike the right balance leading to profitable and capital efficient portfolios. • Collections strategies. Soft collections may result in increased delinquency, but too strong collections may be costly and ineffective. Strike the right balance.
Pricing	• Pricing. High pricing may cause attrition but has bigger margins. Low pricing may retain customers but will result in thin margins. Pricing should also be able to cover your expected losses. Players must observe this tradeoff in the results and strike the right balance. In this module, a competitor starts a price war and you need to react. • Collections strategies. Soft collections may result in increased delinquency, but too strong collections may be costly and ineffective.

	Strike the right balance.
Downturn	• Impact of macro-economy on portfolio performance. Players need to observe the impact of a downturn on expected loss and portfolio profitability behavior, and adjust their strategy accordingly.