

Consumer Credit Risk Management

ifs School of Finance
MODULE SPECIFICATION

1. Title	Consumer Credit Risk Management (CCRM)
2. Start date	May 2008
3. Level of module	C (within QAA Framework for Higher Education)
4. Number of credits	15 credits
5. Status	Specialist module within Applied Diploma - Retail
6. Recommended prior modules	No mandatory requirements
7. Programmes of study to which module contributes	Applied Diploma in Retailing Financial Services (Applied DFSM® (Retail))

8. Purpose/rationale/positioning

Consumer Credit Risk Management is an optional module within an Applied Diploma programme and is aimed at students working, or aiming to work in a lending role, either face to face or in a support function. The principles covered in the syllabus will be of equal interest to students working in retail, centralised lending and small businesses.

The student will explore the history of credit scoring and analytics and the rationale behind the reliance on them. They will also discover the legal and regulatory regimes within which users must operate, including The Banking Code, The Business Banking Code, Treating Customers Fairly, Responsible Lending, The Competition Act 1998, the Data Protection Acts 1984 and 1998 and the Consumer Credit Acts 1974 and 2006.

The student will learn the key features of scorecard management and maintenance.

The lender makes the lending decision either totally or partly relying on the credit score and then the application must be processed. This syllabus will give students an insight into the legal and regulatory constraints, such as Basel II and methods used to detect and prevent fraud and bad debt using techniques such as CIFAS. The student will also investigate referral and appeal systems and the benefits of credit scoring compared to judgemental lending.

The subject will cover all aspects of the credit risk operations including external agencies. The student will examine the commercial need to optimise the marketing and risk management objectives. They will see how behavioural score cards help them to achieve these two goals of relationship management.

Finally, the student will learn the framework that operates for those accounts that deteriorate. They will understand the role of collections and recoveries departments, along with the options available to the borrower in acute financial difficulties. The roles of external agencies and various regulations are also covered to ensure that the student gains an overall view of the process from start to finish.

9. Intended subject specific learning outcomes and, as appropriate, their relationship to programme learning outcomes

On completion of the course of study, students should be able to:

- a) Understand and apply the principal decision making and control techniques essential to effective consumer credit management.
- b) Understand the effective day-to-day management of credit-related operations and systems.
- c) Understand the contribution of the consumer credit function to the effectiveness of the overall management of the lending enterprise.
- d) Demonstrate their knowledge of how legislation, regulation and self-regulation, and the role and influence of external agencies, relate to consumer credit.
- e) Apply their knowledge and understanding to the day-to-day running of credit analysis, credit operations, collections and recoveries functions.

Note: The subject will not deal with the nature, formalities or practices concerned with any security that might be taken in connection with the lending.

These intended module learning outcomes contribute to the following programme learning outcomes: A2, A4, A5, A7, A9, A11 and A12.

10. Intended generic learning outcomes and, as appropriate, their relationship to programme learning outcomes

On completion of this module students will be able to demonstrate achievement of the following generic learning outcomes:

1. Problem solving and decision taking skills
2. Ability to learn through reflection on practice and experience
3. Ability to work with complex material
4. Ability to analyse problems and identify appropriate solutions
5. Ability to work and study independently and utilize resources effectively

These intended generic learning outcomes contribute to the following programme learning outcomes: B2, B3, B4, C1, C4, D2, D3, D4

11. Methods of delivery

There are two approved modes of study for the module: through approved centres and by distance learning. Each student enrolled on the module will have access to the My*ifs*LE environment and the *ifs* KnowledgeBank learning resources.

Distance learners

Distance learners will be given access to a web tutor for each module and the *ifs* learning support team. They will also be provided with two optional enhancement module workshops (subject to demand) delivered by *ifs* approved tutors.

Academic centre learners

Students enrolled for the academic centre mode will be provided with the same access to the general induction and learning materials as distance learners.

Total learning hours: 150.

Learning Materials

Learning materials will be developed to meet the learning outcomes of each module. The materials will be available electronically and supplemented with e-learning activities that are linked with learning outcomes and topics.

Students will be provided with access to the My*ifs*LE Learning Environment that contain the materials and access to the *ifs* KnowledgeBank, (the latter through My*ifs*Learning). Links to appropriate readings sourced from the *ifs* KnowledgeBank and with news feed links will be included.

Guidance on approaches to study and how to best use these materials will be provided in accordance with the principles set out in the *Teaching and Learning Strategy*.

Reading

The recommended reading for the module is the *ifs* text Consumer Credit Risk Management, complemented by reading references and links sourced through the *ifs* KnowledgeBank.

12. Assessment

There is one summative assessment component for this module. Students will sit, at a time of their choosing, an electronically delivered two-hour objective test.

Assessment will focus primarily on the learning outcomes associated with the cognitive skills of knowledge, understanding, analysis and application.

The test comprises 75 questions as follows:

- ◆ 50 multiple-choice questions that will test knowledge and understanding across the syllabus (1 mark each); and
- ◆ 5 case studies, each with 5 questions that will test skills of analysis and application (2 marks each).

Total marks available: 100.

13. Syllabus overview

The subject concerns itself with the effective management of consumer credit risk within the broadening range of lending facilities embraced by the Consumer Credit Act 1974 and subsequent regulations.

Increasingly, such facilities are administered on a centralised basis – whether by bankers, credit operators, or others – and may be delivered electronically, by cheque, plastic card or other debit transaction. The subject is therefore relevant to all such providers of consumer credit. *Note:* Students will be expected to be familiar with at least the basic characteristics of the products described above, and how they are used.

The syllabus topics have been chosen to develop the student's knowledge and understanding of the critical elements of credit management, as applied by the leading credit grantors, including the management of credit risk and how lending facilities are established and controlled. It is also designed to develop the student's knowledge of the statutory and regulatory influences that condition the approach of the credit grantor as well as other bodies that contribute to the management of these risks.

14. Syllabus

1. Credit scoring and the organisation

This section of the syllabus introduces the concept of credit scoring and its potential benefits to both the organisation and the individual user. It gives an overview of the framework of a credit scoring system within a financial services organisation.

Its focus is learning outcomes a) & c) and it covers the following:

- History of scoring and analytics – reason for credit scoring.
- Overview of types (tailored versus generic) and uses of (application; behavioural; customer; collections and fraud) scoring throughout the credit cycle.
- Understanding data sources for credit risk assessment.
- The legal, regulatory and supervisory environment (CCA, SCOR, Treating Customers Fairly, Responsible Lending); Impact of Basel II and capital adequacy requirements.
- Risk appetite – Striking a balance between Marketing and Credit Risk; The 1998 Competition Act, and the Competition Commission.
- Source and use of data; Data Protection Acts 1984 and 1998 and EU Directives.
- Developing and managing Credit Scoring Systems.

2. Application scoring theory

This section of the syllabus introduces the theory behind application scoring and gives the student an understanding of why the practical systems discussed in section 1 of the syllabus have developed.

Its focus is learning outcomes a) & b) and it covers the following:

- Principles of scoring
- Application scorecard development
- Strategy setting
- Managing overrides
- Strategy / scorecard monitoring
- Identifying scorecard adjustment/ redevelopment requirements

3. Application processing

This section of the syllabus introduces the framework of the application process, once the decision to lend has been made.

Its focus is learning outcomes b) & e) and it covers the following:

- Delivery Channels
- Pre-screening
- Data capture, automatic checks
- Handling referrals, declines and appeals
- Safe card dispatch
- Decline management
- Fraud control – CIFAS and online techniques
- Money laundering (relevant UK legislation e.g. Proceeds of Crime Act)
- Exception
- Judgemental lending versus credit scoring

4. Customer Management

This section of the syllabus introduces the subject of customer management and the balance between controlling a lending portfolio whilst also growing the same lending book. It also introduces issues concerned with lending multiple products to the same customer.

Its focus is learning outcome c) and e) and it covers the following issues:

- Authorisations
- Control processes for granting additional credit
- Using Automated Decision-making systems
- Transactional fraud control
- Behavioural Scoring
- Development and Maintenance of Behaviour scorecards
- Customer Level Scoring
- Portfolio Management and Management information
- Performance drivers

5. Delinquent accounts

This section of the syllabus introduces the students to the possibility that not all debt is repaid on time. The student will explore the role of the collections department and behavioural scoring within it. It also introduces the various insolvency regimes.

Its focus is learning outcome d) & e) and it covers the following issues:

- Collections Management processes
 - External debt collection agencies
- Management information in collections
- Using Behaviour Scoring for Collections including Pre-delinquency
- Role of voluntary/external advisors (CAB and fee chargers)
- Managing Recoveries including litigation and write-off
- Insolvency, bankruptcy and IVAs – including the Enterprise Act 2002;
- The administration of fraudulent accounts
- Theory and practice of Provisioning

6. Regulation and Industry Bodies

This section of the syllabus introduces the major regulatory bodies with responsibilities for regulating credit risk and collection activities. .

Its focus is learning outcome d) and it covers the following issues:

- Self-regulation and credit scoring – “Guide to Credit Scoring”;
- Role of the FSA and the BERR in relation to consumer credit;
- Money Advice and the role of consumer support agencies ;
- Credit Bureaux and their regulation – the role of SCOR;
- The role of the Information Commissioner’s Office in relation to credit data and credit risk assessment;
- Implications of Basel II