



## IMPROVED CREDIT RISK FORECASTING AND DECISION MAKING FOR AN AMERICAN INVESTMENT FIRM

A TRaICE case study

### OBJECTIVES

Identify early indicators to changes in an investment's financial condition



Limit losses and reduce risk exposure



Identify emerging risks and trends early



### OVERVIEW

Lenders everywhere are now waking up to the fact that using only historical data and lagging financial indicators in their risk calculations will give them, at best, an incomplete picture of their borrowers. At worst, these traditionally used metrics allow only for backward-looking counterparty monitoring. With market volatility on the rise, financiers need to revisit their current reactive monitoring practices and transform them into modern methodologies that will allow for more proactive risk mitigation. Crucially, this will allow them to stay ahead of the curve instead of behind it.

## THE PROBLEM – LAGGING INDICATORS ARE NOT THE BEST MEASURES FOR EARLY DE-RISKING

As with most traditional monitoring systems, our clients had been using mostly lagging indicator information to track their investments. The downside to this was that, while they did get insights from this historical data, the insights were often retrospective in nature. In other words, the intelligence they received from this data often came too late for them to do anything with it. Consequently, early de-risking and proactively preventing losses was a challenge. This became even more apparent during the Covid-19 pandemic when past financial data and performance metrics proved mostly obsolete in evaluating current and future counterparty creditworthiness.

## THE TRaICE SOLUTION – INCLUDING LEADING INDICATOR DATA IN RISK CALCULATIONS

Along with using financial and historical metrics, the TRaICE system also incorporated leading indicator information such as company news reports, social media feeds, and other qualitative data from commercial API providers in its risk calculations for our client. Its proprietary algorithms then generated a quantitative risk index for every entity it monitored. As the proprietary TRaICE indices correlate closely to global financial market indices, our client got the prescient insights needed to take prudent and timely de-risking decisions. They also got a more complete and current picture of counterparty business health and a system that was better equipped to predict and handle adverse events like the pandemic.

## KEY RESULTS



A future-forward and proactive risk monitoring system



Improved ability to forecast business health



Early identification of red flags and subsequent reduction in risk exposure