

DIRECTED RISK RESEARCH PROBLEM STATEMENT

Risk Theme	Quantitative risk	Problem Nr.	PS19003
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Designation	RBB Risk decision support: Impairment analyst				
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PROJECT TITLE: Investigation into customer utilisation of increased credit card limits

PROJECT GOAL

Absa is interested in the investigation of customer utilisation of increased credit card limits.

HIGH LEVEL DESCRIPTION OF PROBLEM

Credit cards allow customers to receive credit limit increase based on their eligibility and the strategy implemented by the bank within the parameters set by the regulator. Many banks make use of account level profitability strategies to target more customers and increase the profitability of the balance sheet by allowing customers to be eligible for credit limit increases more frequently. A credit limit increase requires that more risk capital is to be held by the bank to make provision for losses. If the amount of capital held is increased, but the customer does not utilise the new credit limit the return on regulatory capital is negatively impacted. Thus, the profitability of credit limit increases is largely dependent on the utilisation of the new credit limits.

PROJECT OBJECTIVES

The objectives of this project is to investigate whether it is possible to determine how comfortable a customer is in utilising a proposed limit increase and how the utilisation of the proposed limits impacts profitability.

OUTPUTS REQUIRED

- A paper that investigation customer utilisation of increased credit card limits.

STRATEGIC VALUE TO DIRECTED RISK RESEARCH

Understanding the factors that influence utilisation of increased credit card limits, the bank can potentially benefit through increased profits.