



# CENTRE *of* EXCELLENCE in FINANCIAL SERVICES

## Directed Risk Research Programme

### DIRECTED RESEARCH PROBLEM STATEMENT

<b>Research Theme</b>	The definition of a low default portfolio, and related metrics to measure performance in this space	<b>Problem Nr.</b>	PS21002
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**Project Title:** Credit Risk: The definition of a low default portfolio, and related metrics to measure performance in this space

#### 1. Project Goal

To clearly define what a low default portfolio (LDP) in a credit risk environment is, as well as give guidance on how the traditional measures (performance, discrimination, etc.) should be amended/interpreted differently for LDPs. Additionally, what other measures should be used to substitute these measures.

#### 2. Higher level description of problem

There is no clear definition of what an LDP is, some (the Bank of England) suggest a portfolio with less than 20 defaults. But this is not sufficient, since if there is, say only 30 obligors and 20 default, then the percentage is high even though the number of defaults are seemingly low.

This project should give a clear definition of what LDP is. This will ensure that the industry have a consistent way of defining LDPs.

Furthermore, this project should elaborate on the appropriateness of measures used in traditional monitoring measures. Measures like the Gini coefficient, might not be applicable, so what else would you recommend. Same thing with accuracy, how do we go about determining whether the accuracy is on par with expectations?

### **3. Project objectives**

A concise LDP definition as well as measures to determine accuracy and discrimination power of these models.

### **4. Outputs required**

A document/paper/article

### **5. Funding for project**

To be completed by the DST.

### **6. Strategic value to directed risk research**

This will give industry some alignment in the definition of LDPs and what measures are to be used to monitor model performance.