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RISK PRACTICE

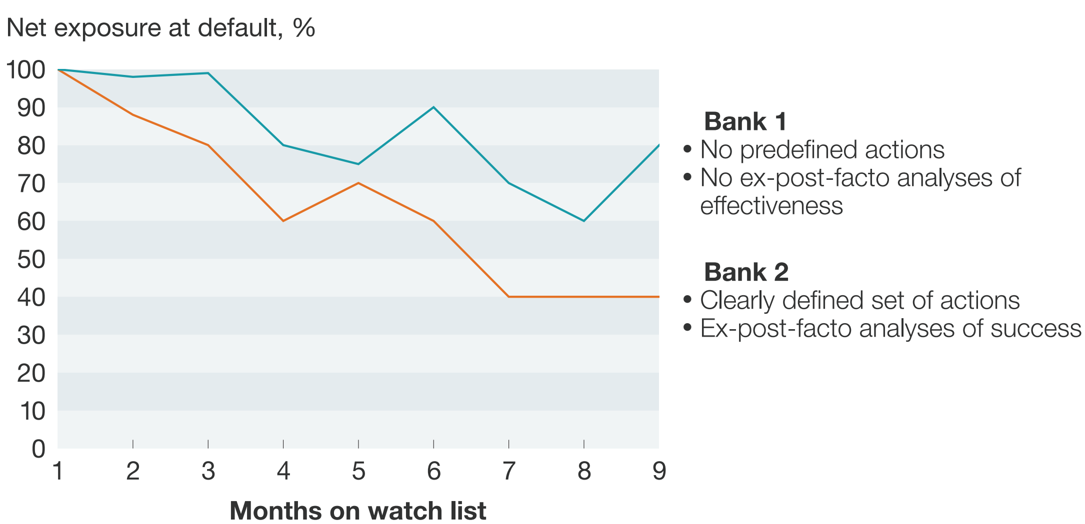
A better way for banks to monitor credit

Early-warning tracking of small changes in customers' financial situations can make a big impact on the bottom line.

A bank borrower begins to get into trouble. Not much the bank can do about it, right? Or is there? When banks carefully track small, significant changes in their customers' financial situations, we find that these institutions can improve their fortunes and compete more effectively. Much more effectively, in fact (exhibit). *First-mover matters: Building credit monitoring for competitive advantage* (PDF–1,104KB), a report from McKinsey's risk practice, shows that one way is to tap analytics and specialists to spot quantitative and even qualitative early-warning signs of borrower trouble. Another approach is to set up formal triggers for timely intervention that can guide customers back to financial health or limit further losses when the situation isn't likely to improve. Our view is that better credit monitoring could be one of the main ways that capital-strapped banks can improve their business model.

Exhibit

A defined set of actions, plus efficient monitoring, can significantly reduce a bank's risk exposure.



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