

# Real Time Monitoring of Global Portfolios

*Insightful, real time analysis on the global news and events that impact credit default risk*

How continuous and systematic monitoring produces early warning indicators

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## Introduction

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As business relationships continue to expand globally and in complexity, monitoring and analyzing business partners and clients takes on added importance. Portfolios are increasingly diverse and comprised of partners from all corners of the globe, each of whom, can have a direct impact on credit default risk.



The business environment is mandating cost reductions interestingly at a time when proactive and predictive capabilities are more critical than ever to high quality assessments. This paper demonstrates how companies are achieving sustainable improvements in their analysis of their partner relationships through continuous and systematic monitoring of the company and its operating environment.

## Traditional Approaches

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Traditional analytical and monitoring approaches have generally relied on batch processes and basic forms of alerts. Periodic financial reviews and credit bureau data have been the primary methods used to analyze a company. These batch-oriented processes place little or no emphasis on the news and events occurring upstream from the data being analyzed. These events about

the company in question and its industry (operating environment) are actually driving the company's financial condition and are reflected in subsequent batches of bureau data.

Monitoring processes have most often included alerts of some fashion. Without intelligent categorization and analysis, mailboxes quickly fill up with volumes of news articles requiring the user to further discern the impact. It is not long before the process breaks down and is no longer taken seriously. Additionally, alerts generate snapshots of information, often leaving the reader with an incomplete view of a broader trend.

Staying ahead of all the news that affects a portfolio can be a daunting task. Unfortunately, batch type processes do not provide management with the necessary time to react. Stories about product recall issues, counterfeit components and labor strikes are not reflected in the finances or bureau data for some time, if at all. When they do it is often much too late.

## **Analytical Challenges**

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In discussing global portfolios, executives often cite the challenges with analyzing and monitoring a portfolio in a timely and meaningful manner.

### **1. Scale issues**

- ▶ Too many relationships, too much news! Determining how news will impact a portfolio and its individual members is an overwhelming process that requires precious analytical time.
- ▶ Periodic spikes in the quantity of submitted financial statements and the need to analyze in a timely manner. Foreign languages and format variability issues amplify the challenge

### **2. The demand to be more proactive in current environment**

- ▶ As global business increases, it is difficult and costly to stay ahead and manage the added volume and diversity of information on global customers and suppliers

### **3. The lack of quality, timely information and ratings in the marketplace**

- ▶ Widely understood, though tolerated due to the lack of alternatives in the marketplace. Today's large information providers struggle with maintaining and updating disparate data bases. Burdened with legacy infrastructures, companies are unable to keep up with the flow of information resulting in infrequent analysis on global companies.

### **4. Unable to perceive emerging trends**

- ▶ With so much going on, managers are often unable to see a developing situation as news stories indicating a growing problem are released over time and in piece-meal fashion.

### **5. Lack of a portfolio view**

- ▶ A view from the "forest rather than from the trees" in an effort to better focus and align resources and analytics

## **The case for continuous and systematic monitoring**

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In parallel with financial analysis reviews, monitoring news and events can provide management with leading indicators and a view into the news (and trends) impacting a company and which can often, over time, accumulate into a bigger risk for the business.

Many customers, particularly mid size and smaller companies, rarely generate news, but are naturally impacted by the events occurring within their industry and within the economy. Understanding these impacts provides a view into trends which help mold a company's future. In order to understand these impacts, semantic technology must be capable of continuously reading and interpreting massive amounts of information. With context sensitive technology and a thorough understanding of the factors which 'drive' the company and its industry the impact of the news can be interpreted and measured. Performing these processes in scale requires a robust infrastructure.



In this way, business managers can better manage their analytical resources and energy. Rather than allocate analytical resources and time on anecdotal stories and conversations, management can direct focus based on a more complete view.



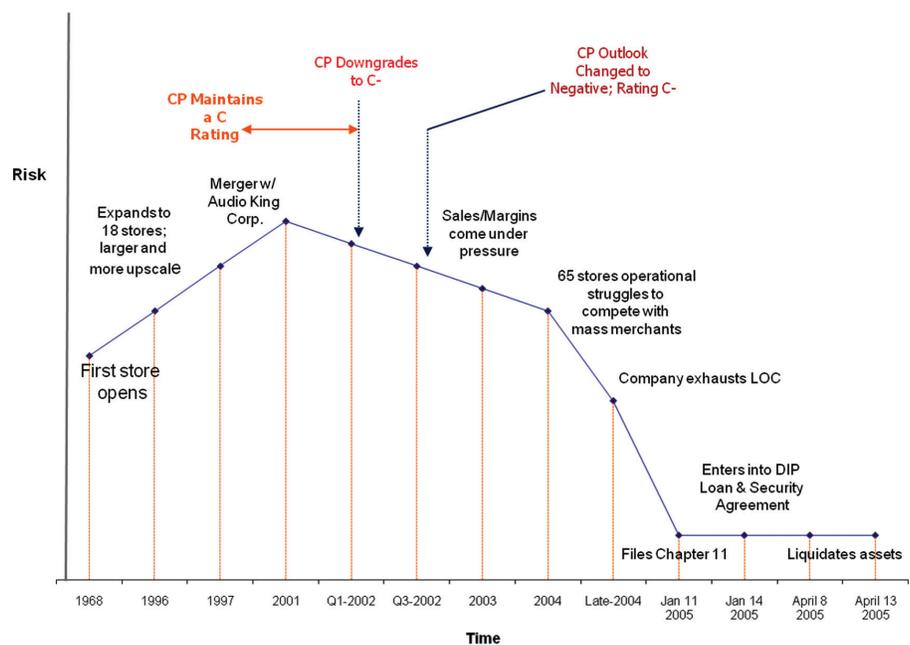
**The continuous signal indicates a negative trend for this company, highlighted by the color bar and blue line, as reflected in the actual news articles on the right**

With a deep understanding of business drivers, CP collects all the news on the company, its' industry and macroeconomic events which can affect its' financial health. The news is read, interpreted and, based upon the business drivers, the impact measured. Over time, as the continuous signal (blue line) in the graph above shows, a trend visually emerges.

Rather than business teams attempting to source, analyze and report on an enormous amount of information, CP finds, organizes and delivers all the news and events which, over time, are impacting a relationship. In this way, RTI provides the business manager with a continuous and systematic monitoring and assessment process.

## An Example

In the case of Ultimate Electronics bankruptcy in 2005, upstream warning signs were being released years prior to the actual bankruptcy filing event. As depicted in the graph below, continuous and systematic news monitoring would have implied serious credit quality issues with Ultimate Electronics as early as of Q1 2002.



A stream of news and events leading up to the eventual bankruptcy filing

## CreditPointe Offering

### Products

CreditPointe's products reflect the management team's experiences over the past 20 years in applying flexible, business process automation technology to credit and finance. Today, CreditPointe employs technology to provide timely, high quality and cost effective products and services that are designed to help investment professionals and organizations analyze global companies.



## **CP Products and Services**

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### **Real Time Intelligence**

CP's Real Time Intelligence, or real time early warning score, is a unique supplement to its robust ratings and LGD estimates. This score is generated through a systematic and rigorous assessment of real time developments (news, research) that can impact a company's default risk. CP has developed detailed causal models for each company it covers and proprietary natural language processing technology that allow it to analyze qualitative data in proper context for each company.

### **Credit Ratings**

CreditPointe CreditRating™ offers deep insight into the credit risk associated with global companies. The ratings and accompanying narratives provide an independent and objective view into the future. With a deep understanding of a company's business drivers and operating environment, each rating goes through extensive stress testing to produce a forward looking analysis.

CP generates forward looking letter-grade ratings, probabilities of default [PDF], estimates of loss given default [LGD] and a continuous real-time early warning score. CP's rating methodology is entirely based on fundamental analysis of the company and the environment it operates in (sector, country, etc.). CP Ratings are applicable to both private and public companies.

### **Real Time Intelligence – Credit Risk Default**

CP's Real Time Intelligence, or early warning score, is a unique supplement to its robust ratings and LGD estimates. This score is generated through a systematic and rigorous assessment of real time developments (news, research) that can impact a company's default risk.

### **Secure Statement Delivery and Sourcing**

CreditPointe provides a secure facility to upload private company information. The CP Portal ensures that uploaded documents are private and processed in a customer specific portal. From there, optional downstream services can be applied ranging from language translation to credit ratings and narratives to on-going monitoring.

CreditPointe also provides a highly interactive web portal application for the sourcing of private company information. The portal provides a framework for an interactive question/response experience where subsequent questions are based on previous responses. The interaction can be tailored to provide a platform where additional information can be collected.

### **Foreign Financial Statement Translation**

Before a statement can be spread and analyzed, translations must be made. CreditPointe provide translations services for many of the global languages. Our translation teams consist of native speakers (source and target languages) with backgrounds in finance in order to ensure accurate translations of financial terms. Once translated, US GAPP and client specific mapping processes are applied.

### **Financial Statement Spreading**

CreditPointe™ provides very cost effective and highly secure financial statement spreading services. Statements often arrive in a variety of media and in customer-specific formats that require analysts to spend valuable time on data entry type functions.

### **Segment Analysis**

Segment analysis provides an aggregated view of the credit risk associated within in a particular portfolio segment (industry, geographic). The analysis includes a review of the aggregated credit risk including ratings distribution, exposure by rating; benchmarks on key metrics such as liquidity, earnings power, operating efficiencies, leverage and Z score summaries.

By incorporating internal information the analysis, is broadened to include ratings by spend contribution, value at risk, and expected impact in the event of liquidation.

## **About CreditPointe**

CreditPointe is a division of Rage Frameworks, a leader in business process automation solutions for financial services. CreditPointe rates, analyses and monitors global portfolios using patented technology and skilled analytical teams.

For more information visit [www.creditpointe.com](http://www.creditpointe.com) and [www.rageframeworks.com](http://www.rageframeworks.com)