Is AI a Game-Changer or a Challenge in (Credit) Risk Management?

Start

AI Changes the Game Of Credit Risk Management

AI enhances the entire lending lifecycle—from initial underwriting to ongoing monitoring—by expanding the data used beyond traditional financial ratios. In the meantime, credit teams face an impossible trade-off: **data volumes required to properly assess risk have exploded, yet the time to analyse them hasn't changed.** Traditional risk models and manual document review simply can't keep pace with modern credit portfolios. With the help of AI, credit teams can approach risk assessment in a fundamentally different way.

Credit Scoring

Enhanced Credit Scoring

AI models analyse "alternative data" such as utility payments, transaction volumes, social media activity, and digital footprints to score "thin-file" borrowers who lack a traditional credit history.

Credit Approval

Automated Underwriting & Memos

Generative AI tools can process tremendous amount of documents in a virtual data room (VDR) to extract covenants and draft credit memos in minutes rather than weeks.

Credit Monitoring

Early Warning System for Defaults

Instead of waiting for a missed payment, AI monitors real-time signals such as shifts in payment prioritisation to suppliers or declines in B2B transaction velocity to flag potential defaults.

Fraud Detection

Fraud & Anomaly Detection

Advanced algorithms identify synthetic identity patterns and suspicious transaction clusters in real-time, reducing losses and minimizing manual reviews.

AI Adoption Comes with Familiar and New Challenges

Currently, most banks have moved beyond AI pilots — yet fewer than 15% have scaled AI to production across core credit risk functions. The gap between proof-of-concept and enterprise-wide impact is defined by four persistent structural barriers.

Enterprise Governance

Policies and oversight structures for AI remain inconsistent across business lines. Without clear accountability, credit risk models are deployed without standardised validation gates — increasing regulatory exposure under EU AI Act and EBA ICT guidelines.

- ECB Supervisory Newsletter, Nov 2024: 61% of euro-area banks cite governance gaps as the primary blocker to AI approval in credit decisioning

Legacy Integration

Core banking platforms were not designed for real-time model inference. API connectivity between origination, underwriting, and risk engines is fragmented — forcing manual hand-offs that slow credit memo generation from hours to days. Embedding AI into existing banking systems goes hand in hand with the opportunity to modernise legacy infrastructure and integrate platforms

- McKinsey 2024: Banks with modernised data architecture deploy AI use cases 4× faster than peers on legacy stacks

Model Explainability

Deep learning and LLM-based models produce outputs that **risk and audit teams cannot easily trace.** Regulators now require feature-level attribution for adverse action notices — a requirement most GenAI tools in credit currently fail to meet out of the box.

- BIS FSI Occasional Paper No. 24, Sep 2025: A supervisor is unlikely to trust the results of an AI model if its results cannot be understood.

Data Availability and Accuracy

AI models in credit risk are only as reliable as the **data lineage** behind them. Inconsistent data definitions across origination, servicing, and collections mean features drift silently — degrading model performance without triggering alerts. Besides, banks still struggle with **data accuracy** and **data quality controls**, limiting the use of advanced analytics and AI in credit risk decisioning.

- Gartner 2024: Poor data quality costs financial institutions an average of $12.9M per year in AI model rework

Create Value, Face the Challenges

Challenge Area	Current State	Target State	Value Created
Enterprise Governance	Ad-hoc AI model oversight; no AI policy aligned to ECB or EU AI Act	**Enterprise AI Risk Policy; model lifecycle controls across business lines**	**Regulatory** **Reduced Regulatory Exposure** ✓ Reduction in model risk capital add-ons ✓ Fewer SREP audit findings ✓ EU AI Act & ECB compliance by design ✓ AI Model Governance
Model Explainability	Black-box credit models; regulatory sign-off delays	**Explainable AI-compliant models; interpretable outputs for auditors & supervisors**	**Efficiency** **Improved Transparency** ✓ Faster model validation ✓ Explainable credit decisions ✓ Reduced manual review burden on compliance teams
Legacy Integration	Legacy cores incompatible with AI agent technologies, increasing barriers setting up AI agents	**AI Agents integration with modernised legacy core**	**Financial** **Direct P&L and capital impact from modernised legacy cores** ✓ Scalable AI Agents enable high level automation, promoting faster and better outcome
Data Availability and Accuracy	Data availability and quality remain the top challenge in AI-ready data; BCBS 239 gaps	**Auditable data lineage**	**Efficiency** **Accurate and Timely Data Availability for AI Deployment Integration** ✓ Faster reporting cycles. ✓ Accurate data and data availability enable better model training, monitoring, and evolution

Be Honest about Your AI Maturity

	Foundation	Build & Pilot	Scale & Optimise
Governance	☐ Complete EU AI Act Annex III classification of all risk models (Aug 2026 deadline) ☐ Establish AI Risk Policy & Model Risk governance committee with CRO sponsorship ☐ Map existing models against regulations and regulators review	☐ Rollout validation standards for AI/ML models across all risk types ☐ Conduct first AI supervisory self-assessment (DNB/ECB ready)	☐ Embed AI governance into Three Lines of Defence ☐ Automate policy compliance monitoring across model lifecycle ☐ Publish internal AI ethics standards
Data & Infrastructure	☐ BCBS 239 gap assessment; prioritise critical risk data domains ☐ Select risk data platform architecture ☐ Establish data lineage tooling for risk models	☐ Implement model inventory platform ☐ Build integrated risk data lake (credit, market, ops, liquidity) and implement real time pipelines for risk ☐ Deploy feature store for ML model training & monitoring	☐ Achieve full BCBS 239 compliance for AI-relevant data ☐ Enable self-serve data access for risk model developers
Model Development	☐ Inventory all AI/ML models ☐ Select XAI framework and embed in model standards ☐ Pilot XAI on 2–3 existing credit risk models	☐ Develop next-gen PD/LGD models with explainability built-in ☐ Build IFRS 9 scenario generation model using ML	☐ Launch generative AI for stress testing scenario analysis ☐ Expand AI to operational risk & conduct risk monitoring ☐ Continuous model monitoring with automated drift detection

Our Services

We offer long-term collaboration to ensure that our clients are up to date with evolving AI technologies, regulatory changes, and internal skill needs.

We facilitate the definition and implementation of the AI governance framework.

We deliver data availability and accuracy with our structured project and programme management methodology.

We embed AI model explainability by designing and implementing an AI-optimal operating model.

Meet Our Experts

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