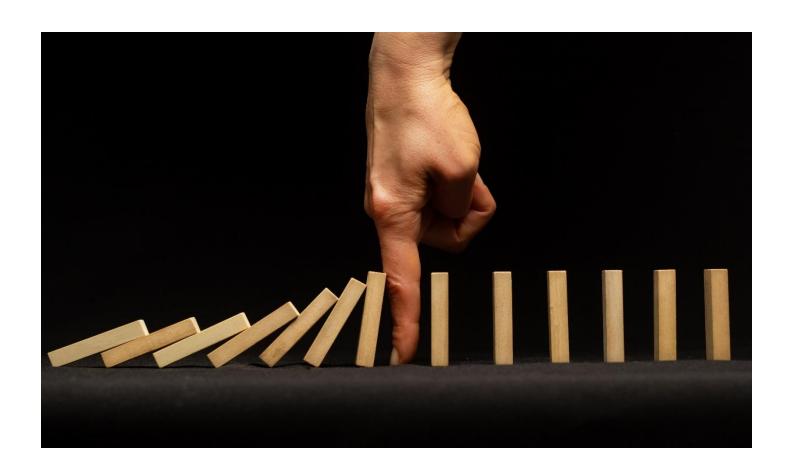# GenAI usage for credit risk management increases as technology evolves

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Generative artificial intelligence (GenAI) is fast becoming the go-to technology for businesses to navigate complexities in their domains, including financial institutions for credit risk assessment.

The use of Gen AI in credit decisioning was in the spotlight at the recent International Association of Credit Portfolio Managers' annual fall conference held in Miami, Florida, where CRISIL was a sponsor.

GenAI is reshaping the financial landscape by offering enhanced risk assessment, automation and adaptability, as well as faster and more accurate decision-making — all that amid regulatory tightening, geopolitical uncertainties, fluctuating interest rates and climate risk agendas of governments.

Unlocking the power of GenAI for credit assessment

The benefits of GenAI are considerable. Banks are exploring pioneering applications, including synthesising data for credit decision-making, detecting early warning signals through press release scans and social media sentiment analysis, and automating credit memo drafting and annual review processing.

Not only is GenAI yielding unprecedented efficiency and accuracy at speed but is also promising significant cost savings.

As GenAI evolves, decision-making will only become better. From efficiently analysing unstructured and large datasets, generating insights from data, and customising output as per predefined rules to minimising errors through cross-validation and improving scalability by generating multiple reports in parallel, GenAI will become indispensable in the credit decision-making process.

And while widespread adoption is still some way off, there has been considerable uptake among the larger global banks.

Interestingly, regional variations are emerging, with some larger institutions in the Asia-Pacific demonstrating a higher risk tolerance compared with their North American counterparts.

Hurdles in the path of GenAI deployment

But discussions at the conference also veered towards concerns with regard to the efficacy of the use of large language models for report writing, especially in the case of unstructured data and complex contextual analysis.

A primary constraint is the inability of current GenAI models to access real-time information about obligors, such as recent mergers or acquisitions, or verify the accuracy of the content they generate.

There were also apprehensions about potential regulations, such as the European Union's AI Act, which aim at assessing the risks associated with AI and establishing standards for transparency.

Additionally, GenAI adoption is plagued by information loss, hallucinations, i.e. false, or misleading information, and concerns about preserving confidentiality and cost.

Further, many financial institutions are stuck at the implementation stage – they are yet to maximise the opportunities of GenAI, choosing instead to experiment.

Most of all, a lack of cross-functional skillsets across credit risk, data science and technology limits effective implementation by financial institutions.

Our solution: overcome barriers with human-in-the-loop GenAI

Human oversight is gaining traction among financial institutions to overcome concerns about the functionality of GenAI and foster the development of a robust credit report writing system.

In fact, GenAI, combined with human-in-the-loop, has the potential to transform the credit assessment process. Financial institutions stand to gain significantly by leveraging GenAI combined with the expertise of domain specialists in credit and data science.

We have been at the forefront of this, having developed an effective GenAI solution that includes human-in-the-loop.

A key differentiator of our solution is a robust prompt repository, providing comprehensive coverage across domains and industries. By incorporating our deep expertise of credit space, we have tailored our solution to provide more accurate and holistic reports. Additionally, GenAI agents can support the validation of the generated output, and act as a safety net for producing error-free outputs, highlighting discrepancies for quick review by credit analysts.

Human oversight further ensures the elimination of information loss while maintaining control over the final output. This approach helps financial institutions unlock significant efficiency gains, accelerate decision-making and strengthen their competitive edge in the market.

Indeed, GenAI combined with human-in-the-loop has the potential to be a gamechanger for financial institutions, which, layered with our solutions, will help the financial institutions to accelerate their GenAI journey.

About Crisil Integral IQ (formerly Global Research & Risk Solutions)

Crisil Integral IQ delivers solutions and actionable intelligence to top financial institutions, driving strategic transformation, risk optimization, and operational excellence. Our offerings across research, risk, lending, analytics and operations have empowered clients to navigate complex markets, mitigate risks and unlock new opportunities. Our domain expertise, innovative solutions, future-ready technologies such as AI and data science give clients the confidence to accelerate growth and achieve sustainable competitive advantage. Our globally diverse workforce operates in the Americas, Asia-Pacific, Europe, Australia and the Middle East.

For more information, visit IntegralIQ.Crisil.com

About Crisil

Crisil is a global, insights-driven analytics company. Our extraordinary domain expertise and analytical rigour help clients make mission-critical decisions with confidence.

Large and highly respected firms partner with us for the most reliable opinions on risk in India, and for uncovering powerful insights and turning risks into opportunities globally. We are integral to multiplying their opportunities and success.

Headquartered in India, Crisil is majority owned by S&P Global.

Founded in 1987 as India's first credit rating agency, our expertise today extends across businesses: Crisil Ratings, Crisil Intelligence, Crisil Coalition Greenwich and Crisil Integral IQ.

Our globally diverse workforce operates in the Americas, Asia-Pacific, Europe, Australia and the Middle East, setting the standards by which industries are measured.

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