

Tutorial Worksheet: Risk Management Credit Card Operational Procedure and Analysis

This worksheet is designed to test your understanding Risk Management Credit Card Operational Procedure and Analysis in a structured format. Answer the following questions based on your study materials. The total marks for this tutorial are 20.

Question	Marks	Answer
1. Explain the concept of credit card risk management and why it is important for financial institutions.	3	Credit card risk management involves identifying, assessing, and mitigating risks associated with issuing and using credit cards, such as credit default, fraud, and operational errors. It is important for financial institutions to minimize financial losses, protect customer information, and ensure the smooth operation of payment systems.
2. What are the common types of risks associated with credit card operations?	3	The common risks include: <ul style="list-style-type: none"> • Credit Risk: The risk of cardholders defaulting on payments. • Fraud Risk: Unauthorized use of cards, including card theft or cloning. • Operational Risk: Issues due to system failures, process errors, or human mistakes. • Regulatory Risk: Non-compliance with financial and consumer protection regulations.
3. Discuss the role of fraud detection and prevention in credit card risk management.	4	Fraud detection and prevention are critical in credit card risk management to minimize losses from unauthorized transactions. Financial institutions use advanced technologies like machine learning, AI-based pattern recognition, and real-time transaction monitoring to detect suspicious activities and prevent fraud before it escalates.
4. How does the use of credit limits and credit scoring help mitigate credit risk in credit card operations?	3	Credit limits control the amount of credit extended to cardholders based on their financial capacity and risk profile. Credit scoring assesses the creditworthiness of potential customers by analyzing their credit history, income, and repayment behavior, helping issuers minimize the risk of defaults by setting appropriate credit limits and interest rates.
5. Explain how operational procedures, such as real-time transaction monitoring and customer verification, reduce credit card risks.	3	Real-time transaction monitoring allows financial institutions to identify unusual spending patterns or potential fraudulent activity instantly, reducing the risk of fraud. Customer verification, including multi-factor authentication (MFA) and biometric verification.
6. What are the key regulatory requirements financial institutions must comply with in managing credit card risks, and how do they impact operations?	4	Financial institutions must comply with regulatory requirements such as the Payment Card Industry Data Security Standard (PCI DSS) for safeguarding cardholder data, and Know Your Customer (KYC) regulations for verifying customers' identities. Non-compliance can result in fines, reputational damage, and increased operational costs due to the need for stricter security measures and reporting obligations.

