Malaysia is Set for the Next Leap in Credit Decisioning

How new data and analytics solutions can propel Malaysian financial institutions to new efficiency and revenue heights in their portfolios

Transforming the Credit Decisioning Process with Data and Analytics Reaps Visible Results

- Credit Card Penetration in Malaysia in 2021[1] — **31%**
- Buy-Now-Pay-Later Penetration in Malaysia in 2021[2] — **9%**
- SME Loan Applications Approved in Malaysia in 2021[3] — **40%**

The Malaysian market still has significant potential for growth in credit products

Increasing usage of these products is difficult with the current data deficit. Traditional underwriting techniques can no longer accurately assess credit worthiness

By using analytical credit decisioning platforms with enhanced scores, financial institutions can effectively identify potential valuable customers. Even with those who have no prior records and reap benefits across product lines

Unsecured Personal Loans

- Increase in unsecured personal loan approval rate[3] **15%**
- Reduction of unsecured bad loans rates[3] **-2%**

Credit Cards

- Increase in credit card loan approval rate[3] **15%**
- Reduction in review times for borderline applications reduced from **two days** to **instant approvals**[3]

Financial institutions which implement these data-rich enhanced scores into their credit decisioning flow also stand to benefit from a wide range of operational, revenue and customer experience improvements

Operational	Revenue Optimization	Customer Experience
Cost savings	Increased loan throughput	Smoother interface
More accuracy – Less errors	More accurate pricing	Faster decisions
Improved credit decisions	Cross-selling opportunities	
Enhanced fraud detections	Quicker development of products	

Source: [1] IDC, 2022, [2] Bank Negara Malaysia, 2022, [3] Experian, 2022

Financial institutions are lacking the required insights from customers

The financial services landscape in Malaysia is in a distinct phase of transformation. New entrants into the industry such as fintechs and virtual banks are heating up competition within loans. Coupled with this, the after-effects of the pandemic have left financial institutions with a clear need to make more informed decisions on existing and potential new loan clients. Relying on pre-pandemic derived data analysis may no longer be able to deliver accurate and insightful views on the status of customers. Financial institutions both digital and traditional are now finding more difficulties to manage their credit portfolios competitively due to this data shortage and lack the internal capability to extract value from the data that they do have.

Data and analytical credit decisioning solutions can help restore and further enhance loan portfolios through enhanced credit scores

The need to improve credit decisioning due to lack of data means that many financial institutions will need to seek new competitive techniques in the face of these new developments. It is here that IDC sees a new range of platforms emerging which aim to directly tackle the data and decisioning gaps which many financial institutions are currently grappling with.

New solutions leverage data from sources such as telco data, tenancy payments and consumer payments and use these sets to create customized loan scores which enable for a more holistic risk assessment of both new and current customers. Financial institutions are then able to identify and approve low-risk customers from applications which would typically have been rejected. At the same time, institutions can better view current and possible future risks in their existing loan portfolio.

IDC also sees the best analytical credit decisioning platforms using artificial intelligence (AI) and machine-based learning (ML) techniques to create models which can more accurately predict customer behavior beyond underwriting techniques. Using AI and ML enables great flexibility for credit scores to be generated for totally new customers lacking prior records and for accurate calibration according to institutional risk thresholds.

IDC has compiled several key use cases where data and analytical techniques have been able to assist directly in the credit decisioning process:

1	Increasing credit coverage	Financing retail and business customers 'left out' from the system while maintaining risk standards. As an example, many 'non-recorded'/'no-hits' individuals turn out to be highly viable paymasters after incorporating multi-year telephone bill data.
2	Increased flexibility in credit coverage	Due to refined credit scores, creditors are able to shift customers from high-risk to medium/low-risk loan categories and offer effective lower rates to them, increasing attractiveness of loans.
3	Reduces internal need for analytics expertise	With enhanced credit scores, the data partner handles the analysis and modelling, allowing institutions to be able to benefit from analytics regardless of their current data capabilities.
4	Increased modelling accuracy	Across different product segments, the most relevant alternative data can be incorporated with different weightage to support specific decisioning cases for auto loans, business loans or personal loans.
5	Enhanced insight into portfolio	Analytical credit decisioning platforms allow institutions to be able to quickly draw insights at a portfolio level and segment groups or products to understand the health and performance of separate business units.
6	More efficient collection strategies	Institutions can leverage insights to improve performance in collections and avoid defaults. Even when institutions are not pursuing a loan growth strategy, such data can still help achieve improved performance.

Source: IDC 2022

Data and analytical credit decisioning platforms will be integral in bringing down costs and creating new competitive market propositions

In the increasingly competitive loans segment in Malaysia, legacy credit decisioning and management tools have become insufficient for institutions to remain competitive. New products such as Buy-Now-Pay-Later signify the need for financial institutions to enact rapid decisioning for new customers with little traditional credit records, or risk losing their standing in these new market segments.

Alternative data is a must have and enables both new market segments to be serviced and for deeper insights on existing customers. The usage of alternative data will be a key distinguisher of competitiveness in lenders in the post-pandemic era.

Analytics and dynamic modelling are needed to bridge the gaps where traditional and alternative data cannot fill. Such techniques allow for holistic data-rich scores to be created to increase reach of institutions and uncover 'hidden' customers in segments which traditional models may have ignored.

Rich local experience is essential to be able to fully analyze and derive insights from local behaviors and trends which may not be reflected in a more regional or umbrella approach to trends analysis.

> "IDC believes that both new players as well as traditional lenders will need to consider the following as they look to improve their credit processes for 2022 and beyond."

Institutions must remain cognizant of the changes which have occurred from both the buyer and seller in credit and of the significant opportunity in being able to service brand-new customer segments as well as in better servicing existing customers. IDC advises financial institutions to seek out technology partners who have the external expertise and vision to be able to realize this potential and to benefit from the key advantages that new data-rich credit decisioning tools can bring to lenders.