Experian PowerScore

The power of alternative data in mitigating the impact of COVID-19 on credit growth

Introduction

Indonesia's economy grew 2.97 percent in Q1 2020*, the weakest since 2001, as household spending and investment growth slowed amid the coronavirus outbreak. With large scale social restrictions still in place, the next quarter is expected to see a sustained drop in economic activity.

Historically, GDP and credit growth have seen a strong correlation so this is a clear signal. The spiral effect between GDP and credit growth should not be underestimated as that can mark the start of a vicious cycle.

When lenders expect a deterioration in asset quality and consumers are facing difficulty in refinancing with decreasing incomes – this results in a lending contraction and reduced access to credit. More individuals and businesses will face difficulties on their existing financial commitments and lending portfolios will see increasing defaults. And the cycle repeats.

With the devasting economic impact of COVID-19 seen in the early stages of the pandemic, customer profiles are drastically changing and lenders will have an influx of new customers who did not need credit earlier. In such unprecedented times, "Business-As-Usual" strategies will not be sufficient in predicting future credit performances.

There is a clear urgency now for lenders to consider non-traditional sources of data, as models built on alternative data have proven to increase the predictive power of existing strategies. A good example of this is telco data – considering the high mobile penetration amongst the Indonesia population, scores based on telco data is an effective asset for lenders to harness.

**Source: Statistics Indonesia (BPS)*

Alternative data may be the key to smarter lending and credit portfolio management for the longer term

As the shape and duration of new "normal' is hard to predict, lending institutions are expected to take critical actions immediately and plan for the short to medium term across the credit life cycle, which covers:

- Onboarding customers
- Managing the current credit exposures
- Dealing with customers in financial hardship

Adopting alternative data driven analytical models can apply an important layer to existing models and strategies, enabling lenders to better assess customer risk. More granular level of customer profiles creates more robust segmentation and decisioning.

This will help lenders adapt their responsible lending criteria to assess a borrower's post-COVID-19 credit worthiness – historical data still provides good indication, but additional detail will help adjust for the post COVID-19 environment.

Alternative data sources enable our clients to achieve risk controlled portfolio growth across their customer lifecycles

Experian PowerScore is our state-of-the-art credit score that harnesses the power of 'ready-to-use' alternative data with adaptive learning to offer a comprehensive score.

How Experian PowerScore can help across your customer life cycle

	Acquisition *Underwriting Model*	Engagement *Early Warning Model / Triggers*	Collections *Collections Model*
What it is	• Bespoke underwriting model • Fully maintained, monitored, validated and fine-tuned	• Early Warning Triggers (standalone or integrated w/ existing EWS) • Identify pre-delinquent customers likely to develop signs of stress	• Collection models based on telco data and Client's internal data • Integrated with existing models • Identify bucket 1 & 2 customers for self-cure or specific treatment
Business usage strategy	• Used in conjunction with an existing score as a dual score strategy • Used for making underwriting decisions and initial limit assigment	• Low risk customers pre-approved for reactive 'lifeline' credit offers/shadow limit • High risk customers to be assigned to proactive collection path	• Mid and high risk customers to be assigned to collection path • No action on self cures
Benefit	• Max approval rate while considering the acceptance level of bad rate • Model relevance maintained through regularly updated 'odd' relationship & 'scenario' specific usage strategies	• Reduced provisions and NPL • Improved Customer Satisfaction Score	• Reduced flow rate and provisioning requirement • Reduced collection cost through segregation of self cures

During periods of hardship, adjusting early warning signals can be a business opportunity too

Having early warning signals are important during such times, but creating triggers on limited information may negatively impact your portfolio.

Inaccurate early warning signals may cause:

- Unnecessary action on good customers, causing dissatisfaction and complaints;
- Increased operational workload by allocating scarce resources on wrong channels and customers due to false positive assessment.

However, if early warning triggers are implemented precisely then lenders will stand to benefit significantly. The positive impacts include:

- Increased customer satisfaction (as lender is closely adhering to responsible lending principles to help credit customers in financial difficulty);
- Positive effect to P/L by taking timely actions on potential high risk customers;
- Avoiding potential future collections and recovery efforts saves operational costs.

Due to the extensive telco data we have access to in near real time, Experian is equipped to build triggers and scores based on customer behaviour as it is today. This analytical capability can be used to define strategies around balance extensions to good performing customers.

Alternative data can provide the missing pieces to better understand customer behaviour. It was seen as a disruption to credit practices previously but it is now becoming the market standard as lending institutions become more data driven.

Telco data has been mainly utilised to support financial inclusion for thin file segments of the population, but the value that telco data is contributing to the timely granular assessment for existing customers should not be underestimated. Now more than ever, telco data and scores can help financial institutions make more informed decisions.

Harness the power of alternative data to help safeguard your business during COVID-19

DIFFERENTIATE YOUR STRATEGY

We help you add alternative data so that you can develop, refine and test differentiated investment ideas clearly

OPTIMISE WORKFLOWS

Fusing alternative data with traditional sources helps you to better optimise portfolios for greater returns

MANAGE RISK BETTER

The insights alternative data delivers can help you to better manage volatility and risk

COMBINE NEW DATA WITH YOUR FUNDAMENTALS

New sources of data plus our best-in-class fundamental data help you to identify shifts and changes to markets and companies

GET SIMPLICITY FROM A SINGLE PROVIDER

Cloud access and smart partnerships ease your access to an ever-greater range of data

IN SUMMARY

Alternative Data and Analytics can dramatically improve your portfolio, customer experiences and recovery rates to mitigate the impact of COVID-19.

Our expert consultants, backed with decades of experience in analytics solutions, will ensure Experian supports you during this period to uncover the insights you need to safeguard your business.

We can help you with:

- Agile re-calibration of your models to adjust to the changing circumstance
- Reducing the time needed to select the right applicable customers for new product offers
- A cost effective solution focused on engaging your customers to achieve the best outcome of reducing their debt, by allowing you to see if your customers could pay off their debts faster, and recommend products and services to help them improve their financial position. You can also detect when your customers are running into financial difficulties, allowing you to arrange more amiable term and conditions, and avoid formal collections processes.