

# Giving Cash-Strapped Consumers Wider Access to Unsecured Personal Loans

Experian PowerScore is empowering a leading peer-to-peer lending platform in Indonesia to approve those who are creditworthy despite not having a bank account or collateral.



Increase number of loan approvals by 10% while keeping bad rate constant



Additional 80,000 more loans disbursed per year



Issue an increase of US\$15 million in credit a year

At US\$183, the average monthly earnings in Indonesia is one of the lowest in the region<sup>1</sup>. And even though the minimum wage went up this year, ranging from US\$120 in Yogyakarta to US\$298 in Jakarta<sup>2</sup>, the average individual still struggles with unforeseen big-ticket expenses such as home repairs or medical bills.

To meet these needs, consumers need bridging loans. However, most of them are not eligible for bank loans as they do not have bank accounts or collateral. As a result, peer-to-peer (P2P) lending platforms that disburse unsecured personal loans – often in 24 hours – have grown rapidly in the country.

The sector reached US\$2.92 billion in May 2019<sup>3</sup>. With the improvement in internet and mobile phone penetration, the amount of loans disbursed by these P2P platforms is expected to grow to US\$30.6 billion by the end of 2024<sup>4</sup>.

## SOLUTION

Experian PowerScore: An advanced credit assessment approach that combines 'ready-to-use' alternative data with adaptive learning

## ABOUT THE COMPANY

Leading digital peer-to-peer lending platform that offers unsecured personal loans in Indonesia

## BUSINESS NEEDS

- Increase loan approval rates amid a crowded landscape
- Unable to accurately assess customer's propensity to repay, given lack of credit data

<sup>1</sup>CEIC data as of December 2019.

<sup>2</sup>ASEAN Briefing (2019). *The Minimum Wage in Indonesia: Increased by 8.5% for 2020*.

<sup>3</sup>Asian Development Bank Institute (2019). *Fintech Development and Regulatory Frameworks in Indonesia*.

<sup>4</sup>Ken Research (2019). *Indonesia Peer-to-Peer Lending Market is Expected to Reach IDR 430 Trillion in Terms of Credit Disbursed by 2024*.

## Case study

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It is estimated that there are currently about 10 million borrowers of these unsecured loans<sup>5</sup>. As personal loans, they are also extended to micro businesses, formal and informal-sector workers, as well as self-employed professionals.

Typically, fintech lenders cater to two segments – those who need small loans under US\$140 and those who prefer credit above US\$700.

A leading P2P lending platform in Indonesia aims to bridge the gap by providing loans to middle-income consumers. Customers can apply for loans between US\$120 and US\$1,400 through the company's smartphone application or website.

The fast-growing fintech lender not only offers quicker service than traditional lenders but it also eases the repayment burden on borrowers by having longer loan tenures of six to 12 months.



Experian's ability to combine leading data assets, cutting edge analytics and world-class consultancy meant we could provide a customised all-in-one solution to the fintech lender.

— Mohan Jayaraman, Managing Director, SouthEast Asia & Regional Innovation, Asia Pacific



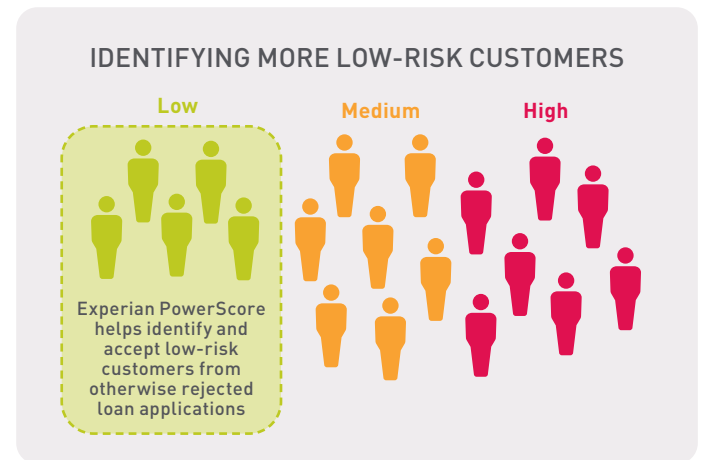
## Standing out in the crowd

Currently, 45 million Indonesians are categorised as middle class; by 2030, the number will go up to 135 million<sup>6</sup>. While this is good news for the leading digital lender, the P2P lending landscape is also getting increasingly competitive.

In the rapidly growing fintech industry, P2P lending makes up 43% of the country's fintech companies<sup>7</sup>. As

of August 2019, there were 127 registered P2P lending companies<sup>8</sup>.

To succeed in this crowded environment, the leading P2P lender has focused reaching large numbers of loan applicants through marketing initiatives. Yet it remains a challenge to distinguish between a borrower who would repay the loan and someone who might default.



The difficulty is exacerbated by the lack of a traditional credit score for many of these applicants, who generally do not have bank accounts or any prior access to credit. Some may not even have formal income slips.

This led to the fintech lender accepting less than a fifth of loan applicants to curb the risk of fraud or default. To improve its loan approval rate, the company needed alternative data to supplement its existing risk models and processes, so that it could assess the applicants' creditworthiness more accurately.

## An alternative way to assess customers

In a country where 7 in 10 own a smartphone<sup>9</sup>, behavioural data around how consumers use their phone can actually be more comprehensive than traditional credit data. For example, the customer's spending on top-ups, the frequency of usage and the model of the smartphone can all give an inkling of his credit risk.

<sup>5</sup> [The Jakarta Post \(2020\). Unsecured-loan time bomb ticking amid pandemic.](#)

<sup>6</sup> [Asian Development Bank Institute \(2019\). Fintech Development and Regulatory Frameworks in Indonesia.](#)

<sup>7</sup> [Ibid.](#)

<sup>8</sup> [Fintechnews Indonesia \(2019\). Indonesia's P2P Lending Sector Sees 642% Growth in Disbursements.](#)

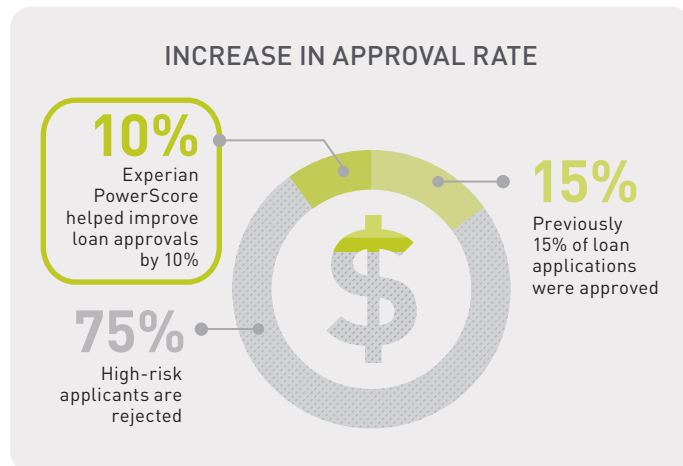
<sup>9</sup> [Statista \(2020\). Smartphone penetration rate as share of the population in Indonesia from 2015 to 2025.](#)

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Through its strategic partnerships with telecommunications companies in Indonesia, Experian could draw on the far-reaching telco data to build a bespoke risk assessment of the loan applicants so that the P2P lender could make fairer evaluations of a customer's propensity to repay.

Combining such 'ready-to-use' alternative data with machine learning technologies, Experian PowerScore generates an alternative score for cash-strapped consumers looking for a loan to get them through to their next pay day. Unlike other generic alternative scores, Experian PowerScore is highly tailored to the needs of the fintech lender.



"Experian's ability to combine leading data assets, cutting edge analytics and world-class consultancy meant we could provide a customised all-in-one solution to the fintech lender," said Mohan Jayaraman, Managing Director, SouthEast Asia & Regional Innovation, Asia Pacific.

"In an industry where speed is key and loan applications are processed and approved in 24 hours or less, Experian PowerScore offers seamless customer experience through automation and faster integration through a single API."

## Giving credit to more applicants

Previously, the P2P lender was approving only 15% of their loan applications. Often, good customers were mistakenly rejected due to the lack of credible credit data.

By using Experian PowerScore, the fintech lender was able to increase their loan approval rate to 25% while keeping the rate of bad debt constant. This translated into an additional 80,000 loans getting approved per year. Correspondingly, the amount of loans disbursed also increased by US\$15 million a year.

The improved acquisition of good prospect customers not only strengthens the existing customer base but also gives higher returns on the company's advertising investment.

"There are tens of millions of people in Indonesia with little or no access to bank loans, and fintech lending offers a much-needed service to cash-strapped consumers and businesses," said Jayaraman. "Experian PowerScore enables these lenders to provide better credit access to these applicants and, in turn, help boost the country's economy."

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