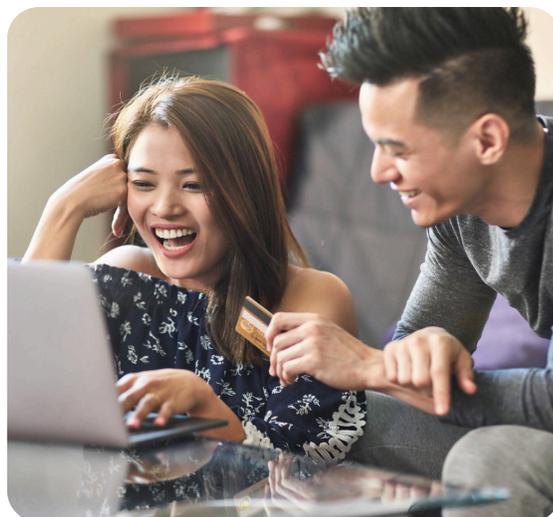**experian.**™

Extending credit cards to more first-timers beyond the metropolis

Experian PowerScore helped one of the fastest growing banks in Indonesia to offer credit to new consumers in smaller cities

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Increase loan approval rate by 15% while reducing bad rate by 1-2%

Approve 7,000 more loans a year

Issue an additional US$10 million of credit per year

Even as Indonesia works towards boosting cashless transactions, only 6% of its citizens have credit cards[1]. According to the Indonesian Credit Card Association, there were 17.3 million credit cards in circulation as of September 2019, working out to just 0.07 credit cards per capita[2].

Despite the low penetration rate, cards are still the dominant payment method in Southeast Asia's largest country when shopping online, taking a 34% share of the market[3]. And card payments value is set to increase from US$44.5 billion last year to US$57.1 billion in 2023[4].

Typically, credit cards were made available to consumers with higher incomes who usually live in big cities. Those with modest salaries and who reside in smaller urban areas were frequently excluded.

One of the fastest growing mid-tier banks in Indonesia wants to offer credit cards to these first-time customers who are commonly overlooked by other banks, so that they too can enjoy the benefits of a credit card.

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

ABOUT THE COMPANY
Fast-growing mid-size bank that aims to offer credit cards to first-time cardholders

HEADQUARTERS
Jakarta, Indonesia

BUSINESS NEEDS
- Extend credit cards to customers who do not have a traditional credit score
- Unable to differentiate between good and bad customers based on application data
- Low approval rates for thin-file credit card applicants

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[1] Boston Consulting Group (2020). Southeast Asian Consumers are Driving a Digital Payment Revolution.
[2] J.P. Morgan 2019 Global Payments Trends Report
[3] Ibid.
[4] GlobalData (2020). Indonesia Cards & Payments: Opportunities and Risks to 2023.

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In search of new customers

The traditional business model for most banks in Indonesia is to serve existing consumers who already have credit as banks can obtain credit risk scores for them through a credit bureau.

As a result, different credit providers keep marketing credit cards to the same small pool of people, creating consumer fatigue. They may also end up with so many credit cards that they do not use all of them.

Hence, this mid-tier bank wanted to make its credit cards available to a new segment of consumers whom it has not approached before. Yet there are risks in doing so when the bank cannot assess their creditworthiness given the lack of a traditional credit score.

> " The bank chose to work with Experian because of our longstanding experience in building alternative scorecards, coupled with our in-depth industry expertise in synthesising various data attributes.
>
> **— Mohan Jayaraman, Managing Director, SouthEast Asia & Regional Innovation, Asia Pacific**

Without enough information to differentiate between good customers who would repay the loan and bad customers who would default, the bank ended up with very low approval rates for such thin-file customers.

Identifying good customers

Due to the extensive telco data Experian has access to in near real time, the team was able to build a customised risk assessment model for the bank based on customer behaviour, helping the financial institution to have a more holistic picture of these first-time customers.

This alternative data can supplement the scant credit information that is available on these consumers. Not only is the telco data wide-ranging in its coverage but it also provides useful insights into an applicant's credit risk based on behavioural factors such as his spending

on top-ups, how long he has had the SIM card and his smartphone model.

Blending such 'ready-to-use' alternative data with adaptive learning, Experian PowerScore is able to generate an alternative score even for those who were not offered credit before. The bespoke alternative score was also calibrated to the bank's standards for accepting or rejecting credit card applications as well as its loan performance patterns.

"The bank chose to work with Experian because of our longstanding experience in building alternative scorecards, coupled with our in-depth industry expertise in synthesising various data attributes," said Mohan Jayaraman, Managing Director, SouthEast Asia & Regional Innovation, Asia Pacific.

IDENTIFYING MORE LOW-RISK CUSTOMERS

Low   Medium   High

Experian PowerScore helps identify and accept low-risk customers from otherwise rejected loan applications

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"We built a very customised solution for them and we closely monitor the performance of the model while continually fine-tuning it using machine learning technologies."

Approving more credit card applications

Based on the Experian PowerScore, the bank was able to approve more credit card applications while reducing bad debt.

Previously, the bank would have rejected a segment of customers due to the lack of data. But now, the Experian PowerScore gives the bank the confidence that these applicants would be good customers who would repay the bank. This resulted in an increase of credit card approvals by 15%.

By just connecting to an API, the bank was able to approve an additional 7,000 credit card applications a year, with a corresponding increase in performing loans of US$10 million.

"As the bank's business grows or changes, we can build additional customised solutions or help them optimise the process of connecting different data sets," said Jayaraman. "By making it easier for deserving customers to have a credit card, Experian is accelerating Indonesia's goal to be a cashless society."

INCREASE IN APPROVAL RATE

15% Experian PowerScore helped improve loan approvals by 15%

25% Previously 25% of loan applications were approved

60% High-risk applicants are rejected

It also works conversely. Based on application data collected, the bank had approved credit card applicants that the Experian PowerScore could show were actually high-risk and should be rejected. This led to reducing the number of overall defaults by 1-2%.