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MARKETS

Credit-Scoring Firms Take Aim at Malaysia

Malaysia is one of Asia's most indebted markets. Above, a woman shops in Kuala Lumpur in August. *ASSOCIATED PRESS*

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U.S. companies are racing to bring credit-scoring models to Malaysia in a move that could widen access to credit at a time when heavy borrowing has already made the country one of Asia's most indebted.

Tuesday, San Jose, Calif.-based Fair Isaac Corp. , known as FICO, plans to announce that it is partnering with Malaysian credit-reporting agency CTOS Data Systems to roll out a FICO credit score to financial institutions in early 2015.

Credit-reporting companies TransUnion and Experian are also partnering with Malaysian firms to develop credit scores they hope will become a standard to gauge risk in the industry, the companies said.

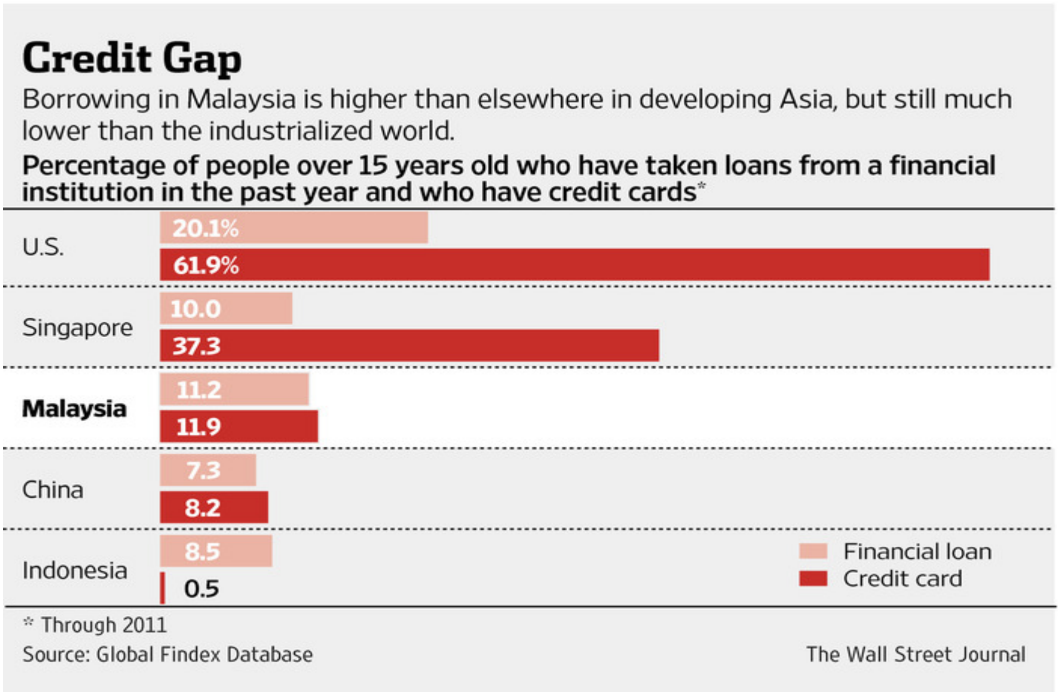
The development is potentially significant for Malaysia's economy. If it enables lenders to more accurately assess the risk of borrowers paying their bills, it could make them more comfortable about extending credit in the country of 30 million people.

In Malaysia, "many of the lenders themselves are concentrating on prime customers, but with this score, we are able to allow more granularity of risk so borrowers below that may get access to credit," said Dan McConaghy, a managing director in Asia for FICO.

The introduction of the credit score comes at a time when high debt loads have led Malaysia's central bank to take measures such as raising the minimum annual income required to qualify for a credit card. Malaysian households are among the most highly leveraged in Asia, according to Fitch Ratings. Figures from Malaysia's central bank show that household debt reached 86.8% of gross domestic product at the end of 2013, up from 80.5% a year earlier.

Some observers question whether more credit is needed in Malaysia.
"People don't really complain that banks are shutting their doors to potential borrowers," said Eric Koh, a senior lecturer in the University of Malaya's faculty of business and accountancy. "The sense I get is that the people who really need credit and who are in decent shape seem to get what they want."
In the World Bank's June 2014 rankings, Malaysia ranked 23 in ease of getting credit, on par with Hong Kong, based on the legal rights available to borrowers and lenders, as well as the depth of credit information in the country. This compares with a ranking of 2 for the U.S. and of 71 for China. New Zealand ranked first in ease of getting credit.

Still, borrowing is less common in Malaysia than in the industrialized world. Only 11% of people over the age of 15 in Malaysia received a financial loan during a 12-month period, and 12% held a credit card, according to World Bank data from 2011. In the U.S., the figures were 20% and 62%, respectively.



Jeff Price, a managing director in the Asia-Pacific region for Experian, which plans to launch a credit score in Malaysia in the first quarter of 2015, said that if lenders have access to more tools that allow them to “comfortably and reliably grant credit” in Malaysia, they will do so.

“We see tremendous potential within Malaysia’s current financial infrastructure and it fits nicely with our strategic plan of expanding our business within the Asia region,” said Henry Kim, TransUnion’s director of business development for the region.
Borrowing rates tend to be relatively uniform in Malaysia. That differentiates the market from the U.S., where lenders say that credit scores and sophisticated risk models have allowed them to extend credit to those with spotty payment histories, albeit at higher interest rates. Such offerings have been controversial, however, and critics blame them for contributing to the financial meltdown of 2008.

“Whether you pay your bills on time or not, the interest rate is pretty much the same,” said Dawn Lai, general manager for Ram Credit Information, a credit-reporting agency in Malaysia that is partnering with Experian.

Some Malaysian banks already use credit scores they have developed internally to gauge the riskiness of borrowers. But a more uniform industry score could provide a more accurate gauge of risk, allowing financially responsible borrowers to get lower rates on loans, said Ms. Lai. Higher-risk borrowers may be able to access loans, but with lower limits or higher interest rates.

The FICO score being developed in Malaysia factors in on-time repayment and other measures of financial responsibility to provide lenders with a gauge of consumers’ likelihood of paying a loan. The score ranges from 300 to 850, with higher being better.

Brahmal Vasudevan, chief executive of Creador, a private-equity firm that has a controlling stake in CTOS Data Systems, said it is already seeing interest from banks it has talked to about using the FICO score in lending decisions.

Referring to concern about high debt loads in Malaysia, Mr. Vasudevan said that “our intention is not to create products that will stimulate the market. What we’re bringing to the market is more sophisticated tools for scoring and analytics that will allow banks to better manage their risk.”

Consumer advocates say a credit score that is widely used across the industry can be a good thing if it gives borrowers more information about their credit risk.
Still, “No matter what, this credit score has to be regulated,” said Paul Selva Raj, the chief executive officer of the Federation of Malaysian Consumers Associations. “If it’s too easy to get credit, people can go bankrupt.”