Use unconventional data to improve financing for informally employed and low-income borrowers

Kuala Lumpur (April 3, 2019): Financiers and the banking sector should start looking at non-linear data as a way to better finance and understand lower income buyers' needs for housing.

Urbanmetry CEO, Koh Cha-Ly said technology has enabled companies to access non-conventional data to improve understanding on latest trends and on how customers behave.

With better understanding, it was vital for players to look at mortgage portfolios and risk in a dynamic way versus the standard manner that would lock certain segment of society out of access to financing, she also said.

"I think as how people assume that the poor won't pay, please do not assume the rich will pay either," she told the audience at a session called *What can FinTech do for Housing*. The session is part of a series of talks organised under the Affordable Housing across Asia conference by Cagamas Berhad and the World Bank Group.

"There was no data before, no one gave loans before because there was no track record, no risk data or history of payment patterns," she added.

She cited the example of Aavas Financiers Ltd, whose borrowers would benefit from more data analysis.

She pointed to fellow panellist Sushil Agarwal, Founder and CEO, Aavas Housing Finance Company, and said Aavas' risk goes down with more accumulation of information.

"His machine learning gets better, his ability to predict risk and defaulters, and to learn if the borrower is female or male, or if the user has four kids, that sort of thing. All these things are collected to reduce risk and provide better financing," she said.

Sushil said his company focuses on the informally employed and untapped communities usually considered high risk for housing loans in India. These customers belong to low and middle income segment and live in semi-urban and rural areas.

"These are credit worthy customers who may or may not have the income proof documents like income tax returns, salary slips and hence, are financially excluded by other large housing finance companies and banks," he said.

Sushil explained that Aavas uses unique appraisal methodology to assess customers individually. The financing solution need to be appropriated and suitable to them.

He also said his team was working on developing an underwriting model in collaboration with an analytical company to help segment prospects on basis of the customers' risk potential.

"The underwriting model will serve as a guidance mechanism for underwriters to do better risk assessment and thus, optimal pricing for the risk," he added.

Koh said developers who access her services were interested in consumer behaviour to help design a particular product.

"You no longer have, in matured markets like us, no longer can think that you can build a home and they will come. Even with affordable housing, people are choosing where they are living based on where they work," she said.

She added that data she collected from all three tiers of government in Malaysia – local councils, state government and Federal government – help paint a picture of a certain demographic and spending powers previously unavailable. Deep learning is available because of the advancements in computational technology.

For Ethis Venture head of infrastructure and Shariah, Yousuf Sultan, having such data produces successful models for low income households that can be emulated by other emerging markets.

His digital platform through crowdfunding caters to those who earn between USD400 to US700 a month, and could only afford USD100 for home instalments.

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About Cagamas Berhad

Cagamas Berhad (Cagamas), the National Mortgage Corporation of Malaysia, was established in 1986 to promote homeownership and contribute towards nation development. It contributes towards the growth of the capital markets, Islamic finance and other priority sectors through issuance of innovative instruments. The provision of liquidity to financial institutions at a reasonable cost to the primary lenders of housing loans encourages further expansion of financing for houses at an affordable cost.

The Cagamas model is well regarded by the World Bank as the most successful secondary mortgage liquidity facility. Cagamas is the second largest issuer of debt instruments after the Government of Malaysia and the largest issuer of AAA corporate bonds and sukuk in the market. Since incorporation in 1986, Cagamas has cumulatively issued circa RM319.1 billion worth of corporate bonds and sukuk.

Cagamas' corporate bonds and sukuk continue to be assigned the highest ratings of AAA/Stable/P1 by RAM Rating Services Berhad and AAA/MARC-1 and AAA_{IS}/MARC-1_{IS} by Malaysian Rating Corporation Berhad, denoting its strong credit quality. Cagamas is also well regarded internationally and has been assigned local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service Inc. that are in line with Malaysian sovereign ratings.

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