



# The Importance of Credit Information & Credit Scoring for Micro Lending & Microfinance Institutions

***Presented by: Frank Lenisa, Director, CompuScan, South Africa***

*At the Next Generation Access to Finance Conference:  
Gaining Scale and Reducing Costs with Technology and Credit Scoring.*

*September 17-19, 2007.*

*World Bank Group Headquarters, Washington, D.C.*

## Overview of Presentation:

- **Background to CompuScan**
  
- **The scope of CompuScan's offerings:**
  - **Credit Bureau Services**
  - **Credit Technology Systems**
  - **Credit Skills Training**
  - **Credit Scoring and Analytics Consultancy**
  
- **Case Studies:**
  - **Challenges of Institutions from an IT perspective**
  - **Portfolio at Risk Reduction Study**
  - **Shortage of strong institutions and managers**

## **Background to CompuScan:**

- **Since establishment in 1994, CompuScan, has emerged as the first truly home-grown African Credit Bureau.**
- **Headquarters are in Cape Town, South Africa, and the company operates in South Africa, Namibia, Botswana, and are to start-up in Uganda and Zambia by November 2007. Additional markets are currently being investigated.**
- **CompuScan believes to be the leader in Africa when it comes to providing institutions with the infrastructure to be able to grant loans, collect on payments due and management credit portfolios.**
- **It is the vision of CompuScan to be the leading provider of credit management solutions in Africa.**
- **The scope of CompuScan's offerings cover:**
  - **Credit Bureau Services**
  - **Credit Technology Systems**
  - **Credit Skills Training**
  - **Credit Scoring and Analytics Consultancy**
- **Through CompuScan's offerings, institutions can provide credit with more confidence than ever before. CompuScan empower institutions to make informed business decisions to minimise credit risk and maximise sustainable growth in profits.**

## **Credit Bureau Services:**

- **CompuScan amasses large volumes of data regarding credit profiles and risk information on businesses and consumers.**
- **Data is sourced from credit grantors (banks, retail stores, micro lenders, micro finance institutions); public records, utility companies and government departments, and then in turn collected, verified and validated, loaded, stored and disseminated to our clients.**
- **The system used to link data to and from institutions is of high functionality. Both urban and rural microfinance institutions are catered for. For heavy-volume users, CompuScan provide direct computer-to-computer links via our integration tool-kit that integrates credit data into the institutions core system. For smaller users CompuScan provide links via high-functionality web services. Batch services are catered for web, e-mail, ftp, and manually.**
- **The system not only provides the infrastructure to the institutions to access credit reports and to report on all loans granted, payments, re-advancements and closures of accounts, but also provides an integrated solution across the institutions customer life cycle to help manage customer acquisition, customer and portfolio management, and collections and recovery.**
- **The system incorporates a Decision Matrix (rules engine) for credit application processing.**

## **Credit Bureau Services Cont'd:**

- **Some benefits of credit bureaus for institutions:**
  - **Decreases loans' losses and personal bankruptcies by providing crucial information needed for microfinance lenders to more accurately assess the profile of an individual borrower.**
  - **A credit bureau serves as an independent and objective facilitator in the credit granting process.**
  - **Reduces the risk-assessment costs by providing access to the comprehensive information gathered by our firm much faster and more accurately.**
  - **Increases borrower privacy protection by providing a systematic basis for lending without the hassle of lengthy support documentation.**
  - **Reduces fraud by providing additional information that allows credit grantors to identify and avoid potentially fraudulent credit applications.**
  - **Enables a microfinance lender to have faster access to data for credit decisioning, which in turn allows the consumer to make immediate purchases.**
  - **By enabling microfinance lenders to more accurately assess risk, they can offer a wider variety of products to meet a wider range of customer needs. For example, those with good credit can receive the benefits of more competitive pricing.**
  - **Financial institutions can also test new markets to expand the extension of credit because they can mitigate and estimate their loan losses more accurately.**
  - **Credit bureaus can create a culture of repayment by borrowers.**

# Credit Technology Systems:

- **CompuScan provides a range of software systems that provides further infrastructure to institutions, which enable institutions to grant credit, manage credit accounts and the collection on payments due more efficiently and effectively. These include:**
- **Credit application processing software and decision engine - automates the origination of credit applications. This system implements scoring models and credit policy rules, which objectively analyse application data and retrieve and analyse credit bureau data to render a quantitative evaluation of the risk of extending credit to individual applicants. Decisions on applications are made according to lender-determined strategies which may be easily changed.**

- **Specific functions of system include:**

- **Application data entry**
- **Credit scoring**
- **Management defined review and decline rules**
- **Decision recommendation**
- **Review resolution**
- **Duplicate check**
- **Verification**
- **Affordability**
- **Fraud check**
- **Export of data for new account set-up**
- **Management reporting**
- **Credit investigation interface**
- **Export of data for accept and decline letter production**

- **Benefits include:**

- **Increase acceptance rates and reduce credit losses**
- **Improve turnaround time and responsiveness to customer requests**
- **Apply credit policy consistently**
- **Improve management control**
- **Use personnel more efficiently and boost productivity; reduction in HR costs**
- **Reduce time needed for external data acquisition and analysis**
- **Interface with related software applications**
- **Reduce training costs**
- **Ensures compliance**
- **Reduce the cost and time required for future scorecard development.**

## Credit Technology Systems:

- **Loan Management System** – handles all the administration of loans. It keeps track of payments, collections, notes, follow-up actions, pricing and much more. Provides instant access to all loan information.
  - **Specific functions of system include:**
  - ***Loan Portfolio Information*** (Current and Prior Month End), which includes: Portfolio distribution; Past due, non accrual and classified; Loan yields and maturities.
  - ***Regulatory Information:*** Compliance with all applicable legislation within the specific country in which the system is operated.
  - ***Third party integration***, which includes: Full integration into our credit bureau systems at CompuScan; Full integration into electronic fund transfer systems
  - ***Individual Loan Information*** which includes: Complete primary loan data management; Past due collection management; Notes to loan; Reminder follow up items; New loan pricing; Loan review monitoring and documentation; Problem loan offers information for examiners.
  - ***Other Features:*** Multiple tellers and cash box management; User defined application security (restricts users from areas of the application and is password protected); Agent management (manage field agents in terms of clients, areas and commissions); Programme is networkable (it can accept as many users as necessary with data integrity); Comprehensive reporting (current and prior month end); Country-wide service and support available (onsite and via call centre); Variable cost and interest rate supportive; Insurance products supported. Centralized database accessed by various branches in different locations.

## Credit Technology Systems:

- **Biometrics systems - used for consumer and employee identification and authentication.**
  
- **Biometric identification relies on physical characteristics that are unique to each person to ascertain the identification of an individual. Every product in CompuScan's biometric solution suite is fully scalable, adapted specifically for business and compatible with CompuScans' software systems and operating platforms.**
  - **Features:**
    - **Identification and authentication of consumers to an institution**
    - **Identification and authentication of employees of an institution**
    - **Identification and authentication of consumers in markets where there is no national identification system in place.**
  
  - **Benefits:**
    - **Stop impersonation**
    - **Stop fraud; internal and external**
    - **Enhance the efficiency and security of the institution.**

## Credit Skills Training:

- Provide institutions with credit skills training to advance the skill of employees working within the credit operations of a business.
  
- The training institute provides effective, appropriate and accredited training, covering many skills required within the credit industry with a specific focus on the micro-finance and banking sectors.
  - Offerings cover:
    - Short Courses
    - Certificate Programmes
    - Custom Programmes
    - Post training mentoring
  
  - Courses and programmes cover the following spectrums:
    - Credit Management & Micro Finance Skills Training
    - Business & Personal Development Skills Training i.e. Management Development, Customer Service, financial management, etc.
    - Computer Skills Training
    - Compliance Training

## Credit Scoring and Analytics Consultancy:

- The predictive analytics and scoring solutions CompuScan provide to institutions encompasses a variety of mathematical techniques that derive insight from data. Any Institution that relies on faithful, regular payments from customers knows that there is credit risk inherent in each customer account. Managing this risk is a delicate balancing act – assuming too much risk leads to bad debt, not enough risk means lost opportunities for revenue growth. Success depends on maximizing income from customers while reducing the impact that defaulted payments and bad debt have on the bottom line.
- The integration of CompuScan’s data with scoring, software, analytics and consultancy, allows the institution to manage credit risk and increase profitability.
- **Analytical Consulting:**
  - Provides expert advice on predictive modeling to enhance decision-making, improve marketing effectiveness, manage risk and reach new levels of efficiency across the credit life cycle.
  - The Service key components are;
    - *Predictive Model Development*
    - Data Analysis
    - Model Creation
    - *Data Driven Strategies*
    - Modelling Strategy Support
    - Profitability Analysis
    - Credit Policy Analysis
    - Basel II Compliance
    - *Reporting and Tracking*
    - Model Implementation Audit
    - Model Validation
    - Management Information

# Credit Scoring and Analytics Consultancy:

## Risk Management Consulting:

- CompuScan provides a detailed view of processes, procedures and information of organisations in relation to risk, in order to give microfinance lenders confidence that they are employing best practices, efficient decision systems and effective support procedures across the credit life cycle.
  
- Portfolio Analysis
- Process Analysis
- Provision Analysis
- Product Launches
- Risk Management Start-up
- Management Information Review
- Risk Management Audit
- Policy Rules Analysis
- The Service key components are:
  - Portfolio Analysis
  - Process Analysis
  - Provision Analysis
  - Product Launches
  - Risk Management Start-up
  - Management Information Review
  - Risk Management Audit
  - Policy Rules Analysis

# **Challenges of Institutions from an IT Perspective**

- **Institutions typically lack the skills to manage large complex IT systems or services, by relying on other providers, management and staff they can focus on clients and risk management.**
- **CompuScan empowers institutions by managing the IT system for them and by offering supporting services and the necessary skills training.**
- **CompuScan develops, host and manage IT requirements in-house, which provides control over all the processes involved, while also enabling the rapid evolvement of system functionality as new requirements from institutions come to light.**
- **Products therefore remain up to date, with leading-edge capabilities to assist the institutions. CompuScan's entire IT infrastructure is of an international standard.**
- **CompuScan further support institutions with a technical help desk which is available 6 days a week as well field representatives who form personal relationships with clients.**

## **Portfolio at Risk Reduction Study:**

- **With the analysis of an institution's portfolio that is at risk, the risk involved will be reduced after the implementation of a credit bureau score.**
- **The analysis prior to the implementing of a credit bureau score identified the portfolio at risk to be 9%.**
- **The analysis period was from April 2006 to June 2006 (April 3922 Loans, May 4107 Loans, June 4383 Loan).**
- **After implementation of a credit bureau score the portfolio at risk was now reduced to 1,03%.**
- **The analysis period was from January 2007 to March 2007 (January 4166 Loans, February 4501 Loans, March 4767 Loans).**
- **The portfolio's risk was reduced while the portfolio's size increased.**
- **This is a clear indication of the benefits of the implementation of a credit bureau score and it proofs to be a necessity for the survival of modern institutions operating in the credit granting industry.**

## **Shortage of Strong Institutions and Managers:**

- **Lack of appropriate and relevant skills development interventions within the micro-finance industry has led to shortages in effective and sustainable micro-finance institutions in previous years.**
- **Realizing the need for effective skills development and training, CompuScan has established the Credit Skills Training Institute (CSTI) to address the skills and training needs within the micro-finance environment.**
- **By providing training programmes that focus on the skills shortage within micro-finance institutions and developing effective facilitation procedures, CSTI aims to address these shortages plus lack of skills within institutions.**
- **The benefits of obtaining skilled managers and staff through sustained training encompasses major effects with regards to the profitability of any institutions.**
- **By equipping the leaders and management within the institutions with the required knowledge, skills and abilities it provides institutions with a competitive advantage above other institutions, by reducing risk, facilitating effective administration, choosing the right clients by curbing reckless lending and empowering them to deliver effective services within the credit industry.**

Thank you for your time.  
Comments welcome.

Frank Lenisa, MBA (Director)  
CompuScan Holdings (Pty) Ltd  
Tel: +27 21 8886000  
Fax: +27 21 8832336  
Cellular: 082 9200455  
Email: [frank@compuscan.co.za](mailto:frank@compuscan.co.za)