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The Qarar Market Pulse Series

THE STATE OF CREDIT RISK ANALYTICS

in the Jordan Financial Services Industry

March 2018

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ABOUT THE SURVEY

Over the years, organisations have made dramatic changes to their respective risk management policies. This has largely come in response to new regulations, which are a result of the ongoing regional and global financial slowdown, and are set to undergo more changes as new trends and disruptions lie ahead in preparation for 2020. Changing regulations and ever-evolving customer expectations, supported by advanced analytics such as machine learning, are enabling new risk-management techniques.

Today, while a large portion of the population remains unbanked, financial inclusion is a key enabler to boosting prosperity. Analytics is changing the face of credit risk as we know it, playing a growing role in helping lenders assess borrowers more accurately and make faster decisions. The focus on advanced analytics, and the investment being made in it, is increasing for reasons varying from regulatory expectations to the need to stay competitive and minimise risk related losses. As a result, risk management practices continue to gain wider adoption and C-level executives are paying more to manage all types of risks.

It is time to fundamentally rethink your business model and expand your portfolio insights by exploring how advanced risk analytics and decisioning techniques can transform your business.

We would like to thank the organisations and professionals that responded to this survey, which helps us to understand the shifting risk-related priorities. We truly value the information you have provided and appreciate the time and feedback you have given to this survey.

Qarar aims to remain at the forefront of anticipating disruptive forces to assist in strategy development and help organisations take proactive steps to stay in line with industry trends.

THE ROAD AHEAD

Organisations need to adopt several new risk management practices to align themselves and prepare for 2020. While knowing your strategic business priorities is important, many organisations struggle while implementing them. Being hampered by organisational silos is a top risk-related failure.

The most innovative and progressive organisations are those that have realised the benefits and use of data, particularly in analytics-led decisioning. To facilitate this enormous shift, we work with organisations to unlock the true value of their data to deliver increased profit and revenue enhancement. Through the unique combination of Qarar's bespoke advisory, analytics and software, we ensure our clients optimise their business decisions at every customer interaction.

INDUSTRY

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13%	9%	4%	74%
FINANCIAL SECTOR	TELECOM	PUBLIC SECTOR	BANKING

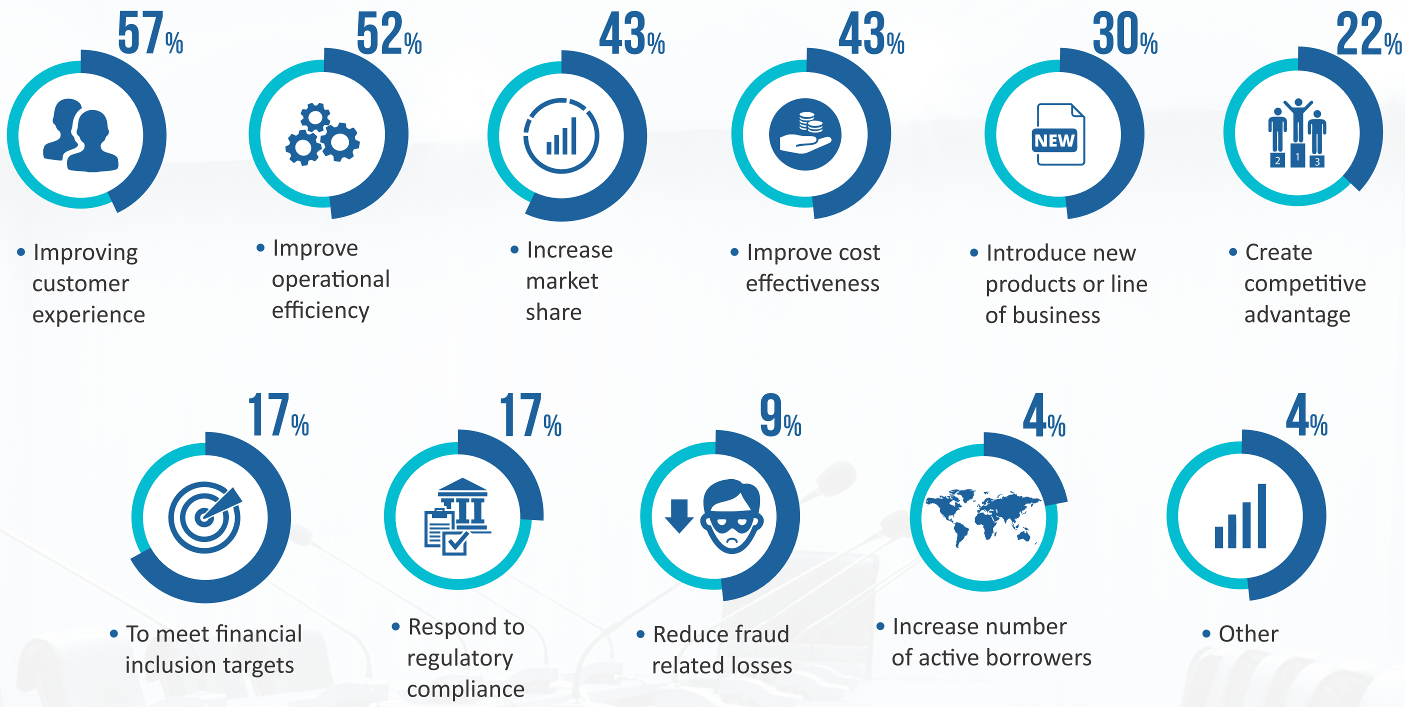
The Qarar Market Pulse is a series of short market survey reports that aims to measure and report on the matters that are most important to our clients, covering topics like analytics, regulation, competition and risk management. This report on ***The State of Credit Risk Analytics in the Jordan Financial Services Industry*** shares the findings of responses collected between 15th January and 1st March 2018 from 23 credit risk professionals in Jordan, of which 87% were from the BFSI sector, 9% from the telecoms sector and 4% from the public sector.

Key highlights of the survey:

1. 57% of Jordanian risk professionals said their primary focus is to improve customer experience as a top business priority, indicating more alignment with business objectives.
2. Over 56% of respondents chose customer service as a core risk management process that will be automated by 2020.
3. Minimising risk-related losses was one of the top drivers for employing new credit risk analytics within an organisation.
4. 88% of the respondents believe that analytics is the way forward when it comes to managing credit risk within an organisation.
5. 35% of the audience is considering using machine learning for new business acquisition purposes, followed by 22% for fraud identification.
6. Skilled human resources, availability of new IT solutions and development of predictive analytics solutions are the top three challenges in the region in terms of deploying credit risk analytics across organisations.
7. More than half of respondents (52%) felt that internal resources are not up to the mark when it comes to developing sophisticated predictive models for the organisation.

"Opportunity cannot exist without risk. Risk management needs to be taken in a strategic and tactical direction with a value-focused approach, because opportunities that create value have the ability to boost reputation, market share, and competitive advantage. Risk professionals need to shift their approach from being risk-averse to risk-aware, and organisations need to get ahead and anticipate disruptive forces to alter their strategy."
- Zaid Kamhawi, CEO, Qarar

IN YOUR OPINION, WHICH ARE THE 3 MOST IMPORTANT BUSINESS PRIORITIES FOR YOUR ORGANISATION OVER THE NEXT 3 YEARS?



Customer knowledge is ever increasing and consumers looking for the best product are not afraid to vote with their feet. It is interesting to see that 57% of Jordanian risk professionals focus on improving customer experience as a top business priority, indicating more business alignment.

Operational efficiency at 52% is no surprise as the financial services market is maturing and top-line growth is no longer a simple endeavour. This reflects a more cost-conscious approach to 2018 for banks in response to expected slow growth, but in the longer term it is more of a response to the need to automate processes.

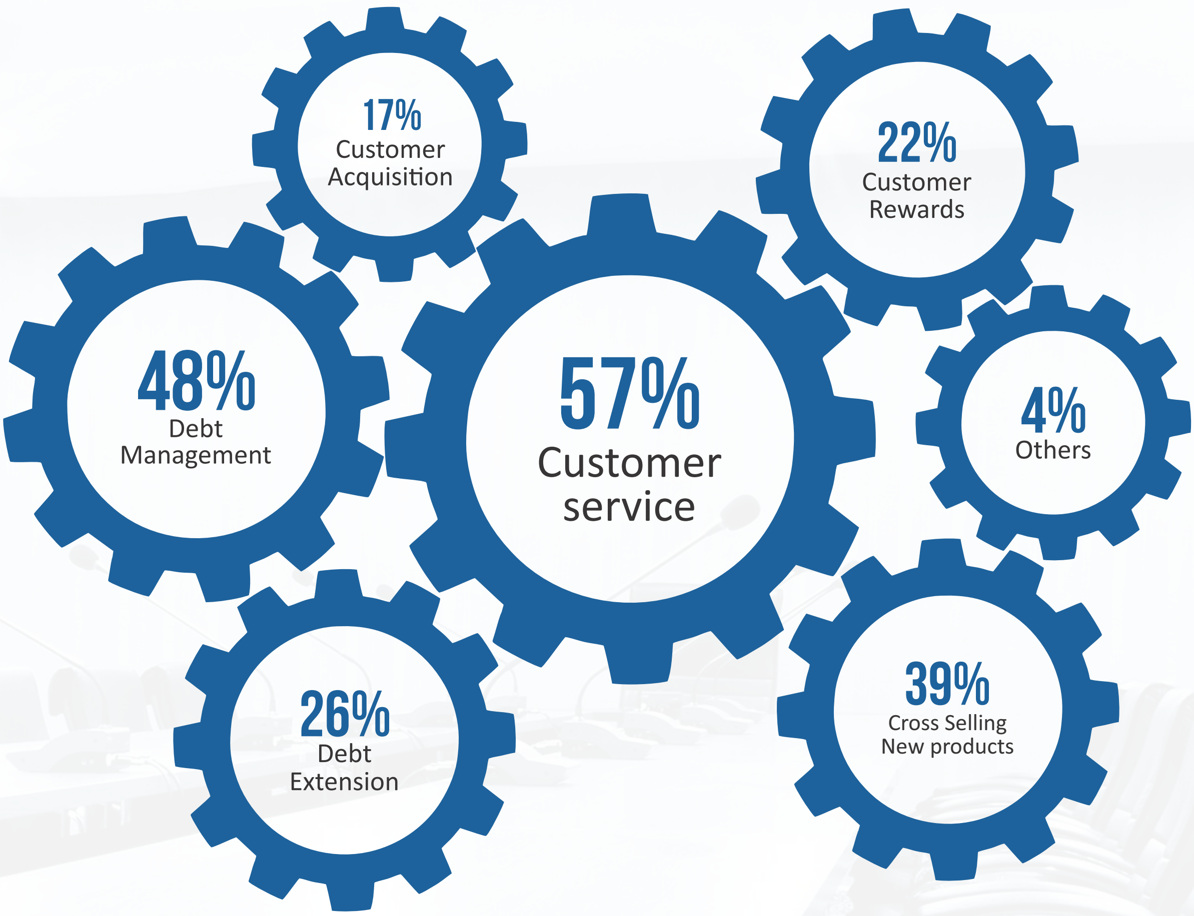
The feedback received is centred on efficiency, increased market share and maintaining customer satisfaction. These are typical characteristics of a maturing financial market landscape where organisations are starting to realise that competitive products are becoming commoditised, switching costs are quickly reducing, and customer longevity is becoming increasingly important.

It is interesting to note that regulatory compliance is lower down the list, especially in light of the recent IFRS9 regulation enforcement and a more competitive landscape.

Another key point of interest for responders was fraud, which is normally correlated with an organisation's exposure to conducting business online. As online business increases, fraud risk is becoming a greater area of focus. It is difficult for organisations to identify the amount of fraud they absorb as most fraud losses are considered as part of 'normal' credit risk losses. Organisations will need to be more aware of first or third party fraud to ensure they invest in the right infrastructure.

In this context, Qarar believes a paradigm shift is required from manual/subjective decisions to an analytically-driven decision approach where every decision is made based on empirical predictive models and executed/monitored through automated solutions.

WHICH OF THE FOLLOWING CORE RISK MANAGEMENT PROCESSES WILL BE DIGITISED OR AUTOMATED OVER THE NEXT 3 YEARS?



Over 56% of respondents chose customer service as a core risk management process that will be automated by 2020. With the majority of banks chasing a common pool of customers, differentiating based on customer service and automation will be a key difference in the value proposition to the limited pool of borrowers within the market.

This supports our thinking that banks will increasingly focus on building market share from existing relationships rather than new ones. This includes processes such as automatic line increases and over-limit authorisations that need immediate risk assessment. With the drive toward digitisation and online channels, the market will see more cross selling (39% of respondents) of new products taking place online rather than face-to-face.

Debt management is also a key focus area, with over 47% of respondents indicating a need to utilise predictive models in accurate collections segmentation, ensuring the right account is allocated to the right collector at the right time, with an objective of optimising money collected through a balance between customer service and collections activity.

When considering the digitisation of risk components and automating systems, we need to establish the market trends of customers as well as the requirements of financial institutions. The problem does not lie in digitising but in providing the right offer to the right customer and allowing the consumer to become the decision driver with the aim of reducing turnaround times. There is a clear need to automate customer experiences by implementing decision engines and solutions across the credit life cycle, including acquisition, account management and collections.

WHAT AMOUNT OF TIME DOES YOUR ORGANISATION SPEND ON ANALYTICS?

39%	30%	17%	9%	4%
A moderate amount	The majority of time	A small amount	Not much at all	All the time

It is important to understand the financial sector investment in analytics as a function within a region. 70% of the respondents state that they spend anywhere from a moderate amount of their time to the majority of their time on analytics. At Qarar, we believe the majority of the analytics work reported is focused on descriptive and diagnostic type analytics and specifically on predictive model development or optimisation work (prescriptive analytics). Banking executives in Jordan need to urgently scope a roadmap for making predictive analytics more important if they are to remain competitive in the future.

HOW RELIANT IS YOUR BUSINESS ON 3RD PARTY DATA FOR RISK BASED DECISIONS?

CREDIT BUREAU DATA

61%	9%	30%
High	Medium	Low

SOCIAL MEDIA DATA

4%	43%	52%
High	Medium	Low

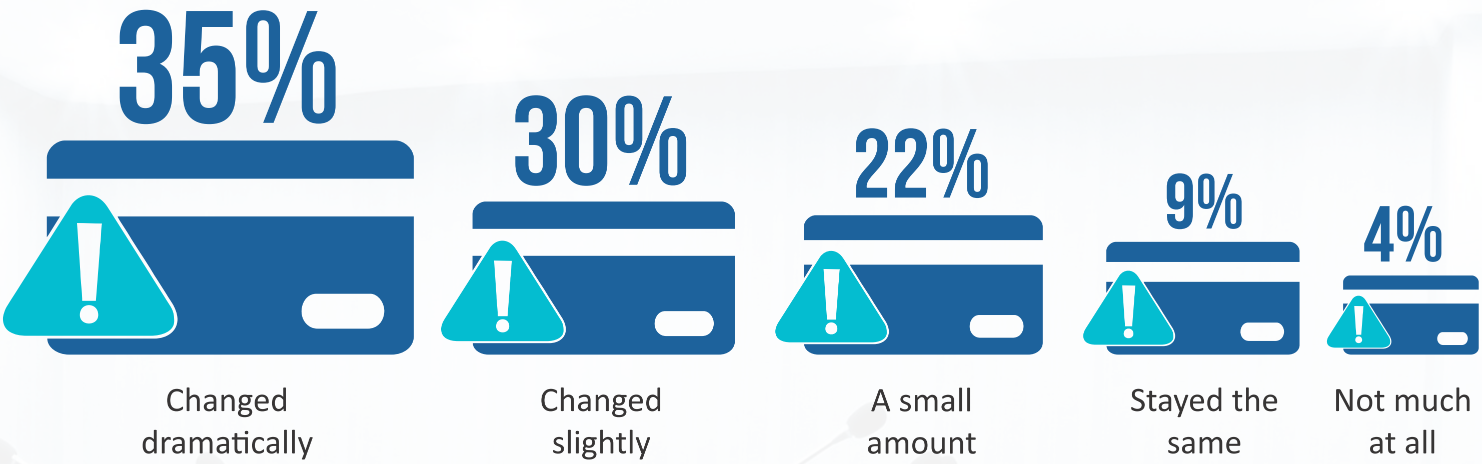
GOVERNMENT DATA

39%	35%	26%
High	Medium	Low

As alternative data sources are becoming very important for banking the unbanked, strategic investment is needed into new data sources other than the credit bureau.

Credit Bureau and government data seem to be taking the lion's share of the third party data sources considered in risk-based decisions. Again, here we would challenge whether full benefit is being extracted from credit bureau information, and if so, what kind of IP is being derived from it. Consulting firms alongside banks should drive executive adoption of third party data through tangible business cases to substantiate the value of such data.

SINCE 2015, HOW MUCH HAS ANALYTICS CHANGED CREDIT RISK IN YOUR ORGANISATION?



Nearly 67% of the respondents say that risk analytics brings about positive changes in an organisation's approach to managing credit risk, with another 21% stating it brings about a small change. This makes a total of 88% of the respondents who believe that analytics is the way forward when it comes to managing credit risk within organisations.

These organisations have undoubtedly realised that there is lot of value in using data for decision making and moving away from subjectivity and judgmental decisions. The use of advanced analytics results in better risk management, customer management and increased operational efficiencies. As a starting point, banks should aim to use predictive methods such as application scorecards, along with any available bureau score, to drive customer acquisition decision. This can be followed by the use of behavioural models to better manage product portfolios.

WHICH OF THESE ROLES ARE SPEARHEADING ADVANCED ANALYTICS IN YOUR ORGANISATION?

61%	Chief Risk Officer
43%	Chief Executive Officer
43%	Chief Financial Officer
26%	Chief Information Technology Officer
22%	Chief Marketing Officer
17%	Chief Credit Officer
9%	Chief Compliance Officer
9%	Chief Data Analytics Officer
9%	Chief Operating Officer
9%	Other

As data and analytics is becoming a top agenda item globally, it's no surprise that respondents identified CROs along with CEOs and CFOs as the leaders of this initiative. Understandably so, as these executives have realised the importance of advanced analytics while making critical decisions. This is coupled with an increased focus and scrutiny from the regulators on managing risk effectively. They understand the importance of being able to identify measure, manage and monitor risk across all functions. Apart from managing losses and provisions, advanced analytics provides a competitive advantage and is the key enabler to optimising risk-reward trade-offs. It is also critical to note the value that advanced analytics can have on areas outside of risk, specifically in the area of marketing for customer targeting, retention and cross sell.

WHAT ARE THE TOP 3 CHALLENGES IN DEPLOYING CREDIT RISK ANALYTICS WITHIN YOUR ORGANISATION?

- **61%** Applying new Software & System solutions
- **52%** Identifying Right people for the job
- **48%** Modeling data & employing predictive analytics
- **26%** Enterprise-wide Analytics integration
- **30%** Restructuring siloed data & Regulatory systems
- **22%** Sourcing external Structured/ Unstructured data
- **17%** Detecting fraud & Privacy concerns
- **13%** Responding to Regulatory & Shareholder expectations
- **9%** Stress testing & Responding to risk scenarios
- **4%** Other

Credit risk analytics has evolved over the years, moving from using simple management information reports to using sophisticated predictive models involving statistical algorithms. These techniques have helped organisations make insightful decisions. While advanced statistics and machine learning techniques are being adopted globally, this survey aims to understand the level of sophistication in the Jordan market and also the challenges in adopting credit risk analytics across organisations.

The survey results reveal that skilled human resources, availability of new IT solutions and development of predictive analytics solutions are the top three challenges in the region in terms of deploying credit risk analytics across organisations. Around 61% of the respondents feel that applying new software and system solutions is the most challenging task. It is common for organisations that start their analytics journey to realise at some point along the way that models need to be automated and configured into a software solution, usually a scoring engine or a decision engine.

Identifying the right people for the job (52%) and use of modelling data and employing predictive analytics (48%) are also challenges. Global data science skills are in short supply globally and more so in the Middle East, but even the availability of model development talent is not enough on its own to implement analytics into an organisation. As more and more organisations are learning, subject matter expertise on how and where to apply models is the missing link to make full use of these models.

RATE YOUR ORGANISATIONAL INTERNAL RESOURCE READINESS FOR DEVELOPING PREDICTIVE ANALYTICAL MODELS

48%
Competent Enough

26%
Learning Phase

17%
Don't Know

9%
Outsourced

In terms of organisational readiness for developing predictive analytics solutions, while 48% of the respondents felt that their internal resources are competent enough, a high proportion (52%) felt that the internal resources are not fully equipped when it comes to developing sophisticated predictive models for the organisation. Half of these (52%) said that their employees are learning the specifics of analytics but are at a nascent stage right now.

In order to improve credit risk management practices, it is extremely important to invest in developing the knowledge base of existing human resources, along with an investment in software and data analytics solutions which can help organisations take a lead among competitors. The development of sophisticated models requires availability of appropriate data sources that enable the development and also the implementation of such solutions. Therefore, availability of a robust software solution and IT systems plays a vital role in achieving the level of sophistication which could help organisations in Jordan to adopt and benefit from world-class credit risk management practices.

DOES YOUR CURRENT DATA ANALYTICS STRATEGY ALLOW YOU TO MORE EFFECTIVELY MANAGE CREDIT RISK ?

35%	31%	30%	4%
Quite Well	Reasonably well; we are getting there	No; there is still work to be done	Very Well

Banks have realised the importance of incorporating data analytics to assist the risk teams in better classifying and managing risk within an organisation in the long term. Although the importance of data analytics as a concept of value add is generally accepted and has been implemented, we have observed through our latest survey in Jordan that a number of banks in the region do not have formal data analytics strategies in place.

Our survey results have shown that there is almost an equal number of banks in the region with formal data analytics strategies as banks without formal strategies. Data analytics can add tremendous value to banks, but it is of vital importance that a structured approach is followed to determine the most efficient and productive use of analytics and accompanying resources in an organisation. A formalised data analytics strategy is highly recommended.

WHAT ARE THE TOP 3 DRIVERS FOR EMPLOYING NEW CREDIT RISK ANALYTICS WITHIN YOUR ORGANISATION?

61%
Minimize risk related losses

52%
Increased transactional speed and efficiency

48%
Access to new analytics competencies

39%
Maintain competitive edge

39%
Regulatory changes

30%
Meet customer expectations

22%
Better customer relations

17%
Company shareholder requirements

It comes as no surprise that the top driver for employing credit risk analytics within organisations is minimising risk related losses. However, the trend that has come to light through the results of our latest survey is that organisations are realising the alternative benefits that analytics could offer, such as satisfying the rising consumer expectation for faster responses from financial institutions, enhancing transactional speed and effectiveness, and in essence providing the bank with a competitive edge over its competitors.

We are also seeing a move towards utilising analytics to either improve or find new analytical competencies within organisations and thus deal better with changes in consumer demands and relations, regulatory changes, and internal shareholder requirements.

IS YOUR BUSINESS CONSIDERING USING AND APPLYING MACHINE LEARNING OVER THE NEXT 3 YEARS?

38%	22%	21%	17%	17%	8%
For new business acquisition	Not Considering	For Fraud Identification	For customer Risk Management	For Operational Risk Management	Others

More than one third of the respondents responded with acquisition as a core area of the machine learning application. Growth remains the top priority for all banks in Jordon. With the advent of new-age customers who are tech savvy, coupled with the availability of both structured and unstructured data, the usage of non-traditional statistical techniques in risk assessment are picking up. Banks want to differentiate good customers from bad ones and treat them differently, and within the good customers bracket banks also want a certain level of differentiation to offer more customised services to the best of the bunch. This is at times difficult to achieve using traditional statistical methods.

Another area of application was fraud identification, which is again in line with global trends. Fraud and collections are the two main areas for machine learning applications. This is because in fraud and collections, there is less of a regulatory watch in terms of explaining models like the credit capital model. These areas also provide a good business case with quick ROI.

In general, with the growing competition, digitisation and increasing customer expectations, it's imperative for banks in Jordon to use advance analytics techniques to maximise profit and reduce churn.

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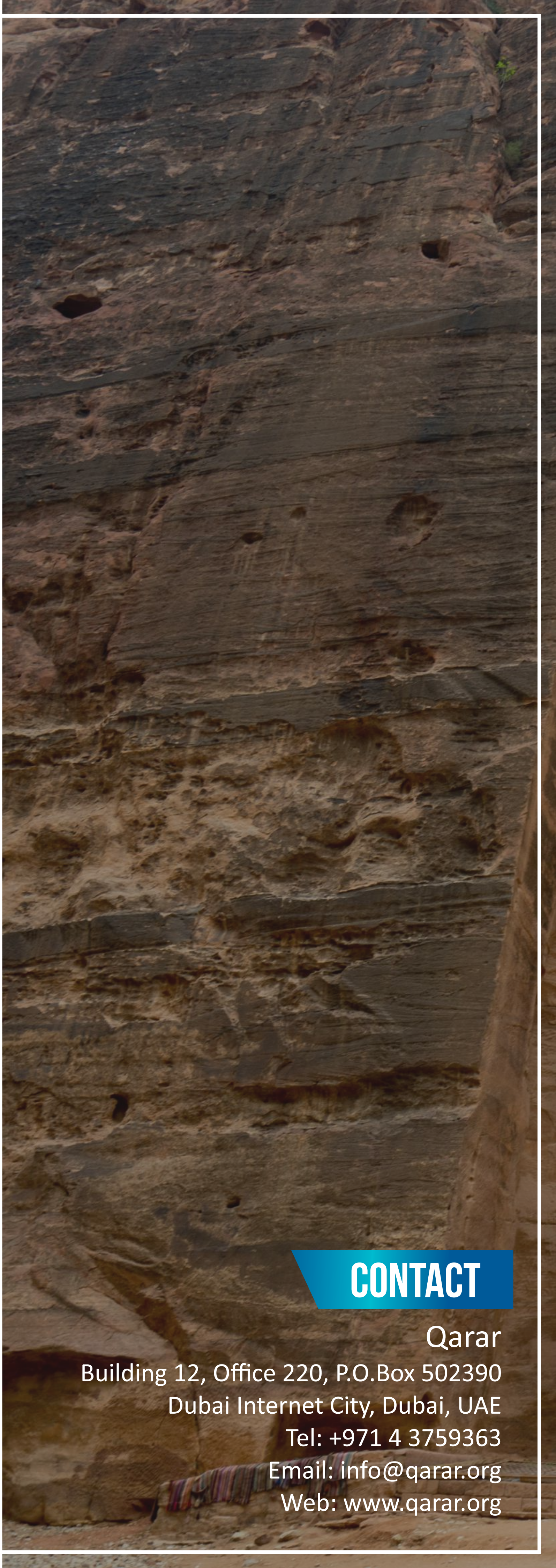
About Qarar

Qarar is the region's leading Decision Analytics company specialised in offering consulting, decision analytics and software technology to deliver tailor-made customer management and process automation solutions. Headquartered in Dubai and serving customers across the Middle East and North Africa, Qarar helps its clients to solve business challenges and achieve sustainable business outcomes. We achieve this across the customer lifecycle by employing the right mix of predictive analytics, and market experience based advisory and decision technologies. Our expertise spans Strategy, Pricing, Credit Risk Management, Marketing and Sales Analytics.

Get in touch

If you would like more information about the results from this survey or about how the survey was conducted, please contact us at info@qarar.org.



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