



## **CREDIT RISK MANAGEMENT: A CASE STUDY ON MAYBANK AUTOMOBILE FINANCIAL SERVICES**

BENTAN BIN GHAZALLI

**UNIVERSITI UTARA MALAYSIA**



**KOLEJ PERNIAGAAN**  
(College of Business)  
Universiti Utara Malaysia

**PERAKUAN KERJA KERTAS PROJEK**  
(Certification of Project Paper)

Saya, mengaku bertandatangan, memperakukan bahawa  
(I, the undersigned, certify that)  
**BENTAN GHAZALLI (89972)**

Calon untuk Ijazah Sarjana  
(Candidate for the degree of) **MASTER OF SCIENCE (BANKING)**

telah mengemukakan kertas projek yang bertajuk  
(has presented his/her project paper of the following title)

**CREDIT RISK MANAGEMENT: A CASE STUDY ON MAYBANK**  
**AUTOMOBILE FINANCIAL SERVICES**

Seperti yang tercatat di muka surat tajuk dan kulit kertas projek  
(as it appears on the title page and front cover of the project paper)

Bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.  
(that the project paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the project paper).

Nama Penyelia : **PROF. DR. NOR HAYATI BT AHMAD**  
(Name of Supervisor)

Tandatangan :   
(Signature)

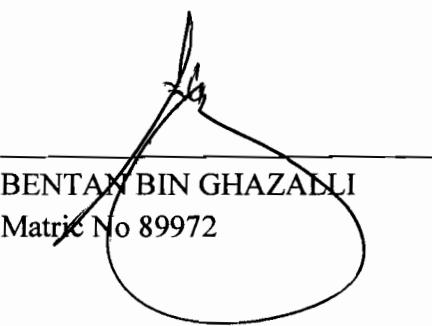
Tarikh : **17 FEBRUARY 2011**  
(Date)

0000770420  
H6  
37551  
34562  
2011

## **PLEDGE OF ORIGINALITY OF WORK**

I, Bentan Bin Ghazalli (660305075585) declare that the dissertation submitted herein is my original work and has not been plagiarized from any person or persons. I also declare that both the report and the work on which basis the report is prepared has been undertaken by myself and I have not contracted out this work.

**SIGNED THIS DAY 17<sup>th</sup> of February YEAR 2011**

  
BENTAN BIN GHAZALI  
Matric No 89972

## **PERMISSION FOR UUM**

I hereby allow permission for the UNIVERSITI UTARA MALAYSIA, to load it in the UUM database and make available to Universiti Utara Malaysia for educational purposes and/or load it in Universiti Utara Malaysia website and make available to general public and students for educational purposes.

**BENTAN BIN GHAZALLI**

## Acknowledgement

Interestingly, the idea of writing this case study was erupted during the discussion with my supervisor, Professor Dr.Nor Hayati Ahmad. I wish to convey my highest gratitude to my supervisor and reviewer for their great assistance and supervision in the preparation and finalization of this case study. Truly, their dedication in ensuring the success of their student has impacted my life and family greatly. I learnt about the true meaning of sacrifices, commitment, dedication and the importance of being persistence in life. To my beloved family, thank you for being with me through all the turbulences all these years during my pursuit for this academic excellence.

# TABLE OF CONTENTS

## Abstract

## Chapter I: Introduction

1.0	Background	page 8
1.1	Source of Business	page 12
1.2	Technical Terminologies	page 13
1.3	Definition of Default and NPL	page 14
1.4	Classification of Default by Controller	page 14
1.5	Maybank Automobile Financial Services (AFS)	page 16
1.6	Critical Issues	page 17

## Chapter II: Case Study of Maybank AFS

2.1	Credit Default - The problem	page 21
2.2	How the problems occurred	page 22
2.3	Determination of Actual Causes	page 23
2.301	At Point of Entry	page 23
2.4	Analysis of Customer Profiling on Defaulted Account	page 39
2.41	Analysis of default status by model aging (New/Used)	page 40
2.42	Analysis of default status by model	page 41
2.43	Analysis of default status by margin of finance	page 42
2.44	Analysis of default status by loan amount	page 44
2.45	Analysis of default status by age	page 45
2.46	Analysis of default status by year of vehicle	page 46
2.47	Analysis of default status by occupation code	page 47
2.48	Analysis of default status by income group	page 48
2.49	Analysis of default status by ethnicity	page 50
2.50	Analysis of default status by educational background	page 51

### Chapter III: Risk Management Practice at Maybank AFS

3.0	Introduction	page 52
3.1	Aging analysis	page 53
3.2	Trend of 3 months in arrears by balance outstanding (BOS)	page 56
3.3	All Auto Region Performance up to December 2010	page 57
3.4	Maybank AFS overall performance up to December 2010	page 58
3.5	Trend of net charge – Overall	page 60

### Chapter IV: The Concept of Risk Management - Strategies

4.0	Introduction	page 61
4.11	Risk identification	page 65
4.12	Risk assessment	page 65
4.13	Risk Mitigation	page 66
4.14	Monitoring and Control	page 68
4.2	Manual Intervention	page 68

### Chapter V: Conclusion and Recommendation

5.0	Introduction	page 69
5.1	Strong Credit Culture	page 69
5.2	Setting up of Risk Management Structure	page 70
5.3	To instill Strong Credit Analytical Competency	page 71
5.4	Setting up of Regional Credit Asset Quality (CAQ) Committee	page 71
5.5	Strengthening the Collection and Recovery Action	page 73
5.6	Conclusion	page 76

### Appendix I

### Appendix II

### References

## **Abstract**

A non performing loan is a loan which is either in default or is about to be, with a reasonable expectation that the loan will enter default even though it has not technically defaulted yet. As a general rule, banks prefer to avoid non performing loan because there is a risk mainly credit risk that they will not be able to recover the principal left on the loan, let alone the interest which has accrued. In hire purchase, the facility is 'fragile' in nature due to its extensive exposure to credit risk issues such as weak income gross level, weak net disposable income, high financing margin, financing of non popular model, high risk job sector, high risk business sector and fraudulent transactions.

This dissertation is a case study on Maybank Automobile Financial Services non-performing loans problems. From the case study we find some essential factors that contributed to the increasing default trend over the study period. The existence and implementation of Standard Practice Instruction (SPI), Credit Policy and Guidelines from relevant authority sometimes were 'ignored' by staff or branches due to branches' robust business appetite to secure larger market share in vehicle financing. The issue is also due to information asymmetry leading to incomplete documentation and lack of information. This has worsened the credit risk and operational risk situation. The study traces strategies taken to manage the high non performing loan rate and identifies more effective approaches taken by the bank to address the risks involved. The case study reveals that it is of utmost importance to adopt a strong credit risk management culture through the practice of continuous, comprehensive and integrated approach in order to uphold high standard of credit underwriting.

## CHAPTER 1

### INTRODUCTION

#### 1.0 Background

Automobile financing has been one of the core business activities of Maybank. Previously, the business of hire purchase of Maybank group was entrusted to one of its subsidiary known as Mayban Finance Berhad prior to the full merger and business consolidation exercise of the group in 2004. Hire purchase business is indeed a lucrative business which impact on the company's book is rather 'immediate'. Based on the FY 2009/10 performance, Maybank Automobile Financial Services (AFS) contributed RM700 million profits to the Group, a high increase of almost 75% from FY 2008/09.

In understanding the credit default position, several collection of vocabulary such as special mention account or SMA, NPL account, reschedule accounts, no payment since disbursement account or NPSD, No Payment Since Rescheduled or NPSR, written off account, shortfall account etc. is interchangeable used in this dissertation.

In business, there is always risk. In credit lending, the risk is the potential loss the bank would incur due to inability of the customer to pay their obligation as a result of loss in income due to unemployment or business failure. An academic definition for credit risk is the change on credit quality of the customer which led to loss of the credit portfolio.

The business of hire purchase financing is another form of consumer financing involving a lot of critical issues as the banks are exposed to numerous adverse circumstances and can be easily 'manipulated' by the fraudsters apart from the common or normal type of credit risk.

The case study is prepared with four major objectives which can be summarized as follows:-

1. To study on how the escalating NPL occurs.
2. To determine the actual causes that contribute to escalating non performing loan in Malaysia automobile financial industries taking Maybank Automobile Financial Services (Maybank AFS) as a sample.
3. To develop and trace strategies taken in managing the high rate of non performing loan and in mitigation the cyclical pattern in non performing loan (NPL).
4. To identify more effective approaches can be implemented by Maybank AFS.

Hire purchase industry is governed by several Acts and Rules and Regulations such as Hire Purchase Act, 1967, Syariah Law (for Islamic financing), Hire Purchase (Recovery of possession and maintenance of record by owners), Guidelines to HP Act by Ministry of Domestic Trade and Consumers Affairs, Banking and Financial Institutions Act 1989, Islamic Banking Act, Rules of the Association of Hire Purchase Company of Malaysia, Bank Negara Malaysia Guidelines, Stamp Ordinance 1949, Exchange Control Notices and Company Act 1965.

Hire purchase is a kind of facility that is very unique in its nature. Financial institutions would try to market their services to designated business sources in order to secure the business. There are many financial products and services being offered by banks currently. The financial products can be categorized into several segmentation such corporate loan, commercial loans, investment banking and consumer financing. Consumer financing is a subset of the major financing facilities provided by the financial institutions nowadays.

Not all goods are authorized to be financed under hire purchase. The lists of goods that are applicable under hire purchase have been specifically spelt out by the Hire Purchase Act 1967. The goods are divided into two major categories: consumer goods and motor vehicles. Under the HP (amendment) Act 1992, consumer good are defined as “goods purchased for personal, family or household purposes”. As for motor vehicle, the Act has further divided those vehicles into specific item such as motorcycles, motorcars including taxi cabs and hire cars, goods vehicles (where the maximum permissible laden weight does not exceed 2540 kilograms) and busses including stage buses.

Hire Purchase Act 1967 does not give any definition for 'hire purchase' but maintains that a hire purchase agreement includes a letting of goods with an option to purchase and an agreement for the purchase of goods by installment.

Hire purchase can therefore be defined as a mode of financing whereby the owner of the equipment/vehicle will let it and the hirer will hire it for a fixed period and will pay an agreed rental by series of installment usually but not necessarily throughout the hiring period.

In general, the hire purchase business is governed by several regulators such as Bank Negara Malaysia, banks as well as several others regulators such as AFCM and AHPCM.

Bank Negara Malaysia being the major regulator of all banking activities supervises the whole activities of all banks pertaining to any credit granting through implementation of numerous Garis Panduan or GPs, Acts as well as other guidelines which are to be issued as and when necessary.

Banks have no option but to ensure compliance to all the Guidelines and Acts that have been passed by the Parliament as well as those issued by BNM. In addition, the banks are required to operate within the guidelines and procedures of their own organization which is better known as Credit policies or Standard Practice Instructions coupled with other credit guidelines which are issued intermittently based on its necessity and requirement.

### 1.1 Sources of business

Marketing of potential hirers for hire purchase is undertaken by branches through two major sources: appointed dealers for both new and used model and direct walk-in customers.

At Maybank Automobile Financial Services, common sources of business for direct hire purchase are mainly derived from customers who approach Maybank AFS directly and customers who are introduced by authorized dealer/vendor as well as from staffs of large corporations that have blanket hire purchase arrangement with Maybank AFS better known as Corporate Auto Scheme or CAS.

In the emergence of stiff competition in the industry, players sometimes face constraint in the issues of information asymmetry in term of customer's selection and profiling when some important documents need to be waived leaving financiers with limited information to ascertain income capacity and employment authenticity. Branches would request these income statement/salary slips and letter of employment be waived by higher authority. In the absence of these types of documentation, the income accuracy cannot be adequately verified or confirmed. Hence, the probability of account turning into default is great.

## **1.2 Technical terminologies**

Malaysia is a country that practiced dual banking system. Both conventional and Islamic banking system is practiced concurrently. The practice in certain aspects has some differences in nature as well terminologies. There are several technical terminologies in Islamic financing that are different from its conventional counterpart but have the same definition and understanding.

In conventional lending practice, terminologies such as interest rate, hiring charges, storage fees or maintenance fees, total amount financed and overdue interest are commonly used while in Islamic financing certain terminologies such as profit rate, margin of profit, repair cost and total payable are used interchangeably.

### **1.3 Definition of default and non performing**

In finance, default occurs when a debtor has not met his or her legal obligations according to the debt contract, e.g. has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract. A default is the failure to pay back a loan. Wikipedia (2009) Default may occur if the debtor is either unwilling or unable to pay his/her debt. This can occur with all debt obligations including bonds, mortgages, loans and promissory notes. Default is a potential loss to a bank. An account which is in delinquency status and further becoming non performing loan or NPL will eradicate the bank's profitability and earning. Default is costly event in the business of lending. The higher the NPL, the higher would be the provision for bad and doubtful debt, hence, the greater would the earning be at risk.

### **1.4 Classification of default by Controller**

Credit is the provision of resources such as granting a loan by one party to another party where that second party does not reimburse the first party immediately, thereby generating a debt, and instead arranges either to repay or return those resources at later date. This marked the inception on the issue of repayment risk.

Bank Negara Malaysia (2007) BNM being the Controller of country financial system has established the minimum standard for the classification of accounts, income recognition and loan loss provision aimed at realistic valuation of loan assets of banking institutions and prudent recognition of income of the bank.

In general, a loan is classified as non- performing when the principal and interest is due and unpaid for six months or more from the first day of default. A non performing loan can be reclassified as performing once total installment in arrears falls under six months.

Banking institutions in general are required to observe the minimum parameter in respect of specific provision such as classification of substandard for accounts six months in default from first date of default but less than nine months, classification of doubtful for accounts nine months in default from first date of default but less than twelve months and classification of bad for accounts twelve months and above in default.

The lending function is considered by the banking industry as the most important function for the utilization of funds. Lim Peter Wei Shong & Mei Albert Kuo Chong (2006) “since bank earns their highest gross profit from loans, the administration of loan portfolios seriously affect the profitability of the bank. The large number of non-performing loans is the main cause of bank failure”.

In this case study, we deepen the analysis on the actual cause or number of common causes that lead to loan default and develop and trace strategies to be taken to manage the high non performing loan rate and to mitigate the cyclical pattern in non performing loan (NPL) and finally we identify the more effective approaches that could be implemented by Maybank AFS to curb the alarming situation.

## **1.5 Maybank Automobile Financial Services**

Hire purchase business is indeed a lucrative business. In Maybank Group, automobile financing is one of the major profit contributors to the group. Based on the FY 2009/10 performance, Maybank Automobile Financial Services (AFS) contributed RM700 million profits to the Group, a high increase of almost 75% from FY 2008/09.

Taking Region PKPP (Penang/Kedah/Perlis/Perak) as an example in the context of this study, this region has recorded a total of RM3.296 billion of hire purchase loan as compared to November figure of RM3.271 billion a marginal growth of 0.78%. The growth was contributed by all its 12 branches which managed to secure positive growth in December.

As for loan disbursement, Region PKPP has managed to secure a positive increase from RM74.5 million to RM91.1 million in term of HP disbursement. The branches have also managed to secure more business submission from RM47.7 million in November to RM117 million in December an increase of 18.22%.

Although all these figures seems contradictory with the current drop in sales by the major vehicle distributors, the figure was a reflection of the branch strong effort to concur and secure better market share from the dealers and distributors.

## **1.6 Critical issues**

The rather fragile nature of hire purchase business has resulted in the escalating of non performing loan.

Take for example Maybank AFS Region PKPP position which has recorded an increased in its HP NPL from RM25.6 million in November to RM26.2 million in December 2010. The NPL rate has increased from 0.78% in November to 0.81% in December.

The performance of those accounts of 4 months in arrears category which is known as Special Mentioned Accounts or SMA also showed deterioration. The amount of net charge increased from RM4.041 million in November to RM4.083 million in December. The net charge figure which is the yardstick to measure branch profitability reduces branch profitability.

The escalating trend is also noted to be on a cyclical pattern whereby branches showed a downtrend in their default position during certain months such as March, June, September and December. However, for the month of January, April, July and October a sudden surge in default would occur. Collectors would term these months as their 'honeymoon' month.

In relation to the above issues, this case study attempt to determine the actual cause and causes contributing to the escalating NPL position as well as formulating and recommending effective strategies to contain the situation.

The provisioning of non performing loan as provided by the banks under their specific and general provisioning has great impact on the bank's liquidity and profitability. The effect of making too much provision for loan loss and writing off the bad loans will create detrimental effect on tax and owner's equity. Hence, by minimizing the provision at the least possible level in turn will increase the shareholders wealth.

Kieso *et al* (2001) find that a receivable is a prospective cash inflow and the non probability of its collection is considered a loss contingency. Jyotirmoy Podder, Ashraf Al Mamun (2004) assert that an uncollectible loan/advance for the banking business is not only a loss of revenue but also a loss of capital. The uncollectible interest receivables are the loss of revenue and the uncollectible principal is the loss of capital.

Although as discussed earlier, the Controller i.e. BNM has established certain guidelines pertaining to the classification of loans, this classification cannot in any manner can ensure the improvement of the loan default situation since classification does not ensure collection.

The lending function is considered by the banking industry as the most important function for the utilization of funds. Lim Peter Wei Shong & Mei Albert Kuo Chong (2006) "since bank earns their highest gross profit from loans, the administration of loan portfolios seriously affect the profitability of the bank.

Our analysis also focused on the actual cause or number of common causes that lead to loan default. The issues of red flag or default signal are also addressed accordingly.

The risk of a hire purchase financing is formed by a stream of risk issues such as fraudulent transactions which may involve several parties such as dealers, suppliers and applicants or hirer, incapacity of hirer, doubtful income sources, high risk employment types or business sector, retrenchment, business failure, forge supporting documents and many others.

The strong business competition which is evidenced with certain players readily able to accept substandard applications has induced the dealers and salesman to submit more cases to the institutions in support to the banks' leniency in accepting their substandard customers.

Based on the Best Practices provided by Bank Negara Malaysia, all financial institutions are required to establish their Risk Management Structure under specific department in order to look into the issues of risk management and evaluation on loan application.

Maybank Automobile Financial Services formerly known as Mayban Finance Berhad had no specific structure under the function of risk management prior to this requirement, but it has specific structure on normal departmentalized section known as credit processing department.

The issues of risk management are big in nature. Therefore, this case study focuses on the paramount issues of credit risk parameter, the compliance level, the knowledge, skill and expertise, awareness as well as profiling of the credit officers.

## CHAPTER 2

### CASE STUDY OF MAYBANK AFS

#### 2.1 Credit default - The problem

The PKPP (Penang/Kedah/Perlis/Perak) region which is taken as an example in the context of this study, recorded a total of RM3.296 billion of hire purchase loan as compared to November figure of RM3.271 billion a marginal growth of 0.78%. The growth was contributed by all its 12 branches which managed to secure positive growth in December.

As for loan disbursement, the PKPP region managed to secure a positive increase from RM74.5 million to RM91.1 million in term of HP disbursement. The branches also managed to secure more business submission from RM47.7 million in November to RM117 million in December 2010.

PKPP region recorded an increase in its hire purchase non performing loan (NPL) from RM25.6 million in November to RM26.2 million in December 2010 from a total loan of RM3.296 billion. The NPL rate increased from 0.78% in November to 0.81% in December.

The performance of those accounts of 4 months in arrears category which is known as Special Mentioned Accounts or SMA has also shown deterioration. The amount of net charge has increased from RM4.041 million to 4.083 million in December. As of December, the ratio of net charge over loan amount stood at 3.70%.

The net charge figure is the yardstick to measure branch profitability position. The net charge figure will reduce the branch profitability. The situation was worsened due to the Regional Asset Quality Management or RAQM inability to record higher recovery from NPL accounts. The marginal increase in bad debt recovery has no significant impact to improve the branch profitability position.

## **2.2 How did the problem occur?**

There are many ways how the high non performing loan (NPL) occurs in Maybank AFS. Firstly, NPL or default can be a result of substandard credit underwriting quality which can be divided into two stages such as 'at point of entry' stage and 'post disbursement' stage. At point of entry stage, examples of critical issues commonly requiring strong alertness from the credit processing officers are weak income structure in term of gross and net disposable income, weak credit record, high risk employment sector, high risk business sector, high financing amount, financing of non popular model, financing of old model with high maintenance, financing with high margin and low deposit structure and financing of applicant with young age without credit record

Secondly, at post disbursement stage, critical issues such as loss of income due to unemployment and loss of income because of business failure would also lead to non performing loan or account being defaulted.

Thirdly, the exposure on risk such as fraud is another contributory factor. An extensive exposure to fraud would definitely expose the bank to massive loss.

Fourthly, even if there is no element of fraud existed, the long term capacity of a customer is rather hard to forecast as the loan tenure normally extends up to 108 months. Therefore, the capacity of a customer at point of entry does not guarantee his capacity in the long run. Default will start to emerge due to the hirer's inability to fulfill his obligation in repaying the loan due to several causes such as loss of income either because being unemployed or because the business they are in goes bust as mentioned earlier. Except for fraudulent cases, this type of default would require the bank to carefully manage its portfolio through nursing and rehabilitating the accounts delicately to avoid further deterioration.

Although as stated earlier default occurs due to loss of income as a result of unemployment or business failure, there are instances whereby applicant with employment and business still in operation still defaulted in their payment. Why? The default of this nature is commonly caused by the poor credit standing of the hirer due to the failure of credit assessor or credit processing officer to address the capacity adequately during the credit inception or credit origination.

## **2.30 DETERMINATION OF ACTUAL CAUSES**

### **2.30.1 At point of entry**

Actual causes can be traced from several stages of loan evaluation process. The risks that lead to the causes of account being default can be identified either at point of entry stage or post disbursement stage.

At Maybank AFS, as per its standard practice and procedures, branches are not allowed to approve any application that exceed the authority limit (better known as AL) of the respective managers. AL encompassed several critical issues such as customer computation of repayment capacity (CRC), customer net disposable income (NDI), model financed, interest rate charged and waiver of certain critical supporting documents such as driving license and income evidence.

All applications are subjected to full checking carried out against several credit systems checking available:-

- a. **OCIS** – To confirm whether guarantor/hirer has any legal action pending or is being sued or declared a bankrupt. This system will also reveal whether applicant is having any relationship with Maybank staff.
- b. **CIF** – To conduct checking on applicant and guarantor not only on their own financing but also on existing financing guaranteed by them.
- c. **FIS** – To check whether vehicle is double financed or hirer has other financial obligations.
- d. **CCRIS** – To check status of credit facility maintain at other financial institutions.

Of all the above system checking available for credit assessment, CCRIS has become the best tools in assessing an applicant repayment character. Although it is regarded as a historical data, the last 12 months repayment trend reflected from the system grant a significant impact to a credit officer in performing his duties.

At time, credit officers have neglected to analyze some important issues made available in CCRIS system checking. Some of the critical information from CCRIS that need stringent analysis is last twelve months repayment record, date facility was opened, type of facility, legal status code, facility limit and balance outstanding. Failure to analyze this information would result into weak credit appraisal and assessment. The situation is made worse if the information from CCRIS system really reflect adverse information such as poor credit record for the last 12 months, high credit exposure on credit cards, a lot of newly opened credit facilities and multiple credit applications within one year. All these adverse information would form a weak CCRIS report for a bank to consider or grant a credit facility. This situation is one of the causes faced by Maybank AFS.

Exhibit 2.1 CCRIS Report

CCRIS DETAILS REPORT												Page 1 of 1		
<b>FI Code</b> 035414013 <b>Customer Profile</b> <b>IDIC Name</b> <input type="text"/> <b>Basic Group</b> Individual <b>Date of Birth / Date of Registration</b> 07/01/1982				<b>CCRIS Results</b> <b>Date</b> 18/11/2008 <b>Sent ID Number</b> <input type="text"/> <b>ID Number</b> <input type="text"/> <b>ID Number</b> <input type="text"/> <b>Nationality</b> MY										
As Borrower (Including Customer's Own/Joint/Sole Proprietorship/Partnership accounts)														
No	Date	STS	Capa city	Lender Type	MY/ FGN	Facility	Total Outstanding Balance (RM)	Date Balance updated	Limit (RM)	Prin repmt term	Col type	Conduct of account for last 12 months	LGL STS	1
<b>2008</b> <b>2007</b> N O S A J J M A M F J D														
Outstanding Credit														
0001	17/04/2008		Own	RCB	M	CRDTCARD		31/10/2008	26,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	1375		
0001		O				CRDTCARD		31/10/2008		MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0002	08/07/2004		Own	CB	M	CRDTCARD	11,011	31/10/2008	10,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0002		O				CRDTCARD		31/10/2008		MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	557		
0003	20/12/2004		Own	CB	F	CRDTCARD	9,439	31/10/2008	10,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0004	25/08/2005		Own	CB	F	CRDTCARD	4,841	31/10/2008	10,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	472		
0005	23/05/2003		Own	CB	M	OTLNFNCE	19,427	31/10/2008	68,000	MTH 30	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	1082		
0006	02/02/2007		Own	CB	M	HRPCSCGD			10,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0006		O				CRDTCARD	9,029	31/10/2008		MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0006		O				CRDTCARD	407	31/10/2008		MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	472		
0007	07/01/2007		Own	CB	M	CRDTCARD			20,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0008	01/06/2007		Own	CB	F	CRDTCARD	20,558	31/10/2008	180,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	1028		
0008		O				OVRDRAFT	179,967	31/10/2008		ODD 10	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	245		
0009	19/12/2007		Own	CB	M	OTLNFNCE	9,000	31/10/2008	10,000	MTH 29	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0010	05/05/2008		Own	CB	M	CRDTCARD	14,508	31/10/2008	15,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	145		
0011	28/12/2006		Own	CB	F	OTLNFNCE	11,684	31/10/2008	15,500	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0012	28/11/2006		Own	CB	F	OTLNFNCE	3,611	31/10/2008	5,000	MTH 00	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	253		
						Total Credit:	320,987	Total Limit:	379,000		0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
0013	31/03/2008	A	JOINT	CB	F				108,000					
0014	17/04/2008	A	Own	CB	M				15,000					

ps://172.31.32.68/hps/interface/HP\_CrisDetailsReport.asp

18/11/2008

113

Source from Maybank Automobile Financial Services

Exhibit 2.1 shows a typical CCRIS (Customer's Credit Risk Information System) report detailing a borrower's credit standing. Another cause of credit default is due to the negligence or weak assessment of borrower's conduct of account by the credit officers.

Let us explore the importance of CCRIS checking and analyze some of the adverse information made available through this kind of system checking. From the above illustration of CCRIS checking, we note that the above customer is having substantial exposure on credit cards limit totaling to RM91000 and balance outstanding of RM92437 with total utilization of 102%. Considering a 5% minimum repayment requirement, this applicant would have to fork out a sum of RM4621 monthly to meet the minimum monthly repayment. High credit cards exposure and /or utilization is a strong indicator of the applicant cash flow spending pattern. Although the current repayment trend is good, the current good status would not compensate the risk exposure to be faced by the financiers in the future. Credit card is considered or classified as a high risk facility because of its unsecured nature without any collateral to back the facility.

## Exhibit 2.2 CCRIS Report

FI Code	<input type="text"/>		Date	16/02/2009
Customer Profile				
IDIC Name	<input type="text"/>	JAL	Sent ID Number	<input type="text"/>
Basic Group	Individual		ID Number	<input type="text"/>
			ID Number 2	<input type="text"/>
Date of Birth / Date of Registration	24/06/1985		Nationality	MY

**As Borrower (including Customer's Own/Joint/Sole Proprietorship/Partnership accounts)**

### Application for Credit

0001 09/01/2009 P Own CB M 5,000

Summary report  Supplementary report  Review Other Cust Profile

[Print](#) [Close](#) [Back](#)

Source from Maybank Automobile Financial Services

Similarly, Exhibit 2.2 shows another situation indicating critical credit risk issues at the point of loan application. Another critical point to be examined from CCRIS record is a case of customer without credit record. It is challenging when applicant's repayment record is not available to justify repayment credibility especially in the case involving large loan amount exceeding RM100,000.

As shown in Exhibit 2.2, this applicant has no credit record to reveal credibility as there is only one credit facility applied with low amount of RM5,000 but still pending for approval. Obviously, this type of customer's record would not grant a strong credit scoring for a credit consideration.

Exhibit 2.3 CCRIS Report

FI Code			Date	CCRIS Results
Customer Profile			21/07/2009	
IDIC Name			Sent ID Number	
Basic Group	Individual	ID Number 1		
Date of Birth / Date of Registration	11/10/1977	ID Number 2		
Nationality MY				

As Borrower (Including Customer's Own/Joint/Sole Proprietorship/Partnership accounts)

No	Date	STS	Capa city	Lender Type	MY/ FGN	Facility	Total Outstanding Balance (RM)	Date Balance updated	Limit (RM)	Prin repmt term	Col type	Conduct of account for last 12 months	LGL STS	Date status updated
0001	10/03/2009	Own	CB	M			5,990		30			2009 J J M A M F J D N O S A	2008	
<b>Outstanding Credit</b>														
0001		C			HRPCSCGD	4,803	30/06/2009		MTH	0 0 0 0				
					Total Credit:	4,803	Total Limit:	5,990						
<b>Application for Credit</b>														
0002	21/07/2009	P	Own	OWN	M		25,300							

[View Summary Report](#) [View Supplementary Report](#) [View Review Other Cust Profile](#)

[Print](#) [Close](#) [Back](#)

Source from Maybank Automobile Financial Services

Exhibit 2.3 displays a different issues pertaining to applicant credit standing. The CCRIS report with such record reveals a weak credit standing simply because of two issues i.e. the credit record is still new dated 10.03.09 and the facility is of small amount of RM5000 only. Hence, although the record is good is would not give great impact on the applicant capability.

Exhibit 2.4 CCRIS Report

FI Code		CCRIS Results											
		Customer Profile		Date		01/12/2008							
IDIC Name		Sent ID Number		ID Number 1									
Basic Group Individual				ID Number 2									
Date of Birth / Date of Registration		09/07/1975		Nationality		MY							
As Borrower (Including Customer's Own/Joint/Sole Proprietorship/Partnership accounts)													
No	Date	STS	Capa city	Lender Type	MY/ FGN	Facility	Total Outstanding Balance (RM)	Date Balance updated	Limit (RM)	Prin report term	Co type	Conducted under 12 mon	
2008 D N O S A J J													
<b>Outstanding Credit</b>													
0001	17/07/2007		Own	OTH	M	OTLNFNCE	24,877	31/10/2008	27,000	00			
0001		O					3,100		MTH		0 0 0 0 0 / 79.		
0002	26/09/2007		Own	OTH	F	HRPCSCGD	1,861	31/10/2008					
0002		O					3,000		MTH	30	0 0 0 0 0 / 30		
0003	05/02/2008		Own	CB	M	OTLNFNCE	2,471	31/10/2008					
0003		O					Total Credit:	29,209	Total Limit:	33,100	MTH	0 0 0 0 0 / 0 .	
<b>Application for Credit</b>													
0004	31/01/2008	A	Own	CB	M				3,000				
0005	01/12/2008	P	Own	OWN	M				125,000				
<input type="button" value="Summary report"/>							<input type="button" value="Supplementary report"/>			<input type="button" value="Review Other Cust Profile"/>			
<input type="button" value="Print"/>							<input type="button" value="Close"/>			<input type="button" value="Back"/>			

Source from Maybank Automobile Financial Services

Exhibit 2.4 will explains another critical situation pertaining to applicant capacity in repaying the loan. The above illustration revealed a weak CCRIS record. It is obvious that the purchasing of a vehicle by the applicant is not commensurate with his current ability as CCRIS record revealed that current vehicle used by him is only a motorcycle. We anticipate that the future installment for a car is greater than the current installment for a motorcycle. Therefore, a good repayment record on a motorcycle loan cannot be used to justify strength and capacity.

All the above examples of weak CCRIS status analysis should not be over sighted by credit officer handling credit evaluation as it reflect a significant adverse credit status of the applicant prematurely.

Beside CCRIS, another document that might have element of risk is current account statement analysis.

In the case of application made by business owner or self employed applicant, bank would be provided with current account statement in the absence of salary slip or salary vouchers. In a normal circumstance, a self employed applicant would forward to the bank copies of his three months current account statement as part of their supporting evidences.

The problem exists due to the incompetency of the credit officers. They possessed very weak understanding, knowledge and skill on how to analyze the company current account statements (CCA). Their analysis contained minimum assessment of the company current account for instance average credit transaction, average debit transactions and balance at month end.

A strong current account analysis contain assessment on the critical data such as average credit transactions volume, average debit transactions volume, average net cash inflow, month end balance, incident of outward bounce check, incident of inward bounce check and reason for the returned check (if any).

Exhibit 2.5 Current Account Statement



CIMB ISLAMIC BANK (KLANG) LTD (676883-U)  
Harmony Through Islamic Banking

JALAN MERU, KLANG  
99, WISMA NBC, PUSAT PNIAGAAN  
NBC, BATU 1 1/2, JLN MERU  
41050, KLANG

Penyata Akaun  
Statement of Account

SEGALAH MAKLUMAT DAN BAKU YANG TERDASAT DI DALAM PENYATA AKAUN INI ADALAH DIANGGAP BETUL, SECUMI PEMAKU DAN PEMERINTAHAN BERPENGARUH PADA PEMERINTAHAN DAN PEMERINTAHAN PERBEZAAN DALAM TEMPOH 14 HARI DARI TARikh PENYATA AKAUN TAHUN PADA BANK ALL AMERICAN BANK LTD.

BAHI TERDASAT MURAH DAN MUDAH JUMLAH CECERAN TEMPATAN YANG DIPUNGUH UNTUK PENGELADAN SILA BIBI DAN BAHI TERDASAT MURAH DAN MUDAH UNTUK PENGELADAN CECERAN BERKENAAN.

ALL INFORMATION AND BALANCES SHOWN IN THIS STATEMENT ARE DETERMINED CORRECT. THIS STATEMENT IS IN ACCORDANCE WITH THE STATEMENT DATE. THE BANK IS NOT RESPONSIBLE FOR ANY DISCREPANCY WITHIN 14 DAYS OF THE STATEMENT DATE. THE BANK IS AGAINST ANY BALANCES OR NOTES A DEBIT BALANCE.

THE BALANCES SHOWN MAY INCLUDE DISCREPANCIES DUE TO LOCAL CHEQUES BEING SENT FOR CLEARING, PLEASE ALLOW 2 - 3 WORKING DAYS FOR THESE LOCAL CHEQUES TO CLEAR.

SILA HADUNGI CIRANGAN ANDA JIKA ADA SEBAHANG PERUBARUAN DI ALAMAT.  
PLEASE ADVISE YOUR BRANCH OF ANY CHANGES IN ADDRESS.

NOMBOR AKAUN ACCOUNT NUMBER		TARIKH PENYATA STATEMENT DATE	NOMBOR PENYATA STATEMENT NUMBER		
Tarikh Date	Perkara Description	No. Cek/Ruj. Cheque/Ref. No.	Pengeluaran Withdrawal	Simpanan Deposit	Baki Balance
300608	OPENING BALANCE				968.08
030708	2D LOCAL CHQ			3,500.00	4,468.08
040708	CASH CHQ DR		800.00		3,668.08
070708	CASH CHQ DR		3,600.00		68.08
100708	2D LOCAL CHQ			1,000.00	1,068.08
100708	2D LOCAL CHQ			1,500.00	2,568.08
140708	CASH CHQ DR		2,500.00		68.08
180708	2D LOCAL CHQ			11,707.50	11,775.58
230708	CASH CHQ DR		1,600.00		10,175.58
240708	HOUSE CHQ DR		1,000.00		9,175.58
240708	HOUSE CHQ DR		7,000.00		2,175.58
280708	2D LOCAL CHQ			2,000.00	21,175.58
280708	HOUSE CHQ DR			15,000.00	19,175.58
310708	CASH CHQ DR			2,115.00	4,175.58
310708	KLACH CHQ DR				2,060.58
310708	HIB/PRT PAID				2,062.47
Baki Permulaan Opening Balance		Pengeluaran / Withdrawal		Simpanan / Deposit	
		Bil. / No.	Jumlah / Total	Bil. / No.	Jumlah / Total
968.08		9	36,615.00	8	36,709.39
					2,062.47

Source from Maybank Automobile Financial Services

Exhibit 2.5 shows a current account statement which contains some of the adverse information if skillfully analyzed. The statement reveals a weak balance outstanding lowest being the balance of RM68.08 while the highest was RM21175.58. Although a credit balance in a current account will not benefit a customer as no interest is paid on the amount, a good large balance would interpret a sound cash flow of a company or the business owner.

## Exhibit 2.6 Current Account Statement

CMB ISLAMIC		JALAN MENGKALI 10/11 SERI MENGKALI 10/11 TREC, BATTU LAMA 15800, PELANGKONG			
CMB ISLAMIC BANK (M) SDN BHD (Formerly known as Darulaman Islamic Bank Berhad)		ALL INFORMATION AND BALANCES SHOWN HEREIN ARE IN RUPEES (RM) UNLESS THE BANK OR CUSTOMER SPECIFICALLY STATE OTHERWISE. THE BANK IS NOT RESPONSIBLE FOR ANY INACCURACIES IN THE STATEMENT. THE BALANCE SHOWN MAY NOT REFLECT THE CURRENT POSITION OF THE DEFINITION OF LOCAL OPERATIONS, WHICH ARE 2-3 MONTHS BACK FROM THE DATE OF CLOSING THIS STATEMENT.			
BALANCING STATEMENT AND EXPLAINING POSITION STATEMENT TO THE SATISFACTION OF YOUR CUSTOMER IN ACCORDANCE WITH THE BANK'S LOCAL OPERATIONS					
NOMBOR AKTAM ACCOUNT NUMBER		TARIKH PERTAMA FIRST DATE			
NOMBOR PERTAMA STATEMENT NUMBER		1			
Tarikh Date	Perkata Description	No. Collected Cheque/Our No.	Penarikan Withdrawal	Simpanan Deposit	Saldo Balance
30/9/08	OPENING BALANCE	-			1,144.96
31/10/08	2D LOCAL CHQ	2		7,800.00	8,944.96
31/10/08	NIB/PMT PAID	1		0.55	8,945.51
Saldo Pertama Opening Balance		Penarikan / Withdrawal	Simpanan / Deposit	Saldo Pertama Opening Balance	
RM. / No.		Jumlah / Total	RM. / No.	Jumlah / Total	RM. / No.
1,144.96		0	0.00	2	7,800.55
					8,945.51

Source from Maybank Automobile Financial Services

The account statement as Exhibit 2.6 also reveals another source of adverse information. It shows that there was no credit transactions recorded in the month of August and October. In the case of a business applicant, we could interpret that no collection or payment received from the business debtors for the two particular months which is unhealthy situation which could reflect of the company's weak collection effort and strategy.

## Exhibit 2.7 Current Account Statement

 <b>CIMB BANK</b> <small>(Formerly known as Sumitomo-Commerce Bank Series)</small>			<b>KELANA JAYA</b> <b>50 JALAN 552/14</b> <b>KELANA JAYA</b> <b>47301 PETALING JAYA</b>			<b>Penyata Akaun</b> <b>Statement of Account</b>					
<b>SILA HUBUNGI GAWANGAN ANDA JIKA ADA BEBARANG PERTUKARAN ALAMAT.</b> <b>ONLY ADVISE YOUR BRANCH ON ANY CHANGE IN ADDRESS.</b>			<b>UNTUK : BAHU : YANG JUMLAHYA BERANGKUMU DENGAN CHEQUE TEMPATAN YANG DIBERIKAN DAN JUMLAHYA YANG CUKUP UNTUK PEMBAYARAN CHEQUE YANG DIBERIKAN.</b> <b>TERIMA MAKLUMPAK SEDARA BERTULIS KEPADA CAWANGAN ANDA JIKA ADA BEBARANG PERTUKARAN ALAMAT.</b>			<b>ALL INFORMATION AND BALANCES SHOWN IN THIS STATEMENT ARE DEEMED CORRECT. DISCREPANCIES WITHIN 14 DAYS OF THE STATEMENT DATE ARE CONSIDERED AS A CREDIT BALANCE. ANY BALANCES INDICATE A DEBT BALANCE.</b> <b>FOR BALANCES THAT INCLUDE DEPOSIT OF CHEQUE AND OTHER CHEQUE, PLEASE CLEAR THEM BEFORE UTILISATION.</b> <b>ONLY ADVISE YOUR BRANCH IN WRITING OF ANY CHANGE IN ADDRESS.</b>					
NOMBOR AKUAN ACCOUNT NUMBER	TARikh PENYATA STATEMENT DATE	NOMBOR PENYATA STATEMENT NUMBER									
		1									
TARikh DATE	PERKATA DESCRIPTION	NO. CHEQUE CHEQUE NO.	PENGELUARAN WITHDRAWAL	SIMPAMAN DEPOSIT	BAKI BALANCE	SUTRAN PEMBAYARAN PAYMENT DETAILS					
20/8/08	OPENING BALANCE		207.10		1,326.10						
21/8/08	KLACK CHQ DR		1,083.00		3,328.00						
25/8/08	2D LOCAL CHQ				37.00						
27/8/08	HOUSE CHQ DR		182.00		3,622.08						
27/8/08	KLACK CHQ DR		500.00		3,122.08						
27/8/08	KLACK CHQ DR		1,200.00		3,822.08						
29/8/08	CLNC CHQ DR		1,000.00		822.08						
02/9/08	KLACK CHQ DR		383.08		543.00						
03/9/08	2D LOCAL CHQ		500.00		41.00						
09/9/08	HOUSE CHQ DR		1,000.00		41.00						
16/9/08	2D LOCAL CHQ				41.00						
18/9/08	KLACK CHQ DR		207.10		3,983.90						
18/9/08	KLACK CHQ DR		1,082.00		3,776.80						
19/9/08	KLACK CHQ DR		683.80		694.80						
BAKI PERMULAAN OPENING BALANCE			PENGELUARAN/ WITHDRAWAL			SIMPAMAN/ DEPOSIT			BAKI PENUTUP CLOSING BALANCE		
- BIL. / NO.			JUMLAH / TOTAL			- BIL. / NO.			JUMLAH / TOTAL		
1,326.10			7,985.08			3			6,709.98		
									41.00		
									139		
<small>GET A FREE MYSTERY GIFT WHEN YOU PURCHASE MALAYSIA AIRLINES TICKETS VIA CIMB CLICKS FROM 15TH TO 31ST AUG 2008. FOR MORE DETAILS PLEASE LOG ON TO <a href="http://WWW.CIMBCLICKS.COM.MY">WWW.CIMBCLICKS.COM.MY</a>. T&amp;C APPLY.</small>									<small>CIMB 1314</small>		
<small>***** END-OF-STATEMENT *****</small>											

Source from Maybank Automobile Financial Services

Exhibit 2.7 reveals a weak credit transactions and balances. These two items are significant as they reflect the strength of business transactions volume and cash flow standing of the applicant. Should these item be neglected by the credit officer, the tendency that account would turn default at an infant stage is great which will result to 'NPSD' or "No Payment since Disbursement" status.

Exhibit 2.8 Current Account Statement

0455289

TMN SRI SERDANG

2

MUKA ST PAGE: 1  
TARIKH PENYATA: 30/04/09  
STATEMENT DATE: 30/04/09

NOMBOR AKUAN  
ACCOUNT NUMBER

CORPORATE CURRENT ACCOUNT

URUSNIAGA AKUAN / ACCOUNT / ACCOUNT TRANSACTIONS

SUTIR URUSNIAGA

JUMLAH URUSNIAGA

BAKI PENYATA

TRANSACTION DATE / VALUE DATE

TRANSACTION DESCRIPTION

TRANSACTION AMOUNT

TRANSACTION AMOUNT

STATEMENT BALANCE

TARIKH MASUK / TARIKH NILAI DEPOSIT / DATE / VALUE DATE	TRANSACTION DESCRIPTION	TRANSACTION AMOUNT	TRANSACTION AMOUNT	STATEMENT BALANCE
14/04	CDM CASH DEPOSIT	500.00+	55,844.60	
15/04	TRANSFER FR A/C	5,000.00-	50,844.60	
15/04	ENCASHMENT CASH	2,000.00-	50,842.60	
15/04	CASH WITHDRAWAL	2,500.00-	48,342.60	
15/04	INNARD CLEARING	2,400.00-	45,942	
15/04	INNARD CLEARING	993.15+	46,942	
15/04	CLEARING CNG DE	1,400.00+	50,342	
16/04	INNARD CLEARING	1,360.00-	58,440	
16/04	INNARD CLEARING	380.00-	58,060	
16/04	INNARD CLEARING	5,000.00+	53,060	
17/04	TRANSFER FR A/C	9,500.00+	53,990	
17/04	CELCOM POSTPAID	7,500.00-	46,490	
17/04	CASH WITHDRAWAL	3,200.00-	43,290	
17/04	CASH WITHDRAWAL	4,000.00-	39,290	
17/04	INNARD CLEARING	1,000.00-	38,290	
17/04	INNARD CLEARING	6,000.00-	32,290	
17/04	INNARD CLEARING	1,000.00-	31,290	
18/04	TRANSFER FR A/C	5,000.00-	26,290	
18/04	TRANSFER FR A/C	5,000.00-	21,290	
19/04	INNARD CLEARING	5,000.00-	16,290	
19/04	CASH WITHDRAWAL	5,000.00-	11,290	
19/04	CASH WITHDRAWAL	5,304.50+	5,986	
19/04	INNARD CLEARING	7,500.00-	1,513	55DR
19/04	INNARD CLEARING	800.00-	2,313	30DR
19/04	INNARD CLEARING	800.00-	3,113	65DR
19/04	INNARD CLEARING	300.00-	3,413	55DR
19/04	INNARD CLEARING	800.00-	6,213	55DR
20/04	TRANSFER TO A/C	9,500.00+	4,711	95
20/04	INNARD CLEARING	4,500.00-	186	95
20/04	CLEARING CNG DE	6,525.50+	6,711	95
20/04	CELCOM ADVANCE	6,774.00+	13,485	95
20/04	TRANSFER FR A/C	5,000.00-	8,485	95
20/04	TRANSFER FR A/C	4,500.00-	7,985	95
20/04	TRANSFER FR A/C	2,400.00-	5,585	95

Source from Maybank Automobile Financial Services

From exhibit 2.8 we learn the issues of 'kite flying' activities pertaining to current account transactions. 'Kite flying' issue is another important analysis on current account statement. This type of transaction is another mean used by customers to deceive bankers to showcase a good bank statement position despite its weak position. It normally involved numerous activities through issuance of checks, cash deposit machine (CDM), check deposit machine (CQM) and automated teller machine (ATM) transactions. A weak credit analysis by a credit officer would more often than not state a positive remark in its appraisal with such encouraging remark such as "active and healthy transactions" and "huge business volume reflected through current account transactions" without realizing the potential damage 'attached' to this kind of current account statement.

From the above CCA statement it is obvious that the transaction occurred on 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> April are a form of a 'kite flying' transactions if we compared with another three transactions on 24<sup>th</sup>, 25<sup>th</sup> and 27<sup>th</sup> April.

Exhibit 2.9 Pay slip

NAMA NO. PERSONAL / K.S. PANGKAT NO. GAJI NO. KWSP / TAX		PENYATA GAJI BULAN KONTINJEN DAERAH BALAI CAWANGAN	
PENDAPATAN GAJI POKOK XMB TETAP BENDAHAR SWAN ELAUK INSERTIF MELAYAH BATARAK KHAS PDRM ELAUK TRAFIK		PENGELUARAN KURASASI POLIS KL TBS SOSIAL K.L TARUNG BAJI ALGARASA POTONGAN KELAB POLIS	
JUMLAH PENDAPATAN KWSP (MAJIKAN) BANK		JUMLAH POTONGAN DAUNBERSH NO. AKUAN BANK	
2.128.45 0.00 BSK		1.068.50 1.068.50 32120280000/2768	
PENYATA GAJIINI HENDAKLAH QISIMPAH UNTUK KEGUNAAN CUKAI PENDAPATAN			
(NO SIFIR 0000)			

*VERIFIED*

Source from Maybank Automobile Financial Services

Another critical analysis to be carried out by the credit officer relates to the applicant's salary slip. Salary slip also contains important information that required full understanding of the credit officers. The credit officer must understand that some important items which are different between government servant and private sector exist in the pay slip

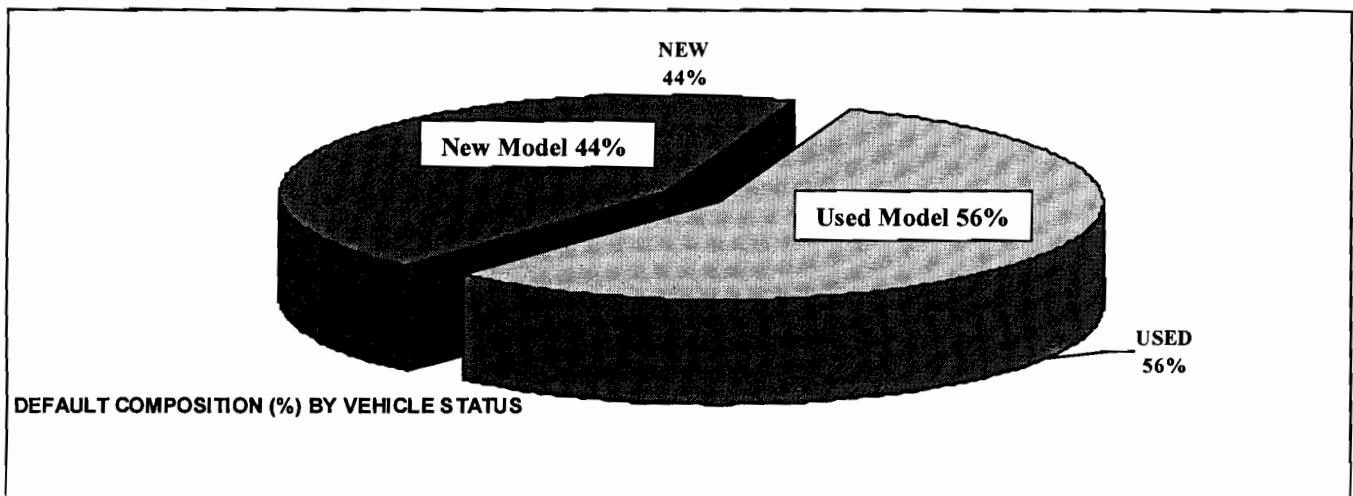
Let us look at Exhibit 2.9 for income evidence. The salary slip reveals a weak net disposable income of the applicant. It is crystal clear that the applicant net pay is only RM1059. However, in order to accurately derive a person net disposable income, we must also deduct the applicant external credit commitment as reflected from CCRIS checking. A person net disposable income should not be below the critical point of RM700 for a married person and RM500 for a single status individual. Otherwise his or her capacity is considered doubtful.

Error might happen due to inaccurate assessment of the net disposable income if the credit officer does not deduct other living expenses from the net pay slip. In this case, the net disposable income is RM1059 less RM300 (assumption) of other living expenses would be a more accurate capacity of the applicant.

#### 2.4 ANALYSIS ON CUSTOMERS' PROFILING ON DEFAULT ACCOUNT

Maybank Automobile Financial Services (AFS) has developed an analysis report called monthly intelligence report for management team consumption. This report is essential as it provides the management team with critical information to form effective management decision in reference to company's business strategies.

**Figure 2.1 Default Compositions by Vehicle Status**



Source from Maybank Automobile Financial Services

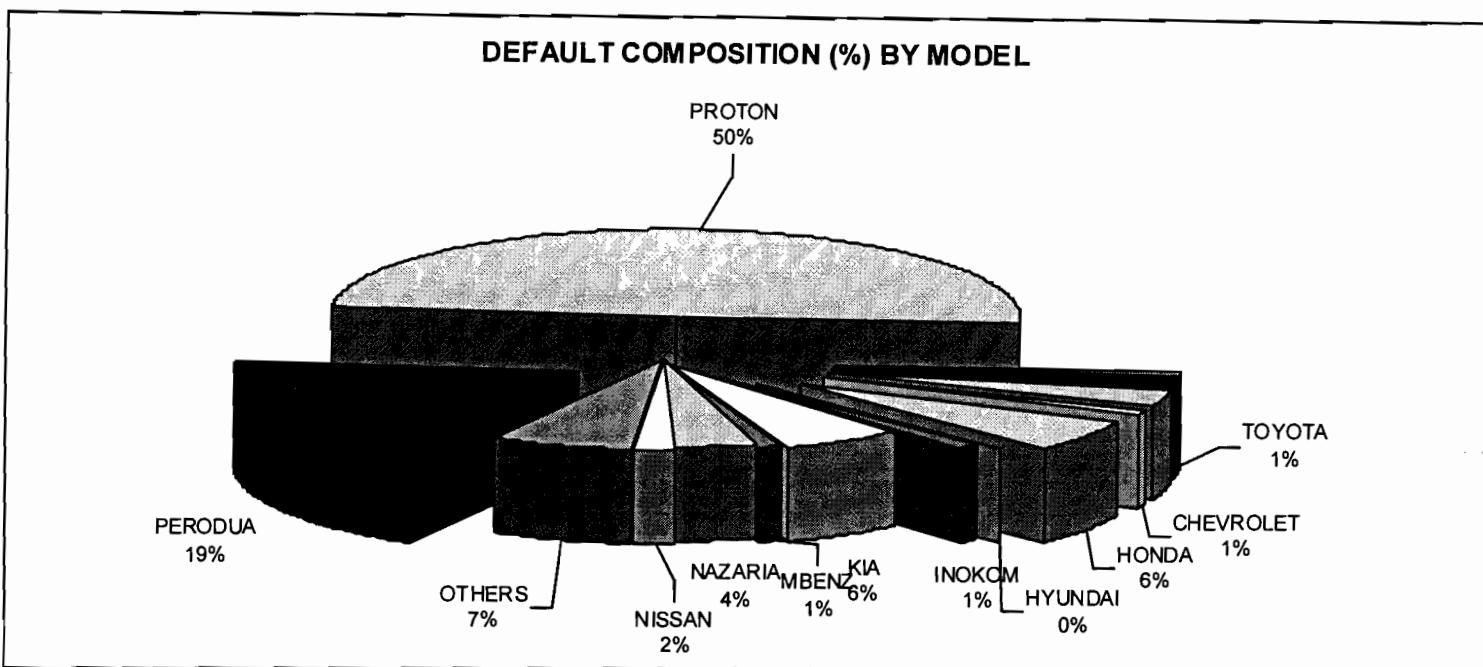
## 2.41 Analysis of default status by model aging (New/Used Vehicle)

In hire purchase industry, all financiers inclusive Maybank AFS give financing on three types of model categorized as new unit, used unit and reconditioned unit.

New unit is sourced from dealers such as UMW Toyota Motors, Auto Bavaria, Federal Auto, Proton dealership and branches and Edaran Tan Chong. As for used model, the unit is of hefty number contributed by used car dealership in the country. Reconditioned model will be supplemented by a group of dealers having the AP advantage issued by MITI such as Naza Motors and TABH Auto. A full set of listing for this reconditioned dealer is available from PEKEMA.

However, for the analysis conducted at Maybank AFS, it is noted that used car has immensely contributed to its default portion. A detail study should reveal that a used model with the age of exceeding 5 years old having major portion of the defaulted account. This could be due to its old age or high maintenance issues on such model. The old model which requires higher and regular maintenance cost will affect hirer's ability to serve the monthly repayment. In some instances, collectors were informed by hirers that the cash meant for monthly installment has been utilized for such purpose due to their insufficient saving.

**Figure 2.2 Default Compositions (%) by Model**



Source from Maybank Automobile Financial Services

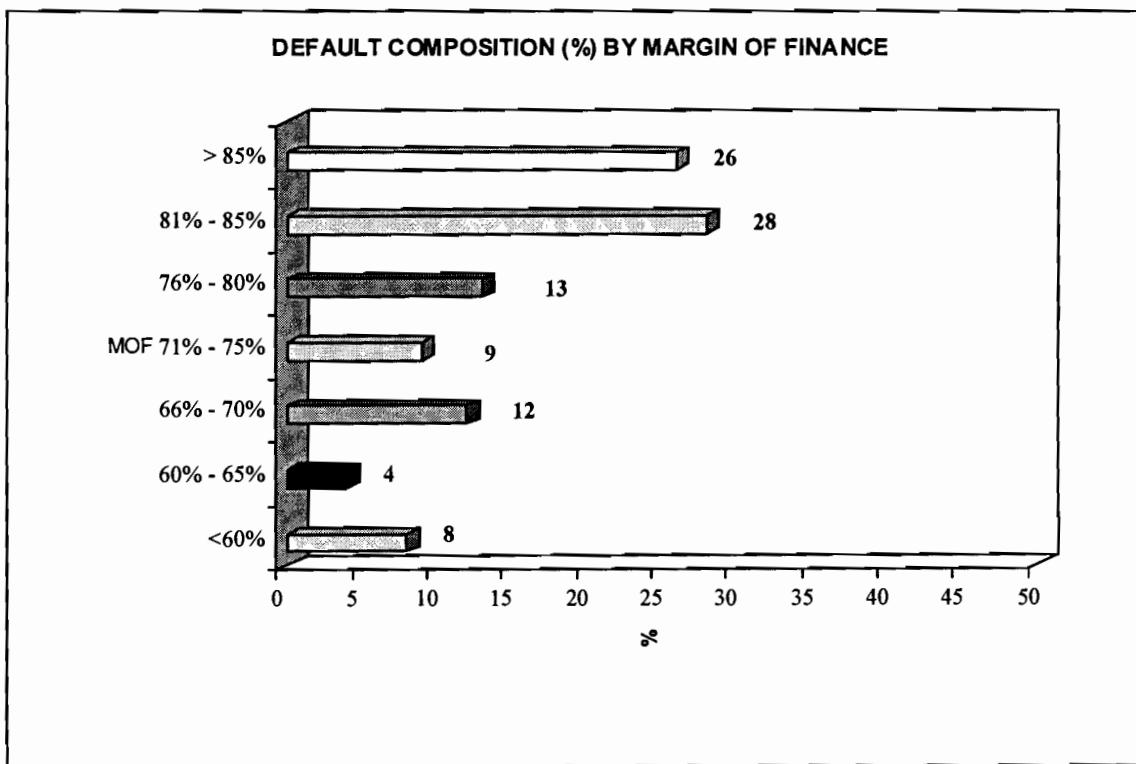
#### **2.42 Analysis of default status by model**

Although the national car from Proton and Perodua are considered the most popular financed model, these two models are also noted to be the most likely models to enter the default sheet. Proton has largely chalked 50% while Perodua 19% out of the total default accounts at Maybank AFS. Further analysis show that the owners of these models comprise of low to middle income hirer with low net disposable income and coming from high risk employment sector such as manufacturing industries.

In addition, the 'best' model to finance is Toyota and Mercedes Benz which normally categorized as 'Preferred Model' by certain financiers. All banks will put highest effort to secure highest market share on these two models due to its lowest default features. Figure 2.2 shows that default rate for this category is only 1%.

Although Hyundai and Chevrolet have low default status of 0% to 1% respectively, this is due to lower number of financing accorded to such model. Furthermore, those applicants buying such model will be strictly appraised and commonly will be accorded a lower financing margin and strict mitigation measures.

**Figure 2.3 Default Compositions (%) by Margin of Finance (2010)**



Source from Maybank Automobile Financial Services

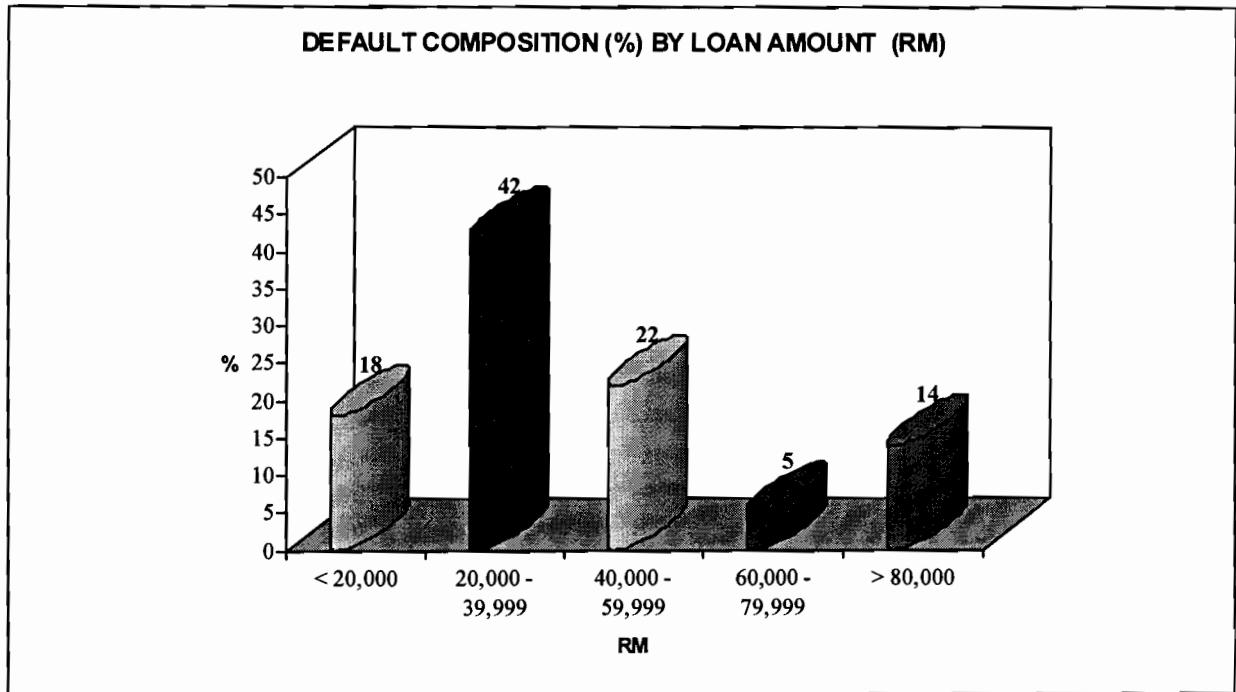
#### 2.43 Analysis of default status by margin of finance (MOF)

The above statistic in Figure 2.3 shows a default composition by margin of finance (MOF). A 'safe' margin would be within the range of 60% to 65% margin of financing.

The critical margin of financing would be within the range of 81% to 85% and above 85% margin. Although it is 'bad' to grant a high margin of financing, the decision to give or not to give would fall primarily against the merit of each case coupled with certain criteria of 'business judgement'. A person with good employment status, strong net disposable income and record is deemed to have strong credit rating and should be given a priority of high financing.

On the contrary, a person buying a popular model but has weak employment status such as those coming from high risk job sector such as manufacturing, first time status without credit record would not be given such consideration of high financing in lieu of the high risk exposure attached to such application.

**Figure 2.4 Default Compositions (%) by Loan Amount (RM)**



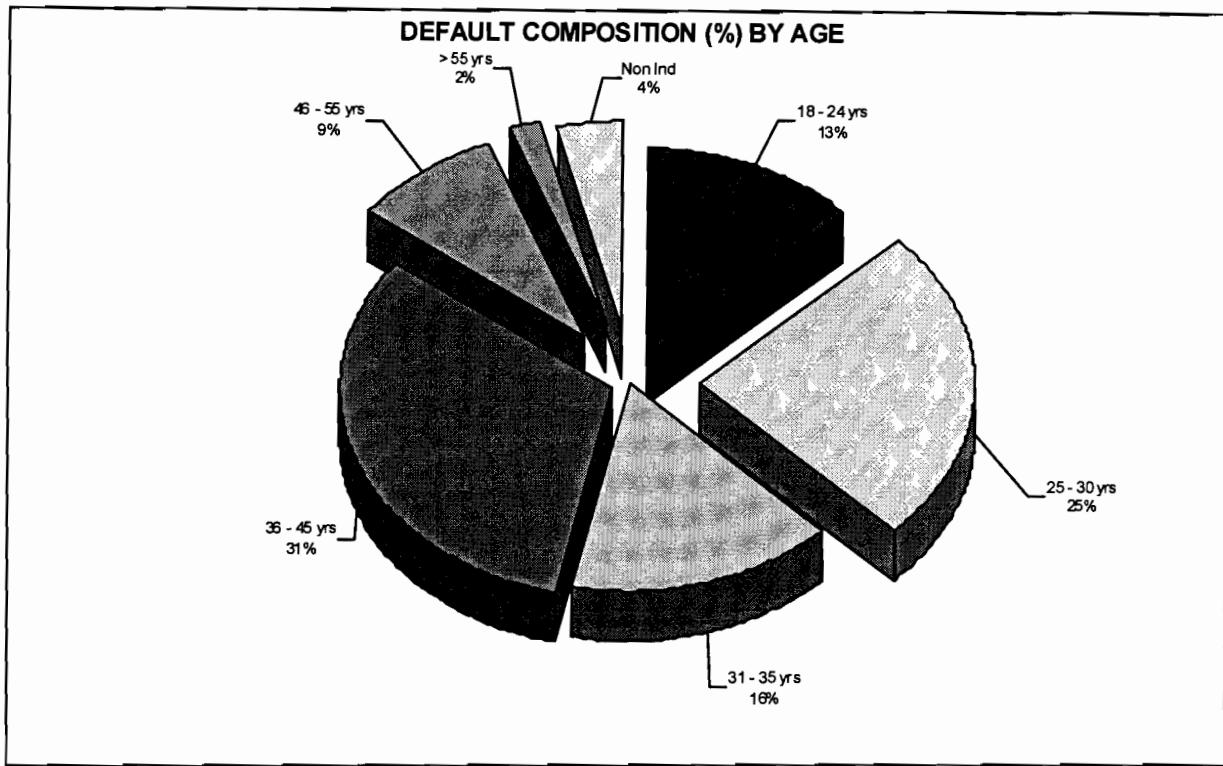
Source from Maybank Automobile Financial Services

#### **2.44 Analysis of default status by loan amount**

It can be noted that the highest default is contributed from loan within the range of RM20000 to RM39999. This range is most popularly associated to the two national models i.e. proton and Perodua. The default rate for this range is 42% as shown in Figure 2.4.

However, loans from RM60000 to RM79999 and above RM80000 have moderate or low default. These two ranges of loan amount are highly associated with 'preferred model' i.e. Toyota and Nissan model. They record the default rate of 5% and 14% respectively.

**Figure 2.5 Default Compositions (%) by Age**



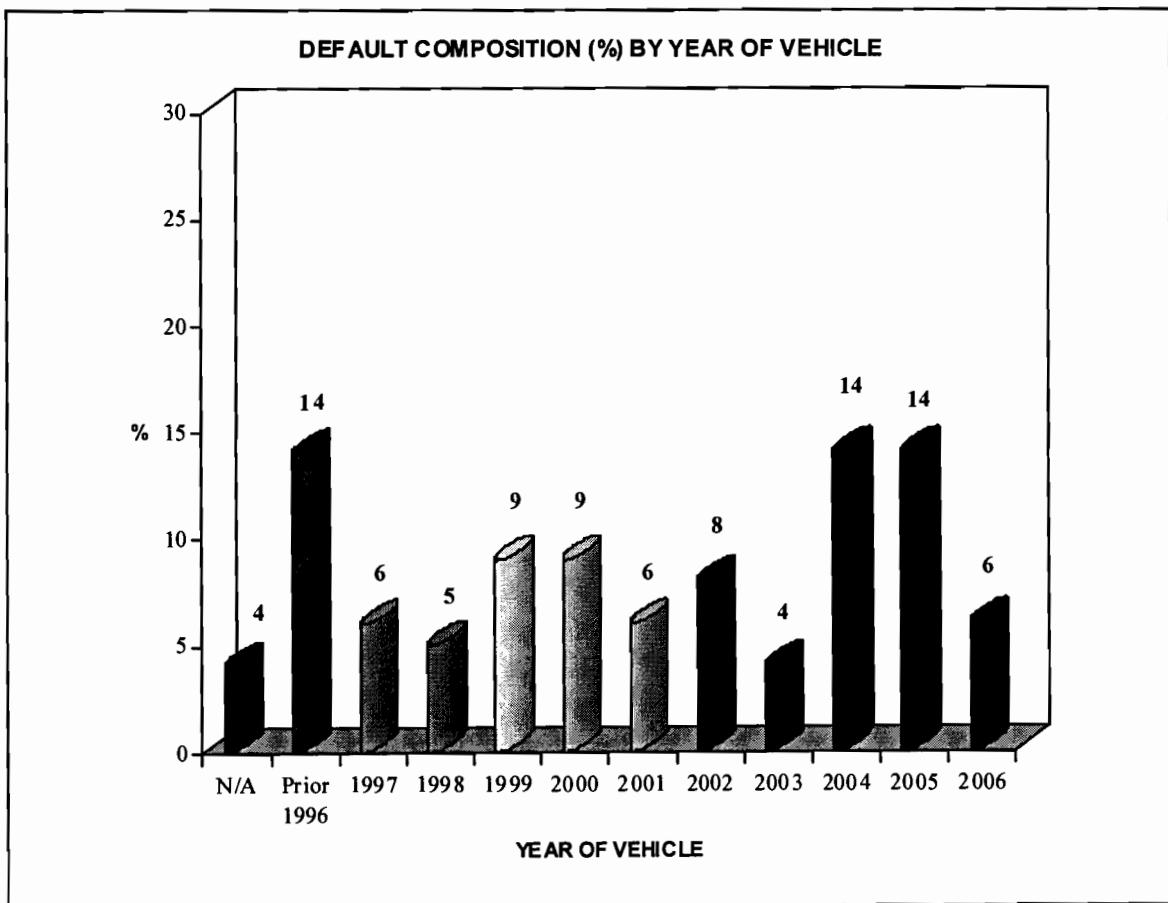
Source from Maybank Automobile Financial Services

#### **2.45 Analysis of default status by age**

From Figure 2.5, it is obvious that the age range between 46 to 55 years old is considered a good age range with low or moderate default status. This could be due to the fact that people living in this age category would normally have a strong footing and capacity in term of their employment, income structure and firm commitment in repaying the loan. People of age ranging from 31 to 45 years old contributed to higher default due to higher personal commitment and living cost especially when the applicant is the sole breadwinner for the family.

Young age of 18 years old to 24 years old is also a critical age point that needs to be given ample consideration since people from this range is less matured and just entering their career world and yet to move the corporate ladder.

**Figure 2.6 Default Compositions (%) by Year of Vehicle**



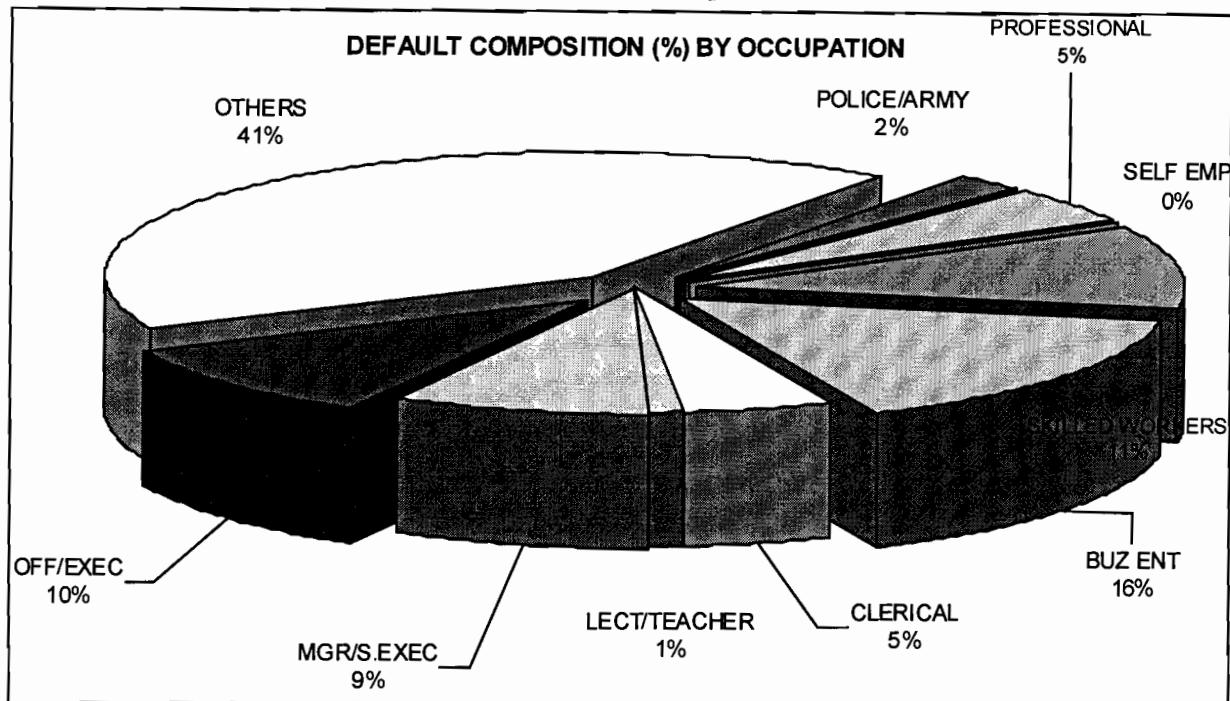
Source from Maybank Automobile Financial Services

#### **2.46 Analysis of default status by year of vehicle**

As stated earlier, used model is contributing high default to Maybank AFS. From the above statistic in Figure 2.6 it is clear that model age of exceeding 10 years old has largely contributing to default.

Also it is noted that model of 2004 and 2005 as at 31<sup>st</sup> Dec 2010 has chalked high default rate. Notably, Proton and Perodua formed the highest composition of this category contributing 14% default rate each for the two years.

**Figure 2.7 Default Compositions (%) by Occupation**



Source from Maybank Automobile Financial Services

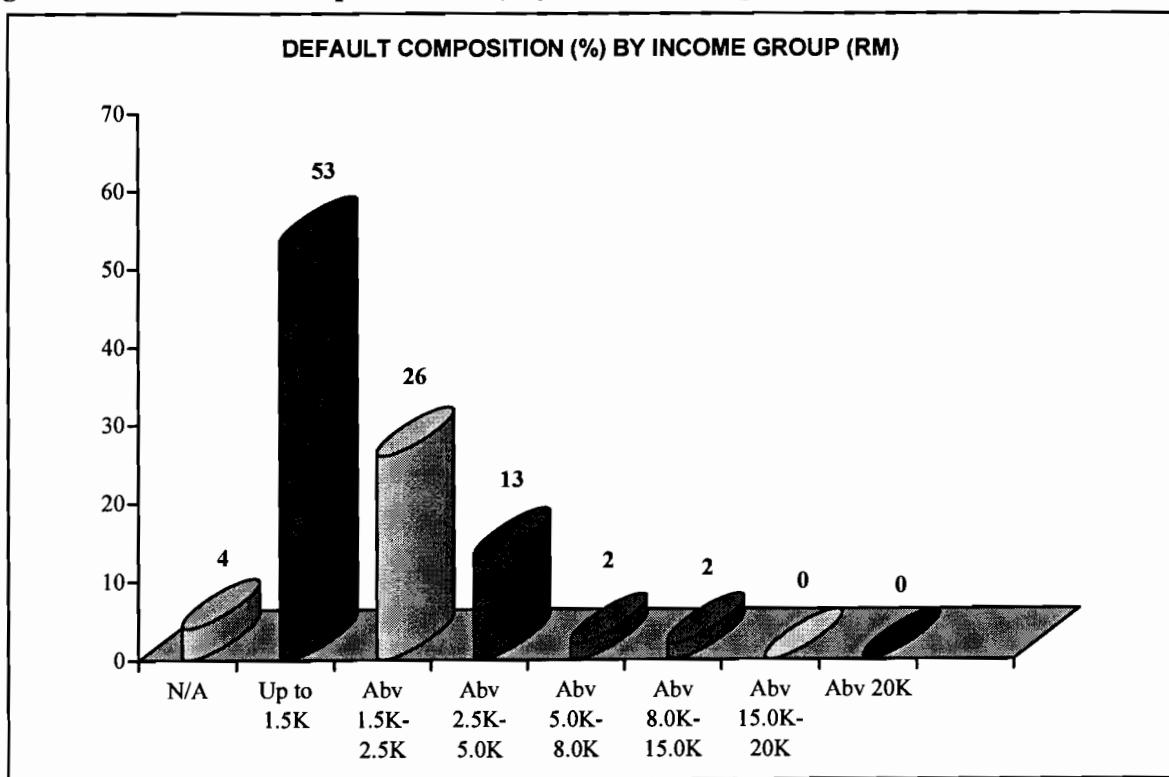
#### **2.47 Analysis of default status by occupation**

Skilled workers or specifically term as those from manufacturing sector i.e. such as production operator, technician, supervisor and quality assurance specialist have dominated the second highest default group in Maybank AFS (11%). The business enterprise owners or rather small scale business sectors are the most risky group to be accorded with financing. It has chalked a 16% default rate as compared to other occupational type. (Refer Figure 2.7)

The ‘best’ occupation type is those of fixed income earner of government sector with good employment status such as lecturers and teachers (1% default rate).

However, it worth mentioning that although police and army formed a small portion of default rate of 2%, their occupational sector is considered high risk due to their high mobility status and difficulty in tracing their where about during collection procedures.

**Figure 2.8 Default Compositions (%) by Income Group (RM)**



Source from Maybank Automobile Financial Services

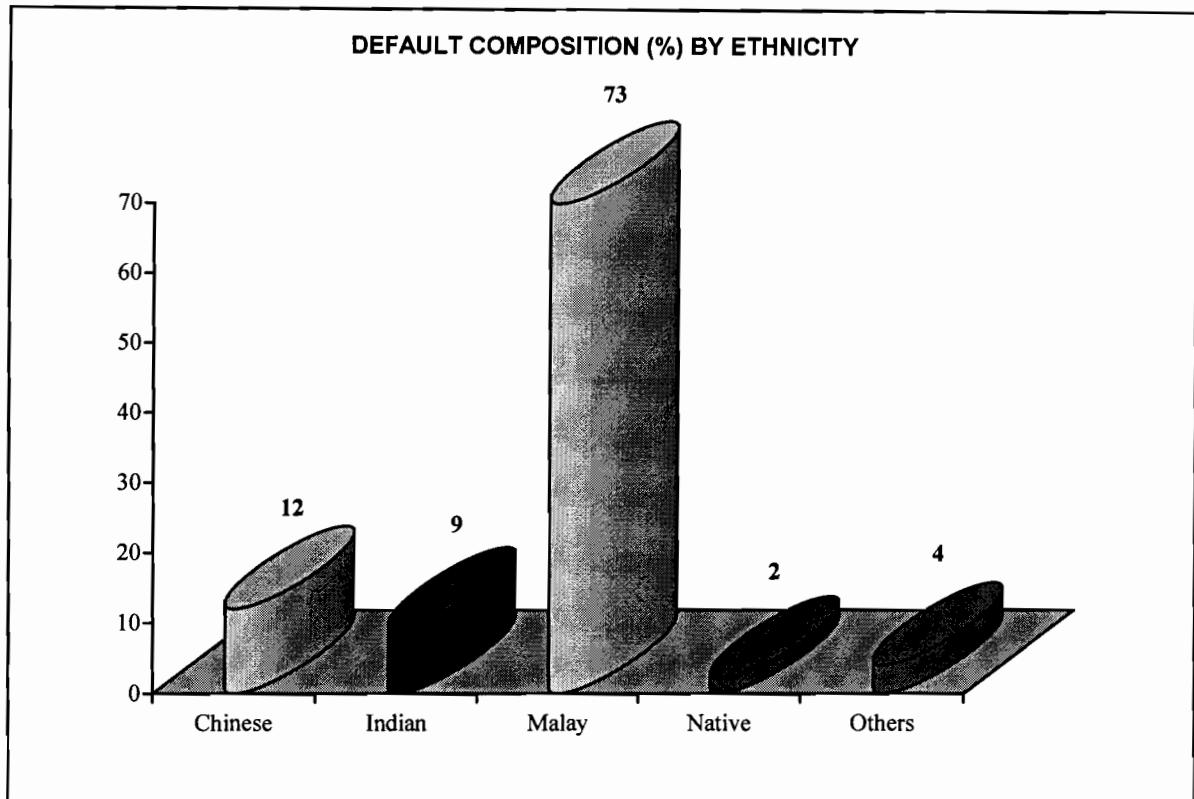
#### **2.48 Analysis of default status by income group**

Figure 2.8 shows that 53% of the defaulted accounts were contributed by the group whose monthly income is from RM1500 and below on a gross basis followed subsequently by income range from RM1500 to RM2500.

Although it is hardly possible to obtain cases with applicant income range of above RM8000 (<2% on the average), the 'best' income range with low default rate is between RM2500 to RM5000.

Although there are no defaulted account under income range of above RM15000, this kind of income level would normally be earned by businessman of high net worth or those of high ranking personnel from the private sector. This category of applicant is the most preferred but in reality the bulk of Maybank customers come from income range of RM1500 to RM2500.

**Figure 2.9 Default Compositions (%) by Ethnicity**



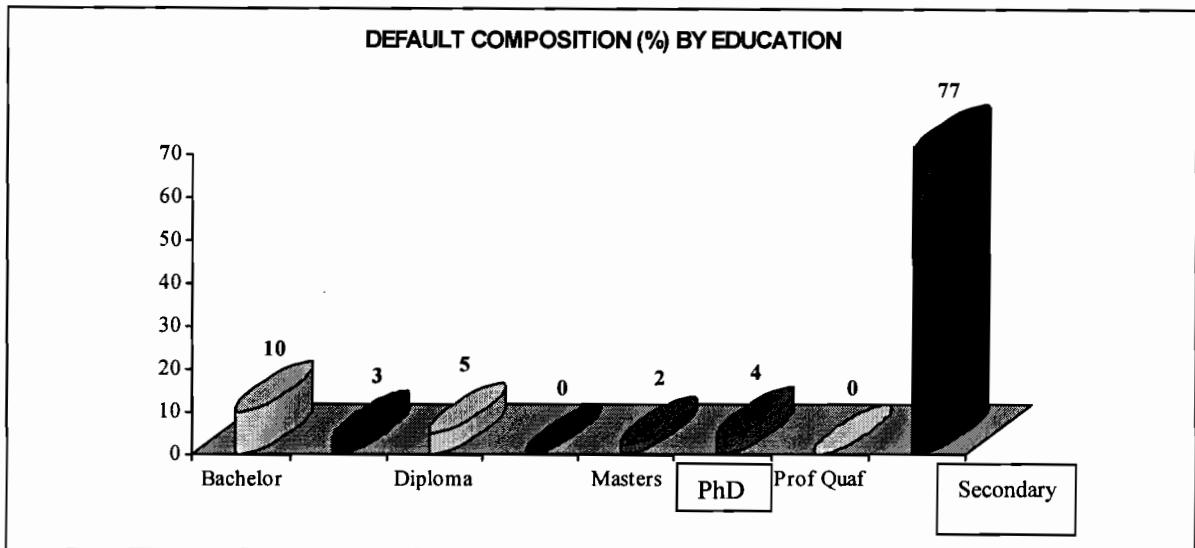
Source from Maybank Automobile Financial Services

#### 2.49 Analysis of default status by ethnicity

By virtue of income structure and employment sector, most of the Malays fall under the income category of RM2500 and below. These applicants come from the high risk occupational sector such as manufacturing and production related activities with most of them are considered low income group.

Based on Figure 2.9, the highest default rate is among the Malays constitute 73% followed by Chinese of 12% and Indian of 9%. The most popular model for the Malay seemed to be of Perodua Viva and Proton Wira.

**Figure 2.10 Default Compositions (%) by Education Background**



Source from Maybank Automobile Financial Services

## **2.50 Analysis of default status by education**

Educational background is closely related to income structure of an applicant. Earlier, we have noted that default is highly related to high risk occupational sector as well as income structure of an applicant. The above statistic is another strong evidence to justify that those of low income group are normally those with lower educational background such as secondary educational level which contributed 77% of the defaulted account at Maybank AFS.

Other significant findings would be those customers of professional qualification such as accountant, lawyers and engineers who recorded 0% default. Similarly goes to the highest educational level such as Master and Doctorate qualification. The reason behind this situation is easily explained by the strength of their qualification, employment designation and income structure.

## CHAPTER III

### RISK MANAGEMENT PRACTICE AT AFS

#### 3.0 Introduction

How do we justify that default is alarming and non performing loan is escalating? Is our situation at risk? Are we profiting from the business? Are we in the ‘business race’ for success or failure? All these statements demand strong answer. No one enter business to chart for a financial loss. Similarly, bank and financial institution are there in the market for financial success. The bank must put the interest of the shareholders in the utmost important priority prior to others stakeholders. All the strategies and business plans are implemented in the course of achieving financial success so that shareholders would enjoy better return in the form of dividend payout.

In order to manage credit risk (from borrower’s default) and operational risk (from system, process and staff failure), several risk management measures are put in place. The process of identifying and assessing potential credit risk and operational risk is done at the point of entry stage as well as credit assessment stage through analysis of default by model, age, occupation types, year of vehicle made, income group, ethnicity and educational background). This analysis has been discussed in the earlier chapter 1 and chapter 2.

As part of risk management control, the management of Maybank Automobile Financial Services (AFS) has implemented Management Tracking Report. This report track the performance of auto finance and the measurement of risk associated with it through aging analysis.

### 3.1 Aging analysis

Table 3.1 Aging Analysis

TOTAL AUTO FINANCE	JUN 2010			DEC 2010			Variance	
	NOA	Bal OS	%	NOA	Bal OS	%	NOA	Bal OS
PROMPT	440,828	17,376,162	77.8	465,517	18,792,213	78.7	24,689	1,416,050
1 MONTH	99,132	3,338,932	15.0	98,791	3,486,166	14.6	(341)	147,234
2 MONTHS	51,544	1,232,712	5.5	47,240	1,198,723	5.0	(4,304)	(33,989)
3 MONTHS	13,566	255,246	1.1	11,945	255,745	1.1	(1,621)	499
REPOSSESSED - PL	0	0	0.0	0	0	0.0	0	0
SUBTOTAL (<= 3 MTH)	605,070	22,203,053	99.4	623,493	23,732,847	99.3	18,423	1,529,794
4-6 MONTHS	1,767	24,783	0.1	2,016	29,737	0.1	249	4,954
7 AND ABOVE MONTHS	3,876	89,535	0.4	4,636	105,915	0.4	760	16,380
REPOSSESSED	167	7,469	0.0	362	11,852	0.0	195	4,383
SHORTFALL	221	8,825	0.0	243	11,191	0.0	22	2,366
EXP / PARTIAL WO / OTHERS	0	0	0.0	0	0	0.0	0	0
SUBTOTAL (>= 4 MTH)	6,031	130,613	0.6	7,257	158,695	0.7	1,226	28,082
TOTAL	611,101	22,333,666	100.0	630,750	23,891,542	100.0	19,649	1,557,876

Source from Maybank Automobile Financial Services

Table 3.1 is the aging analysis of accounts covering prompt accounts category until written off category. Prompt category refers to repayment made as per schedule and a one month means that a borrower is delay payment by one month. Repossessed PL refers to the number of vehicle being repossessed from performing loan category. Shortfall refers to the amount of losses that bank need to recover upon disposal of repossessed vehicle for example a vehicle with outstanding loan balance of RM10,000 was disposed at RM7,000. Hence, the shortfall is RM3,000.

Table 3.1 shows that prompt category for the period June 2010 to December 2010 is commendable. The number of account (NOA) had increased from 440,828 as at June 2010 to 465,517 as at December 2010 resulting in balance outstanding (Bal OS) amount of RM18,792,213. This amount represent 78.7% of the total amount of Auto Finance of RM23,891,542. The number of account (NOA) in this prompt category is 24,689.

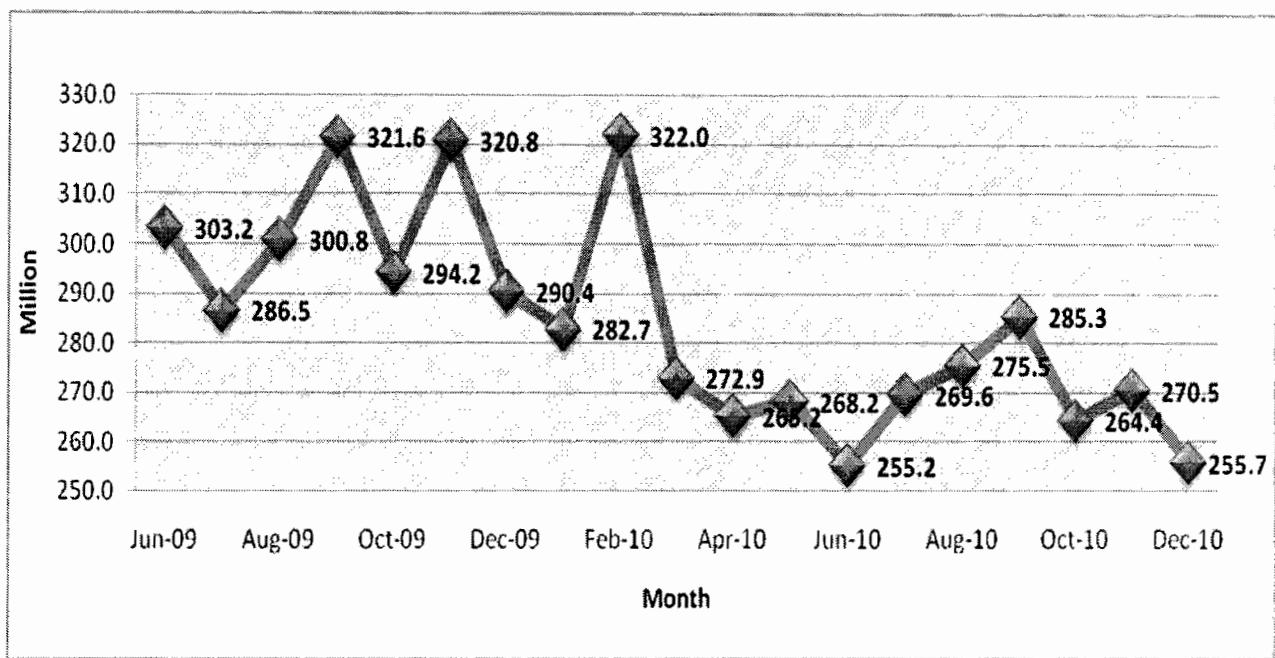
However, Maybank AFS position was tremendously hit by the increase in the defaulted account for the four to six months category. The default has increased from 6,031 accounts to 7,257 accounts in June 2010 by December 2010. 4 – 6 months, 7 and above month, repossessed, shortfall and written off accounts make up total defaulted account above 4 months category which is classified as non performing loan (NPL). The balance outstanding of NPL was RM130,613 as at June 2010 increased to RM158,695,000 as of December 2010. In total the aging analysis shows account less than 3 months is 99.4% and 99.3% for June 2010 and December 2010 respectively. On the other hand, accounts greater than 4 months are 0.6% and 0.7% for June 2010 and December 2010 respectively. The aging analysis shows that the credit risk exposure in auto financing for AFS is less than 1% which is marginal.

The number of unit repossessed also increased from 167 units as at June 2010 to 362 units as at December 2010 with exposure of RM11.8 million. This has given a substantial potential threat in term of shortfall exposure which stood at RM11.19 million as at December 2010.

Aging analysis serves as a very important risk measurement and monitoring tool for AFS and also other banks. This aging analysis however, needs to be continuously and correctly updated to provide accurate risk exposure information to top management. Failure to do so will pose difficulty to management in formulating appropriate risk management strategies.

### 3.2 Trend of 3 month in arrears by Balance outstanding (BOS) - Overall

**Table 3.2 Overall trend of 3 month in arrears by balance outstanding (BOS)**



Source from Maybank Automobile Financial Services

This category is regarded as a highly critical area that need highest emphasis as failure to curb the spill over of these accounts would result being classified as Newly Classified NPL account immediately when they turn 4 month in arrears.

Table 3.2 shows that the situation was alarming as we could see the increase in the 3 months category had been quite steady from June (RM255.2 million) until September (RM285.3 million). Although there was a dip in the month of October, the position deteriorated in November. However, by December 2010 the account reduced to RM255.7 million. In other words management had stepped up their collection effort for every quarter for reporting purposes.

### 3.3 All Auto Region Performance up to December 2010

**Table 3.3 All Auto Region Performance up to December 2010**

Region	Leakage P2		Leakage P3		SMA			SME	MOB 12 months NPL Rate	Gross NCNPL (Dec 10) RM'000	Net NCNPL (Dec 10) RM'000	Cumulative Net Charge RM'000	
	BOS RM'000	Average (%) (July 10-Dec 10)	BOS RM'000	Average (%) (July 10-Dec 10)	Jun 2010 RM'000	Dec 2010 RM'000	% Agst TTL						
PKT	15,983	9.4	3,204	5.1	16,338	18,175	1.0	1,837		0.06	776	3,427	2,559
JHR	33,481	8.9	9,981	5.8	37,623	37,367	1.3	(256)	6.9	0.06	2,178	6,844	4,810
MNS		9.5		4.7			0.9	(1,719)	5.9	0.06			1,028
PKP1	18,399	9.0	6,055	7.2	13,362	16,231	1.0	2,870	5.9	0.07	1,212	3,739	1,937
PKP 2	15,449	7.9	3,739	5.1	12,873	16,229	1.2		6.2	0.11	1,364	3,467	2,865
PRK	11,603	9.3	3,762	6.7	14,891	11,497	1.0		5.7	0.11	1,403	3,873	2,762
SBH	29,501		10,092		27,184	25,633		(1,552)			2,048	6,359	4,064
SWK	14,152		3,794	7.2	11,452	11,207		(245)	4.7	0.06	885	2,792	1,483
SEL		8.9	15,063	5.4	50,878	48,545	0.9	(2,333)	5.8	0.10	3,799	13,955	
FT	60,131	8.9		6.5			1.2	1,936	6.1	0.07			8,286
<b>TOTAL</b>	<b>278,621</b>	<b>8.9</b>	<b>75,299</b>	<b>6.1</b>	<b>255,246</b>	<b>255,745</b>	<b>1.1</b>	<b>499</b>	<b>6.1</b>	<b>0.08</b>	<b>18,170</b>	<b>60,996</b>	<b>38,783</b>

Source from Maybank Automobile Financial Services

From Table 3.3, four regions are noted to have recorded an increase in term of Special Mention Account (SMA) which comprises of Newly Classified NPL Accounts (NCNPL) or accounts fall under 4 month in arrears category. They are Region PKT (Pahang, Kelantan, Trengganu), PKP 1 (Penang, Kedah, Perlis 1), PKP 2 (Penang, Kedah, Perlis 2) and FT (Wilayah Persekutuan). These are the regions where there are many loan defaulters.

Branches of AFS in Federal Territory Region (FT) were the most badly hurt when NCNPL increase from RM60.7 million to RM62.7 million from the period of June 2010 and December 2010.

### 3.4 Maybank AFS Overall Performance Up to December 2010

**Table 3.4 Maybank AFS Overall Performance Up to December 2010**

DEC 09	OVERALL	ACTUAL @ DEC 10	Sector Budget FY10/11		Variance
			RM'000	% Achieved	
FY 09/10	FY 10/11	RM'000			
290,421	SMA		222,000	86.8	(33,745)
1,533,787	SME(2+3)		1,300,705	89.4	(153,763)
66,727	Net NCNPL (+w/o)		80,000	131.2	N/A
45,955	Net Charge		0	0.0	(38,783)
<b>Rescheduling</b>					
171,865	- Rescheduling PL	157,378	400,000	39.3	242,622
N/A	- Rescheduling SME	66,059	120,000	55.0	53,941
21,760	NPSD 1 & 2 MIA		0	0.0	(29,412)
11,393	NPSR 1 & 2 MIA		0	0.0	(8,824)
12,480	2 MIA & Above (DRS 10 vs DRS 09)		0	0.0	(11,764)
0.34%	NPL for DRS 07, 08, 09 and 10 (+w/o)		0.25%	125.0%	N/A
<b>Prevention of P2</b>					
10.4%	- Average Leakage	3.9%	7.0%	78.5%	(1.9%)
N/A	- Collection Up to 7th	* 58.38%	60.0%	97.3%	1.6%
N/A	% Accounts to prompt against the leakage by 7th	* 6.22%	N/A	N/A	N/A
N/A	- P2 turned to Prompt	* 1.61%	N/A	N/A	N/A

Source from Maybank Automobile Financial Services

Table 3.4 is another monitoring tool for AFS. It reveals the following critical segmentation of accounts:

- special mention account or SMA position
- Net newly classified non performing loan or NCNPL position
- Net Charge,
- Rescheduling
- No payment since disbursement or NPSD

Prevention accounts, Special mention account or SMA, Special mention exposure or SME and prevention account is handled by Auto Finance Centers while newly classified non performing loan or NCNPL and non performing loan or NPL accounts are handled by RAQM (Region Asset Quality Management) of respective region.

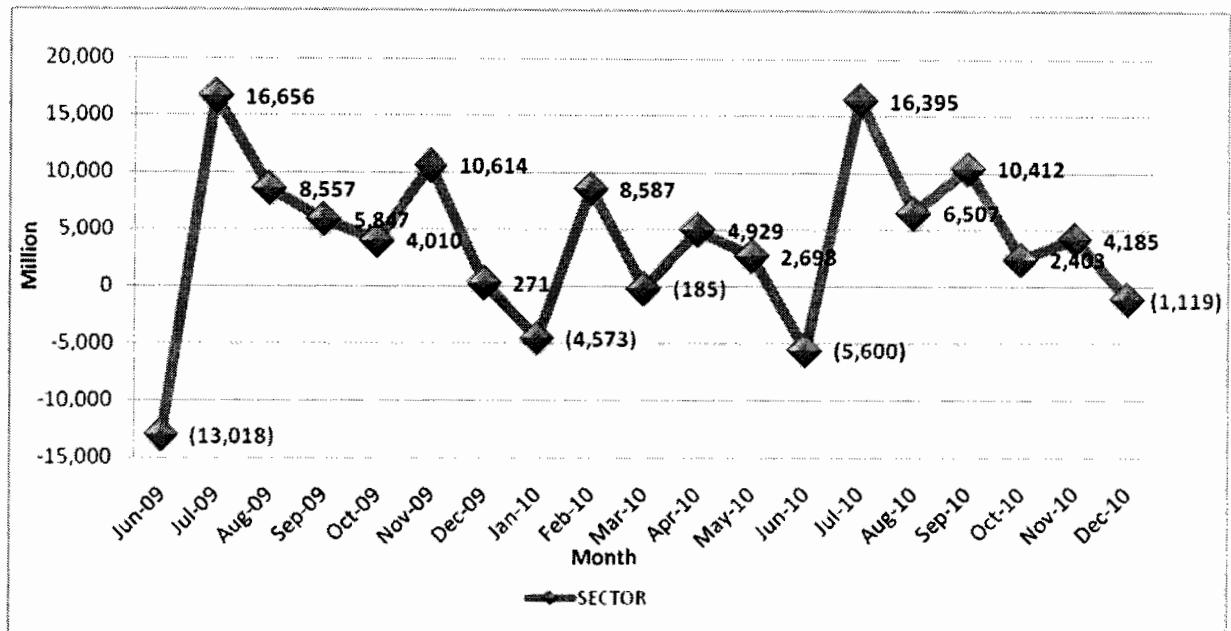
SMA position was alarming with an outstanding amount of RM255 million compared to the budgeted figure of RM222 million. This represents an achievement of 86.8% meaning that AFS was short of its target of 14% by 13.2%. As for the Special Mention Exposure (SME) comprising of accounts of 2 and 3 months in arrears status, the result is manageable with December achievement of 89.4%.

Maybank AFS has failed in their feat to curb the new incurrence of monthly net charge when it recorded a total net charge of RM38 million in the month of December 2010 despite the target of zero monthly net charge. This incurrence of net charge amounting to RM38 million has seriously affected the profitability of Auto Finance sector of Maybank.

As for the rescheduling exercise, the rescheduling project under performed when the achievement is only 39.3% as of December with total amount rescheduled RM223 million from performing loan and special mention exposure category.

### 3.5 Trend of Net Charge

**Table 3.5 Trend of Net Charge**



Source from Maybank Automobile Financial Services

It is normal to notice that July of each year will record a increase in default where AFS sector will experience substantial net charge amount. This is evidenced from figure xxxx above where from a net recovery of RM5.6 million in June the AFS moved to record a net charge of RM16.3 million in July 2010. It was also noted with concern that automobile financial services sector has failed to ensure consistent performance by recording monthly recovery but instead has 'steadily' recorded a monthly net charge for four months from August 2010 until November 2010 and only managed to secure a net recovery in December 2010 of a minimum amount amounting to RM1.1 million for the whole sector. This pattern reflects inconsistency in monitoring and control of the relevant functional units of AFS.

## CHAPTER IV

### RISK MANAGEMENT STRATEGIES

#### 4.0 Introduction

The analysis in Chapter 3 shows the strength and weaknesses of AFS in managing its vehicle financing portfolio. AFS strength is in managing accounts of less than 4 months. The aging analysis shows that 99.4% of their vehicle financing accounts is less than four months. These are good accounts. Alternatively, only 0.6% of the accounts are categorized as non performing loan (greater than 4 months). The aging analysis shows that AFS had managed its credit risk well for the month of June and December 2010.

Another strength that we find is special mentioned account or SMA for the month of December 2010 is 86.8% while special mentioned exposure is 89.4%. Statistic indicates that AFS experienced a shortfall of 13% from its target. The two strengths reflect good monitoring and control function done by AFS on periodic basis.

However, on trend basis we find that the monitoring and control function are not consistent throughout the period. Monitoring and collection efforts increased in certain specific months (July, August and September) while there were less effort in the months after.

We also find that AFS do practice risk management since the activities conducted are in line with risk management definition. Risk management involved activities directed towards the assessing, mitigating (to an acceptable level) and monitoring of risks.

Risk management is the cornerstone of prudent banking practice. Undoubtedly all banks in the present-day volatile environment are face a large number of risks such as credit risk, liquidity risk, foreign exchange risk, market risk and interest rate risk, among others - risks which may threaten a bank's survival and success. In other words, banking is a *business of risk*.

In ideal risk management, a prioritization process is followed whereby the risks with the greatest loss and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in descending order. In practice the process can be very difficult, and balancing between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled.

For this reason, efficient risk management is absolutely required. The purpose of financial institutions is to maximize revenues and offer the most value to shareholders by offering a variety of financial services and applying appropriate risk management strategies.

Three generic risk-mitigation strategies:

- (1) Eliminate or avoid risks by simple business practices.
- (2) Reduction of risk (mitigation)
- (3) Transfer risks to other participants ( outsource or insure)
- (4) Actively manage risks at the bank level (acceptance of risk).

Maybank AFS has adopted all the four strategies to manage the credit risk in the following ways:

*Eliminate or avoid risks by simple business practices.*

1. For income that is less than RM500 for single status applicant, branch will automatically reject the application for financing.
2. For applicant with weak credit record, Auto Finance Center must reject the application to avoid default.
3. For applicant of high risk job sector and weak net disposable income, auto finance center must reject the application.

*Reduction of risk (mitigation)*

1. Impose mitigation measures such post dated checks, standing instruction, lesser loan amount or mandatory requirement of guarantor/s.

*Transfer risks to other participants (outsource or insure)*

Applicant of old age are required to take TN Auto (Takaful Nasional Auto) insurance which act similar to mortgage reduction term assurance whereby in the event of death of the hirer, the insurance company will settle all loan outstanding at the bank.

*Actively manage risks at the bank level (acceptance of risk)*

The credit officer must analyze the credit application proposal at all angles in order to assess the risk attached to the application. Credit risk can be due to many reasons such as young age, weak income structure, high risk employment sector, high risk business sector, weak net disposable income and model of non popular status.

We find Maybank AFS also adopt risk management process comprising of:

- Risk identification
- Risk assessment
- Risk mitigation,
- Monitoring and control
- Reporting.

#### *4.11 Risk identification*

The standard procedures and general guidelines in processing applied in each cases submitted for approval SHOULD (at the minimum) comprise vital steps such as interview personally the applicant and confirm all particulars, verify the details with the guarantor (if applicable), confirm the authenticity of the vehicle and registration card, conduct site visit to applicant resident/office/business premise, evaluate applicant's credibility and authenticate the business existence and strength.

#### *4.12 Risk assessment*

##### *Credit scoring*

Hire purchase processing requires a high level knowledge and skill in term of credit processing and credit underwriting which might be gained through years of experience and employment or through structured training.

We discuss in depth the kind of approaches that a good credit officer should undertake to ensure the credit decision made is accurate and profitable to the bank. The risk identification process is carried using two methods or procedures such as Retail Scoring System (RSS) as well as “Manual” credit evaluation process.

## **RETAIL SCORING SOLUTION (RSS)**

### **Components in Deriving the System Recommendation**

<b>Score</b>	<b>Business Rules</b>
<b>Determined by cut-off score which was set by the Management based on overall portfolio quality target</b>	<b>Designed based on bank's policy, business experiences to sieve out risky applicants</b>

#### *4.13 Risk mitigation*

For credit application with merit but contained several risk element, credit officers should not reject the application. Instead, the existence of risk must be mitigated accordingly.

#### **For Score Above Cut-Off – ACCEPT**

- For this type of applicant, credit risk associated is expected to be low.
- Low risk customer, thus might offer very competitive pricing.
- Requirement of collateral/guarantor for support can be relaxed.
- Facilitate applicant repayment thru e-Payment Channels/PDC

### For Score Above Cut-Off – REVIEW

- For this type of applicant, credit risk associated is expected to be fair.
- Based on applicant data as input in HPS, he/she has met all general criteria under scoring, however, further assessment needs to be done since the applicant has not met requirement under **BUSINESS RULES**.
- Risk mitigation is required in extreme cases, while good and acceptable justification is required for other cases. (Depending on business rules hit)
- Might offer competitive pricing but must be based on well informed judgment.
- Requirement of collateral/guarantor for support should be based on mitigation and justification provided.
- Facilitate repayment thru e-Payment Channels/PDC is essential.

### For Score Above Cut-Off – DECLINE

For this type of applicant, credit risk associated is expected to be high.

### For Score Below Cut-Off – REVIEW & DECLINE

For this type of applicant, credit risk associated is expected to be high. Based on applicant data as input in HPS, he/she has not met general criteria **under scoring** and also **BUSINESS RULES**. Details of business rules is as per appendix II.

Application should be declined otherwise **VERY STRONG** risk mitigation/justification is required. High risk applicant, thus pricing should be on the high side. Requirement of collateral/guarantor for support is a must. Facilitate repayment thru e-Payment Channels/PDC is very essential.

#### *4.14 Monitoring and Control and Reporting*

Bank adopts proper monitoring and control system through numerous reporting systems such as Aging Analysis Report, 3 months Repayment Trend Report, Overall Performance and Trend of Net Charge Report. These are examples of important management report that provide effective monitoring tools to the management of Maybank AFS.

#### 4.2 Manual intervention

In addition to the above credit scoring system used to derive a credit decision judgement, we should not overlook the importance of manual intervention in order to derive a credit judgement.

This manual intervention which involves human credit judgement is important in addressing cases which have been declined or rejected by the scoring system but possess certain credit merit which needs to be addressed only through manual credit decision. In getting to a good credit judgement through 'human intervention', a good credit assessor would conduct a stringent analysis on the following attributes. All important steps pertaining to manual intervention actions are shown in appendix I.

## CHAPTER V

### CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

The case study of Maybank AFS reveals that there are still several areas in financing which could be improved in order to mitigate credit risk. One of the major weaknesses is inconsistency in monitoring and control of loan accounts and performance. One of the most appropriate strategies that we recommend to ensure strong credit underwriting and effective loan monitoring is for the organization to adopt The Best Practice in their organization by creating a strong credit culture within the Maybank AFS.

To ensure success in cultivating strong credit culture, strong support and involvement by the management of an organization is required failing which the strategies would remain on paper without the organization able to reap its success. Some of the recommendation and strategies that can be considered for implementation is segregated below.

#### 5.1 Strong credit culture

Top management 'must buy in' the risk management philosophy and the importance of a systematic risk management process. This belief or philosophy should be disseminated to all levels of Maybank group and its subsidiaries. In that light AFS top management should accordingly transmit the practice of risk management to all staffs at all level and at all centers of Maybank AFS. It is recommended that there should be a lot of communication of risk management, training, staff exposure to risk management concept and practices in order to ensure risk management culture prevails among all staffs.

## 5.2 Setting up of Risk Management Structure

It is important that Maybank AFS ensures that stringent risk management culture is maintained throughout their business activities covering all the 56 Auto Finance centers. However, in maintaining the highest standard of credit management, the financial institution should not neglect the importance of securing new clients as well as maintaining its existing customers. Too stringent procedures might deter the dealers from supporting the financial institutions in term of new business submission while weak risk management procedures might jeopardize the interest of the financial institutions. In a simple approach, we could agree that both issues of BUSINESS and RISK must be weighted appropriately. The prime objective in reducing the NPL level should be addressed with the most effective approaches.

Based on the Best Practices provided by Bank Negara Malaysia, all financial institutions is required to establish their Risk Management Unit under specific department in order to look into the issues of risk management and evaluation on loan application. This is done at Maybank Group. However it would be good to have risk management unit (comprising of Head, Risk Management and Several Risk Executives) at regional level to tackle risk management issue more effectively.

### 5.3 Instilling strong credit analytical competency

All credit officers must have adequate credit training and analytical skill in order to comprehend credit analysis prudently. One of the skills required is the ability to analyze current account statement. A credit officer should be able to analyze all the critical information on the current account statement such as average credit transactions volume, average debit transactions volume, average net cash inflow, end of the month balances, incident of outward bounce check, incident of inward bounce check and reason for the returned check (if any).

### 5.4 Setting up of Regional Credit Asset Quality (CAQ) Committee

A good credit controller with adequate expertise and skill should be able to 'smell' the problem even at its infancy stage of default through the following observation such as inability to contact the hirer, discontinued telephone number, resignation from employment, returned notices with remark such as 'move/transfer' or no such person, business closure noted during visit, returned cheques, holding of payment on numerous occasions as well frequent empty promises.

Pursuant to the above, it is important that a Credit Asset Quality Committee or Regional CAQ Committee be established by the FI. The objectives to establish such committee could be set as follows:-

- a. To instill STRONG CREDIT CULTURE at all level.
- b. To review on accounts that is high risk in nature.
- c. To conduct prompt post mortem review on high risk account i.e. NPSD (No Payment since Disbursement) and 3 month in arrears accounts.
- d. To share the learning lesson or learning experience through several channels such as CAQ Memo, CAQ Alert Memo and CAQ Monthly Bulletin.
- e. To provide an oversight function.
- f. To mitigate the risk of lending in retail auto loans.

The Regional CAQ Committee set up shall comprise of the following structure:-

- a. Chairman - Region Head
- b. Secretary - Head, Regional Risk Management
- c. Members -
  - Branch Managers
  - Assistant Branch Managers
  - Assistant Credit Managers
  - Marketing Officers
  - Processing Officers
  - Collection Officers

There should be a meeting on regular basis i.e. monthly meeting which is to be chaired by Region Head with mandatory attendance. Every meeting shall be recorded and submitted to Head Office for further scrutiny.

#### 5.5 Strengthening the collection and recovery action - The strategies

1. *Reinforced CAQ Framework* to drive a strong credit culture and improved risk management. In addition to the current CAQ Committee at Regional level, the setting up Branch CAQ committee would be an added advantage. The structure should comprise Branch Manager as chairman while members should consist of Assistant Credit Manager, Assistant Manager, Marketing Officers, Processing Officers and Collection Officers. The objective of such establishment would be similar to the existing Regional CAQ Committee objectives.
2. *Structured collection Framework*. This can be achieved through concerted effort and total involvement of all staffs. Regional Asset Quality Management (RAQM) should also work hand in hand with branches under their supervision. Branch to aggressively promote payment through standing instruction and E-Channel. The productivity of the collectors must be measured prudently. The use of auto SMS system should be of another advantage.

3. *Humanized 3R Campaign with enhance quality.* 3R campaign is the current project comprising of Rescheduling, Restructuring and Rehabilitation embarked by Maybank AFS. Launching of early campaign of special rescheduling campaign on ‘Special Mention Exposure’ accounts is vital to ensure its effective effort. Branches must also strengthen its loan security position through several second way out channel such as guarantor, standing instruction as well as post dated checks as mean in strengthening the facility.
4. *Drive HP Assignment.* Branch should focus on 3<sup>rd</sup> party user and bind the 3<sup>rd</sup> party through assignment agreement. Letters should also be sent to hirers whom to branch knowledge had sold their vehicles to 3<sup>rd</sup> party by advising them to do assignment.
5. *Drive payment through standing instruction and E-channel.* Branch should conduct their owned campaign on repayment through standing instruction as well as through E-Channel. Both channels should be signed up at the point of entry of new loan and during newly rescheduled account. The standing instruction date should be fixed the same date applicant salary is credited. In promoting the drive, flyers or pamphlet could be attached in the new agreement. Perhaps, Head office could come up with some kind of recognition to the effort done by branch by giving out prizes to branches with highest number of new standing instruction against total HP accounts.

6. *Up-skill people via training.* There are numerous ways to equip and enhance the people's skill and knowledge. Head Office being the highest authority should conduct a road show and workshop to motivate staffs. Staff should also be notified on the findings from post mortem review conducted by Region and Head Office. These findings can be conveyed through various channel such as Monthly CAQ Bulletin, monthly staff meeting and monthly managers meeting. Apart from the above, any success stories of the branch or RAQM must be shared with all staffs. Branch managers should also nominate their respective staffs to attend on a regular basis on the most appropriate training at Maybank Academy if deemed fit.
  
7. *Humanizing approach on collection.* Humanizing means the collectors must practice more humane approach such as being caring, gentle, kind, passionate and civilized in dealing with their customers. This will ensure effective collection effort is carried out against the hirers.

## 5.6 CONCLUSION

Maybank Automobile Financial Services is an important profit contributor to Maybank Group in term of auto financing. As at 30<sup>th</sup> June 2010, Maybank AFS has contributed RM700 million in term of profit to Maybank Group. This study of AFS in dealing with auto financing and managing of credit risk provides a good case study for practitioners, academician and others to better understand the lending practices and risk management strategies adopted by AFS.

By referring to best practices we recommend that a strong credit culture be integrated at all levels and appreciated at every level from top management to the supporting staffs. We also suggest several recommendations to implement the strong risk management culture and risk management strategies to manage credit risk effectively.

In view of the severe cost of lending area and high default, all banks must emphasize on the stringent control and monitoring effort to combat default. Default to a financial institution should be considered as 'CREDIT CRIME'. Therefore, banks must observe that they fulfill all basic requirements as well as strict compliance to their existing rules and regulation and policies without compromise.

## Appendix I

### APPLICANT

#### Name

A good credit underwriter should be very sensitive as name carries weight. A name that appears under certain system checking such as FIS, CCRIS, OCIS etc will act as a triggering point for the officer whether or not to proceed with the next step of processing or evaluating a credit proposal or to trash the application immediately. For instance, a person whose name appeared under BMC or 'Biro Maklumat Cek' would reflect the character and credit standing of a person financial health.

#### Private address

The credit officer must be able to establish the ownership of the residential i.e. owner or tenant. If tenant, the credit officer should obtain or secure the applicant hometown address or the parent's address. More often than not, branches would normally stated the resident is owned by the applicant when there is no evidence to justify the house ownership i.e. no credit record appears in CCRIS to justify that applicant is having a housing loan. In normal circumstances, no one is in the capacity to purchase a house on cash basis.

Type of house

The credit officer should be able to determine the type of house owned or rented by the applicant as this will reflect his/her capacity and social status. The credit officer must also be cautious on any unreliable or incomplete addresses such as “ Di hadapan No 26....” or post box address which might deter our ability to conduct a good future recovery and collection effort.

Telephone and contact number

Officer must ensure that they must insist on the fixed line number rather than highly rely on the mobile numbers which are easily terminated or become obsolete especially the pre-paid numbers.

Age of applicant

Younger applicant normally has lower commitment. However, this is related to the amount finance and type of vehicle financed.

Gender

Female should be more discipline in payment against male which normally has many commitments such as hobbies and personal expenses. However, this is not conclusive.

Marital status

Married applicant normally has more commitment and would think twice before acting.

*Number of dependants and their age*

Closely related to debt service ratio (DSR) of a customer. The officer must be able to quantify the reasonable expenses incurred in relation to applicant living area.

**EMPLOYMENT RISK/INCOME RISK**

*Occupation/Designation*

The credit officer must be aware of the designation against the age. Credit officer should also be more stringent on applicant of self employed status such as sole proprietor or small time business owner or may be of Small and Medium Size (SME) status. Statistic shows that many SME do not celebrate their 5th year birthday. Bank should also avoid of high risk occupation such as those from the manufacturing sector i.e. operator, technician, line leader, supervisor etc or those of sales based income i.e. salesman, promoters etc.

*Employer name, address and business nature*

The credit officer must verify the employer status and existence especially those of “Sdn.Bhd” companies. The officers should be cautious of any ‘unheard’ name or non established business entity. They must also verify the business or organization strength by looking at the business size and tenure of establishment. In general, the credit officer must evaluate the employer’s strength as well apart from the applicant’s strength to ensure applicant’s source of income in the long run is determined and secured.

*Years of service*

The credit officer must be very cautious on newly employed applicant or those under probationary or contractual renewal status as this will hamper their future income. The bank officer also needs to be wary of those of job-hopping nature i.e. hotelier or those of old age but with new employment tenure.

*Income and cash flow*

The credit officer must computer the debt service ratio of the applicant accurately. Wrong or inaccurate calculation will affect the credit decision by the approving authority. Income must be substantiated with documented evidence such as pay slip or vouchers. A one-off payment income such as bonus should not be taken as monthly income or spread into 12 months.

All income must be tied-up with EPF. The credit officers must use their LOGIC, SIX SENSES and COMMON SENSE to justify the income against the age, qualification, job position, job tenure as well as employer's strength.

*Spouse*

The credit officer must verify the spouse income, expenditure and loan commitment. The officer must verify the bad record of the spouse as some applications were submitted due to spouse illegibility.

### Guarantor

This is the credit support which form as the second way out should the hirer failed to settle the facility. Hence, it is imperative to get a good guarantor both in willingness and ability to cover any shortfall. The officers must be aware of the guidelines on guarantor as stipulated in the BAFIA as well as guidelines by BNM. The best guarantor is someone that is willing, able and ready to pay for the facility they guaranteed.

### Referee

The credit officer must ensure that the people taken as referee are those really fit and know the responsibility as they are useful in time of need i.e. when hirer is untraceable. So, the officers should consider immediate family members especially parent and siblings and to avoid taking 'social' guarantor normally friends and colleagues.

### Site visit

Site visit should be conducted to the applicant residence and workplace as to determine the social status as well as the employer's strength.

### Recent FIS and CCRIS checking

Most officers neglect this matter when it is the most important indicator to detect element of fraud and over exposure on credit. In some instances, the applicant has been rejected by other financial institutions prior to coming to current bank.

For processing and financing of used vehicle, credit officer must take extra precautions and measures such as strong analysis of the character and credibility of applicant by conducting personal face to face interview and verification of original documents for all photocopied document verified against the original. It is compulsory for all cases except in the case of private limited company to provide two referees or references preferably from immediate family members.

For financing of luxury vehicle, should there be indication of irregularities, stringent procedures must be exercised. Verification against the original registration card if there is irregular records of the seller i.e. seller with ambiguous address or 'owned' for short period, unit acquired by cash by the seller, there are several transfer in a short span of time, there has been a lapse in renewal of road tax, unit with registration number changed to a new one, there is transfer of registration center and registered owner is residing at a different district/state from the registration center

A guarantor is required to support the loan facility in the event of applicant's obligations is more than 50% from monthly income, applicant with no income e.g. student (parent) to stand as guarantor or housewife (preferably) spouse to stand as guarantor. Applicant's age exceeded 60 years old or in the case of foreigner where local Malaysian guarantor is required is required.

A guarantor is preferred to be the applicant's next-of-kin e.g. mother, father, brother, sister, uncle etc. If the spouse of the applicant is a wage earner, it is preferred that the spouse to stand as guarantor to strengthen the application.

## Appendix II

### **Business Rules**

Objective of Business Rules is to filter applications by using Rule Sets:-

#### Examples of Review Rules:-

- Applicant /Spouse/Guarantor OCIS = Case withdrawn/discharged, Summons served & etc
- Applicant CCRIS total minor conduct last 12 months > 3 times
- CCRIS legal status = summon/writ files
- Applicant with no fixed lines (homes and office)
- Dealer default rate > 5%

#### Examples of Decline Rules:-

Applicant /Guarantor OCIS = Bankruptcy notice served, attempted fraud, judgment debtor, account written-off & etc

Applicant CCRIS total major conduct last 12 months > 3 times

CCRIS legal status = judgment order, bankruptcy, winding up & etc

Applicant/Guarantor age < 18 years old

## REFERENCES

Dorfman, Mark S. (1997). *Introduction to Risk Management and Insurance* (6th ed.). Prentice Hall. ISBN 0-13-752106-5.

ISO/IEC Guide 73:2002 (2002). Risk management -- Vocabulary -- Guidelines for use in standards. International Organization for Standardization.  
[http://www.iso.org/iso/catalogue\\_detail?csnumber=34998](http://www.iso.org/iso/catalogue_detail?csnumber=34998)

Jyotirmoy Podder, Ashraf Al Mamun. Loan loss provisioning system in Bangladesh banking: A critical analysis Managerial Auditing Journal Year:2004 Volume:19 Issue:6 Page:729 – 740.

Kieso, D.E., Weygandt, J.J., Warfield, T.D. (2001), *Intermediate Accounting*, John Wiley & Sons, New York, NY.

Lin Peter Wei-Shong, Mei Albert Kuo - The internal performance measures of bank lending: a value-added approach ChungJournal: Benchmarking: An International Journal Year: 2006 Volume:13 Issue:3 Page:272 – 289.

Maybank, Automobile Financial Services Standard Practice Instruction on Hire Purchase (Conventional & Ijarah), SPI

Maybank, Automobile Financial Services Credit Policy on Hire Purchase, Credit Policy (Risk Management)

Maybank, Automobile Financial Services Credit Guidelines Memos from Retail, Hire Purchase Business Head Office

OpRisk & Compliance is the home page of the leading educational resource on operational risk

Principles for Sound Liquidity Risk Management and Supervision  
<http://www.bis.org/publ/bcbs138.pdf>

Principles for the management of credit risk from the Bank for International Settlement

Robert Fiedler, Karl Brown, James Moloney Journal 1:, Liquidity risk: what lessons can be learnt from the crisis in Japan's banking system? Balance Sheet Year:2002 Volume:10 Issue:1 Page:38 – 42  
[www.emeraldinsight.com/10.1108/09657960210697391](http://www.emeraldinsight.com/10.1108/09657960210697391)

Wikipedia, Credit (finance)From Wikipedia, the free encyclopedia, [en.wikipedia.org/wiki/Credit\\_\(finance\)](http://en.wikipedia.org/wiki/Credit_(finance)) accessed on 5th October 2009.