

UNIVERSITI TEKNOLOGI MARA

**CREDIT SCORING MODEL
ENHANCEMENT FOR PERSONAL
BANKRUPTCY PREDICTION IN
MALAYSIA: TOWARDS
ACHIEVING DEBT
SUSTAINABILITY**

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ABSTRACT

“Bankruptcy is perhaps the greatest and most humiliating calamity which can befall an innocent man. The greater part of men, therefore, are sufficiently careful to avoid it. Some, indeed, do not avoid it; as some do not avoid the gallows.”

Adam Smith, Wealth of Nations Book II, p.363

Generally, the idea of getting bankrupt never crosses our minds, but being declared bankrupt can happen to anyone with some form of debt. Several critical issues warrant great attention such as the prevalence of personal bankruptcy incidence, high enrolment in the Debt Management Program (DMP), and high debt service ratio (>30%) among Malaysians. These indicate that many Malaysians are in financial distress, lack financial preparedness, and are in high need of debt repayment assistance. If these issues are left unaddressed, they may lead to many Malaysians going into bankruptcy. These key issues underscore the importance of developing an efficient credit scoring model to address the concern that majority of Malaysians are in financial distress. In this context, the objectives of this study are to identify the key determinants capable of predicting the likelihood of personal bankruptcy in the future, develop personal bankruptcy credit scoring models, and compare the models' performance. This study focused on microeconomic indicators using 31,200 samples of the DMP dataset for a period between 2016 to 2020. Using RapidMiner software, the methodology for this study consisted of the application of logistic regression (LR) and support vector machine (SVM) models through the adoption of Cross-Industry Standard Process for Data Mining (CRISP-DM) framework. The identification of key determinants of personal bankruptcy was performed using multi-stage feature selection via the filter and forward selection approach. Next, Synthetic Minority Oversampling Technique (SMOTE) was used to compare the models based on predictive accuracy, misclassification, precision, specificity, and sensitivity rates. Finally, the model with the best predictive ability was proposed to be adopted. The findings from this study revealed that the LR is the best model, with a predictive capability of 73.43%. Meanwhile, SVM is a promising alternative model for personal bankruptcy prediction with a predictive capability of 71.41%. This study extends and provides new insights in several important ways. Firstly, this study contributes to the body of knowledge in the personal bankruptcy and data mining literature. Secondly, the application of SMOTE and multi-stage feature selection technique gives significant contributions to improving the models' performance. The results show the virtues of the proposed SMOTE technique based on a balanced dataset are more effective than the original dataset. The multi-stage feature selection technique helps to identify the optimal set of predictors without increasing the complexity of the method. Finally, this study assists AKPK and financial institutions to determine the creditworthiness of individuals, to ensure their debt sustainability and reduce the probability of loan default.

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TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR'S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	x
LIST OF FIGURES	xiii
LIST OF ABBREVIATIONS	xv
CHAPTER ONE INTRODUCTION	1
1.1 Background of Study	1
1.2 Problem Statement	6
1.3 Research Objectives	15
1.4 Research Questions	15
1.5 Motivation and Significance of Study	15
1.6 Scope of Study	18
1.7 Definition of Terms	19
1.8 Organization of Study	21
CHAPTER TWO LITERATURE REVIEW	24
2.1 Introduction	24
2.2 Underpinning Theories Related to Personal Bankruptcy	24
2.2.1 Moral Hazard Theory	26
2.2.2 Strategic Timing Theory	27
2.3 Systematic Literature Review	29
2.4 Key Determinants of Personal Bankruptcy	32
2.4.1 Demographic Indicators	34
2.4.2 Socioeconomic Status Indicators	36
2.4.3 Debt Indicators	38

2.4.4	Financial Indicators	42
2.4.5	Social Stigma Indicators	44
2.4.6	Summary of the Previous Studies on the Determinants of Personal Bankruptcy	46
2.5	Credit Scoring Models	51
2.5.1	Credit Scoring Models Applications in Practice for Credit Risk Prediction	55
2.5.2	Summary of Recent Trends in Credit Scoring Techniques	62
2.5.3	Variables Used in Credit Scoring Models	67
2.5.4	Summary of Issues in Credit Scoring Models	73
2.6	Research Gaps	75
2.6.1	Research Gaps in Personal Bankruptcy Research	76
2.6.2	Research Gaps in Credit Scoring Model for Personal Bankruptcy Prediction	79
2.7	Research Framework Development	87
2.8	Summary of Hypotheses	89
2.9	Chapter Summary	90
 CHAPTER THREE METHODOLOGY		92
3.1	Introduction	92
3.2	Research Design	92
3.2.1	Research Philosophy	94
3.2.2	Research Approach	95
3.2.3	Research Strategy, Choices, and Time Horizon	96
3.3	Data Mining Technique: Cross-Industry Standard Process for Data Mining (CRISP-DM)	96
3.3.1	Business Understanding	99
3.3.2	Data Understanding	102
3.3.3	Data Preparation	116
3.3.4	Descriptive Analysis	120
3.3.5	Modelling: Credit Scoring Model Development for Personal Bankruptcy Prediction	121
3.3.6	Default Credit Scoring Models	129
3.3.7	Enhanced Credit Scoring Models	132