09 February 2021

Experian Africa

Market Impact Report February 2021
A look at a rapidly changing economy

The Impact of COVID-19 on Consumers: Update on COVID-19 analytics and how the holiday season impacted consumers ability to repay.

Contents page

Introduction

With many countries announcing extensions of lockdown periods due to second and third waves, the extent of the pandemic's economic impact continues to be largely unknown. However, through tracking and analysis of the emerging patterns in the credit and related industries, we see early indicators of what is to come over the next few months.

All emerging trends are tracked monthly with a focus on how they impact overall market activity, changes in consumer behaviour and the impact on overall performance at a total market and business vertical level.

We are committed to continually sharing insights and trends as they emerge, keeping you informed to support your strategies.

The February 2021 report focus areas include:

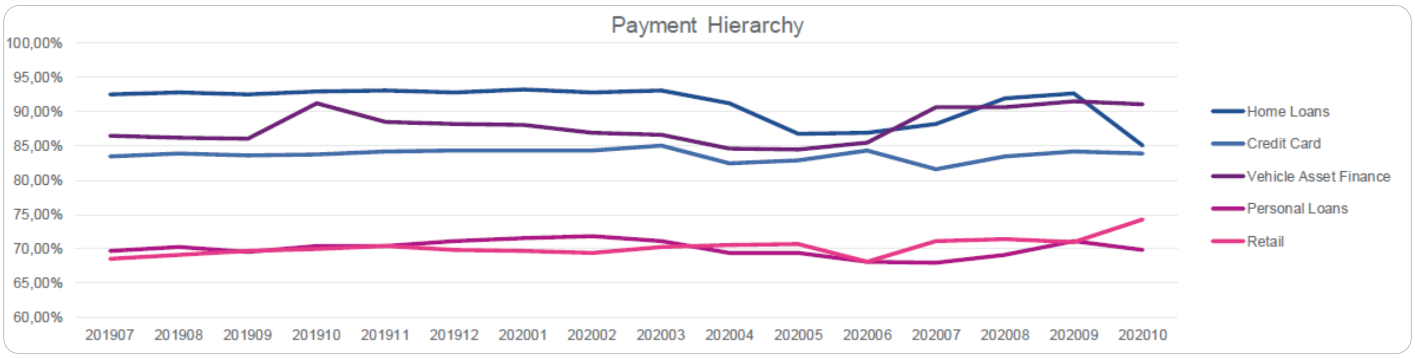
- How has the COVID-19 crisis impacted consumer credit profiles, especially over the holiday season?
- How has the COVID-19 crisis impacted consumer credit appetite?
- Update on the latest Experian COVID-19 metrics.

How has the COVID-19 crisis impacted consumer credit profiles, especially over the holiday season?

All Credit-Active Consumers – Payment Hierarchy

Do consumers prioritise paying certain trades before others?

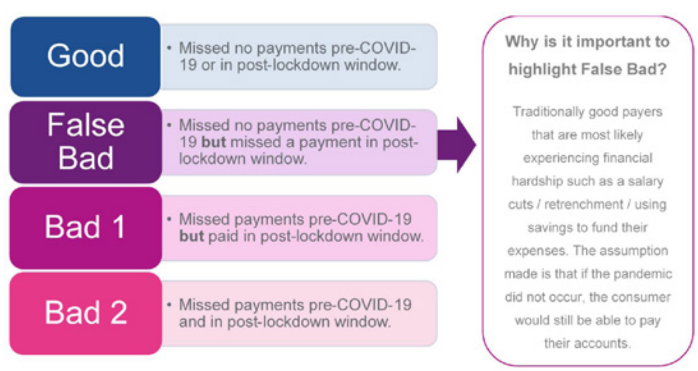
Prior to the COVID-19 pandemic, consumers prioritised their secured payments over unsecured payments; however, a change is evident after April 2020, where consumers started to miss payments on their secured products and started to repay their unsecured products. This could have been a factor of consumers being able to repay smaller credit commitments and not larger commitments such as their Home Loans or Vehicle Asset Finance products. Consumers started to prioritise secured lending again after July 2020. Payment Holidays granted to consumers have also influenced these trends.Overall Business Enquiry activity still recovering to previous levels.



All Credit-Active Consumers – COVID-19 Indicators

We have created COVID-19 Indicators as a unique tool to segment consumers into four categories to measure the risk of consumers post-lockdown.

- They were designed to measure the repayment behaviour of South African consumers with active credit products such as Home Loans, Personal Loans, Credit Cards and Retail Loan Accounts.
- Looking at consumers' payment behaviour on individual accounts, we can create segments based on their pre- and post-lockdown observed risk.
- These risk definitions can be assigned on an account level as well as at a consumer level using an instalment-weighted approach.
- The indicators are calculated for each month after the start of lockdown (end of March 2020).



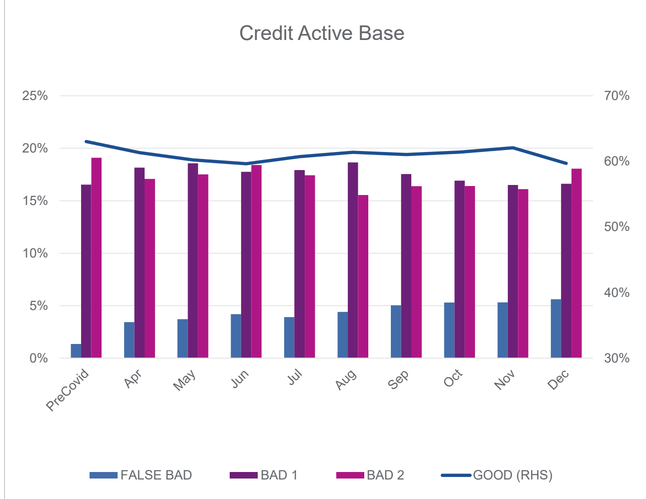
Comparing the COVID-19 Indicators distribution across time for the credit-active base.

Pre-COVID-19, the **False Bad** percentage was **less than 1.5%** on the credit-active base.

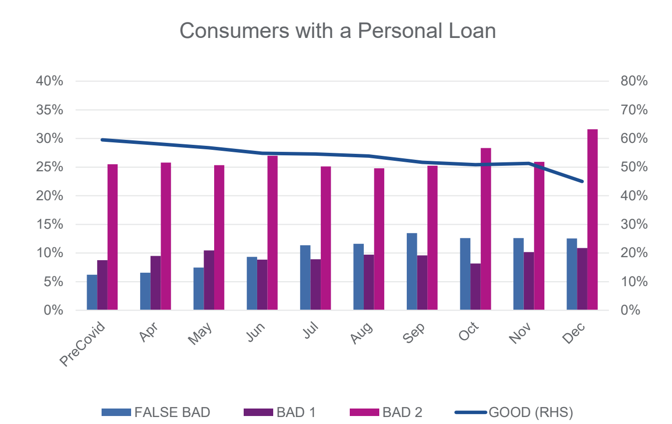
The False Bads continue to grow over time, whereas Bad 1 and Bad 2 stayed stable, with the exception of the spike in December 2020

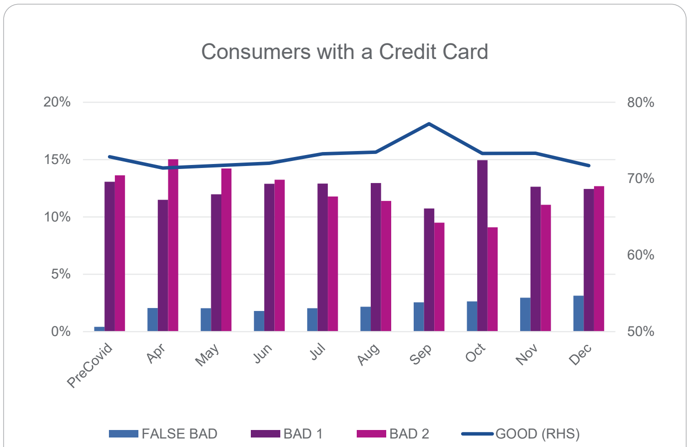
During 2020, there were multiple lockdown levels, with the economy slowly opening towards year-end. Credit activity increased as stores opened, and consumers were able to buy non-essential goods and move more freely within, as well as in and out of the country. This allowed many more businesses to open their doors and trade again. Unfortunately, from the False Bad and Bad 2 population, it is evident that many consumers are still facing financial hardship and most likely lost their job or still have a lower income compared to pre-COVID-19 times.

In December, the stringent lockdown measures negatively impacted the repayment ability of consumers even further.



Comparing the COVID-19 Indicators distribution for Personal Loans and Credit Card consumers.



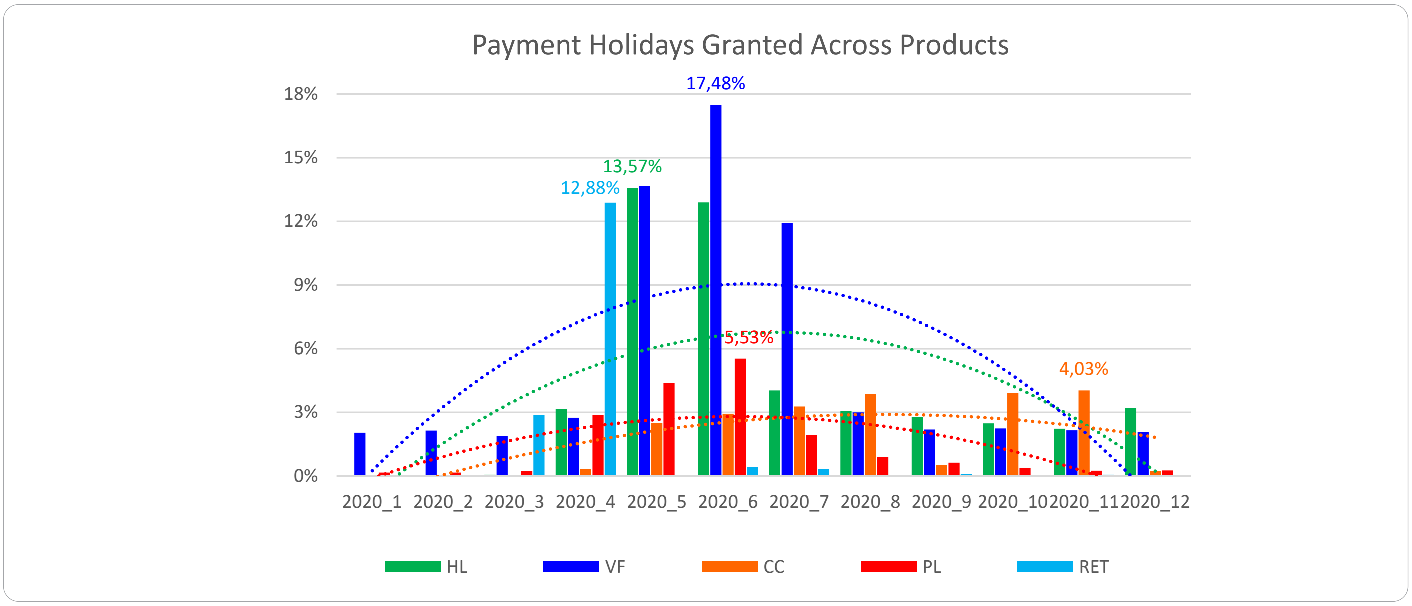


Consumers that have Personal Loans are showing a continued increase in the False Bad flag compared to pre-COVID-19. After July 2020, the False Bads reached 10%, with September 2020 having the highest percentage of False Bads at 13.5%. The Bad 2 population remained stable during 2020 and only spiked in December 2020. From the significantly higher ratio, when compared to other products, it is evident that consumers do not have the ability to honour debt commitments.

Consumers with Credit Cards have few False Bads compared to Personal Loans and the credit-active base. The False Bads increased in April 2020 but remained stable. This is likely due to the nature of the product, since Credit Cards are a type of revolving loan with consumers being able to utilise their repayment again.

All Credit-Active Consumers – Payment Holidays

With more consumers moving into a distressed financial state, more payment relief measures were taken up in April-June 2020. These have, for the most part, been decreasing since July.



Credit service providers assisted consumers who were negatively impacted by the pandemic by offering:

- Term extensions – Extending the remaining term on fixed-term agreements in order to reduce the monthly instalment to cope with reduced income and/or increased expenditure due to COVID-19.
- Deferred payments/payment holidays – Deferring repayment of debt for a period of 1 or more months in order to provide immediate relief to consumers dealing with retrenchments, reduced income and/or increased expenditure due to COVID-19.

Limitations:

- Payment relief measures are normally extended to lower-risk consumers and might not provide relief for all consumers who are willing to take it up.

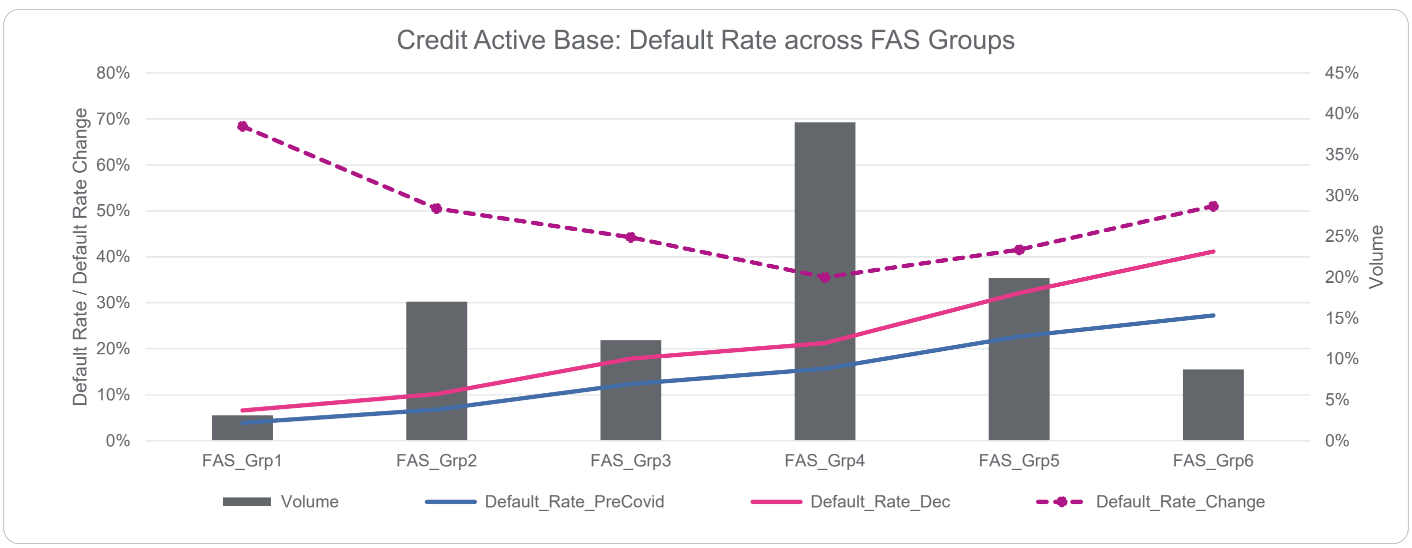
For the majority of the products, payment holidays were extended predominantly during April, May and June. Most of these products showed a decline in the incidence of payment holiday extension from July 2020 onwards.

Financial Affluence Segmentation (FAS)

The Experian FAS model is segmented into six primary groups described below.

- **FAS Group 1: Luxury Living** – Affluent individuals representing the upper crust of South African society with the financial freedom to afford expensive homes and cars.
- **FAS Group 2: Aspirational Achievers** – Young and middle-aged professionals with the resources to afford a high level of living while furthering their careers, buying property and establishing families.
- **FAS Group 3: Stable Spenders** – Young adults that rely on financial products to assist in making ends meet or to afford specific necessities such as clothing and school fees, or seasonal luxuries.
- **FAS Group 4: Money-Conscious Majority** – Older citizens that are conscious of where and how they spend their money; often seeking out financial products to cover basic needs or for unforeseen expenses.
- **FAS Group 5: Laboured Living** – Financially limited individuals as salaries are below national tax thresholds, they spend their money on basic living necessities such as food and shelter.
- **FAS Group 6: Yearning Youth** – Very young citizens that are new to the workforce; this mix of labourers and possibly working students earn low salaries and are limited to spending on non-essential goods

Default Rate on Credit Active Base across FAS Groups

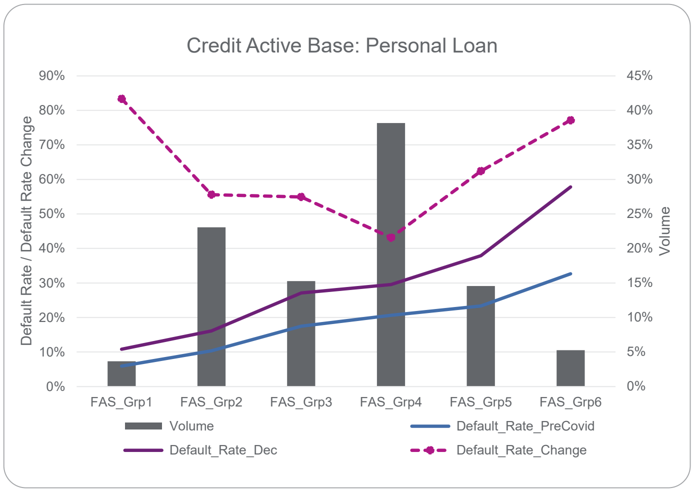


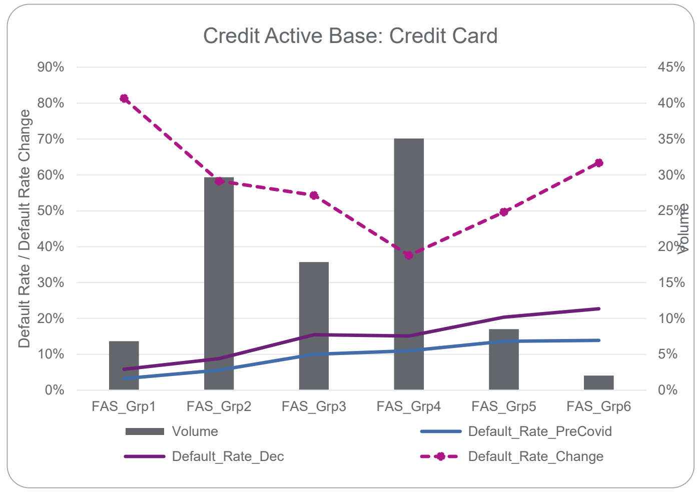
The default rate is based on a 3+ definition across all active products a consumer holds. The default rate is calculated by summarising the number of accounts the consumer is 3+ in arrears then dividing by the number of active accounts the consumer holds.

The default rate across all groups increased, but FAS Groups 1, 2 and 6 have the highest change in default rate when comparing pre-COVID-19 with December 2020 default rates. Changes for FAS Group 1 could be attributed to the higher proportionate exposure to secured lending products, as highlighted in Experian's Consumer Default Index (CDI).

There was also a significant increase in the default rates of FAS Groups 2,3 and 5, which was expected following the holiday season and stringent lockdown criteria that included the ban of alcohol sales and closure of tourist attractions over the course of the December 2020-January 2021 holiday season. It is clear that all income groups across the spectrum are experiencing financial strain, and it will be a financial challenge for consumers to catch up on missed payments.

Default Rate across FAS Groups comparing Personal Loans and Credit Cards



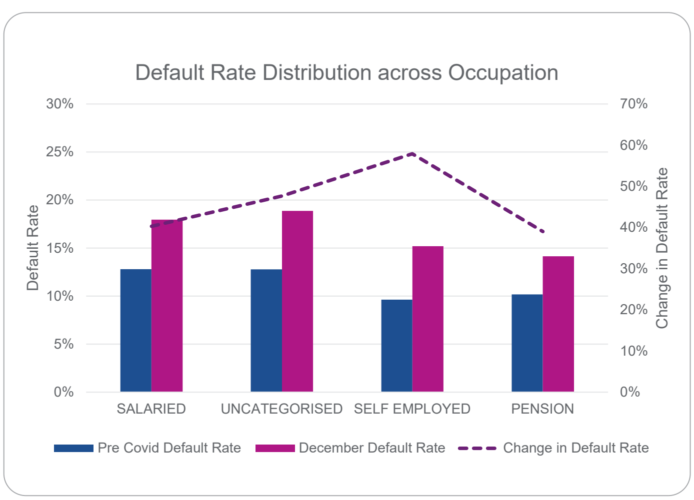


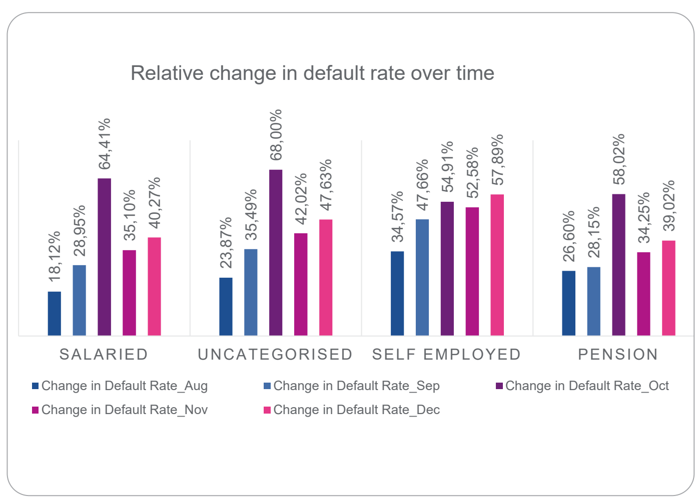
The default rate is based on a 3+ definition across all active products a consumer holds. The default rate is calculated by summarising the number of accounts the consumer is 3+ in arrears then dividing by the number of active accounts the consumer holds.

Personal Loans have significantly higher default rates compared to Credit Cards, but the change in default rates across the FAS groups for consumers in both products follow a similar trend. FAS Groups 1 and 6 having the highest change in default rates.

Occupation Groups

Default Rate on Credit Active Base across Occupation Groups: Level 1





The occupation groups in the first graph are the first level of the occupation categories where "Uncategorised" are mostly salaried individuals working for very small entities that could not be classified by industry.

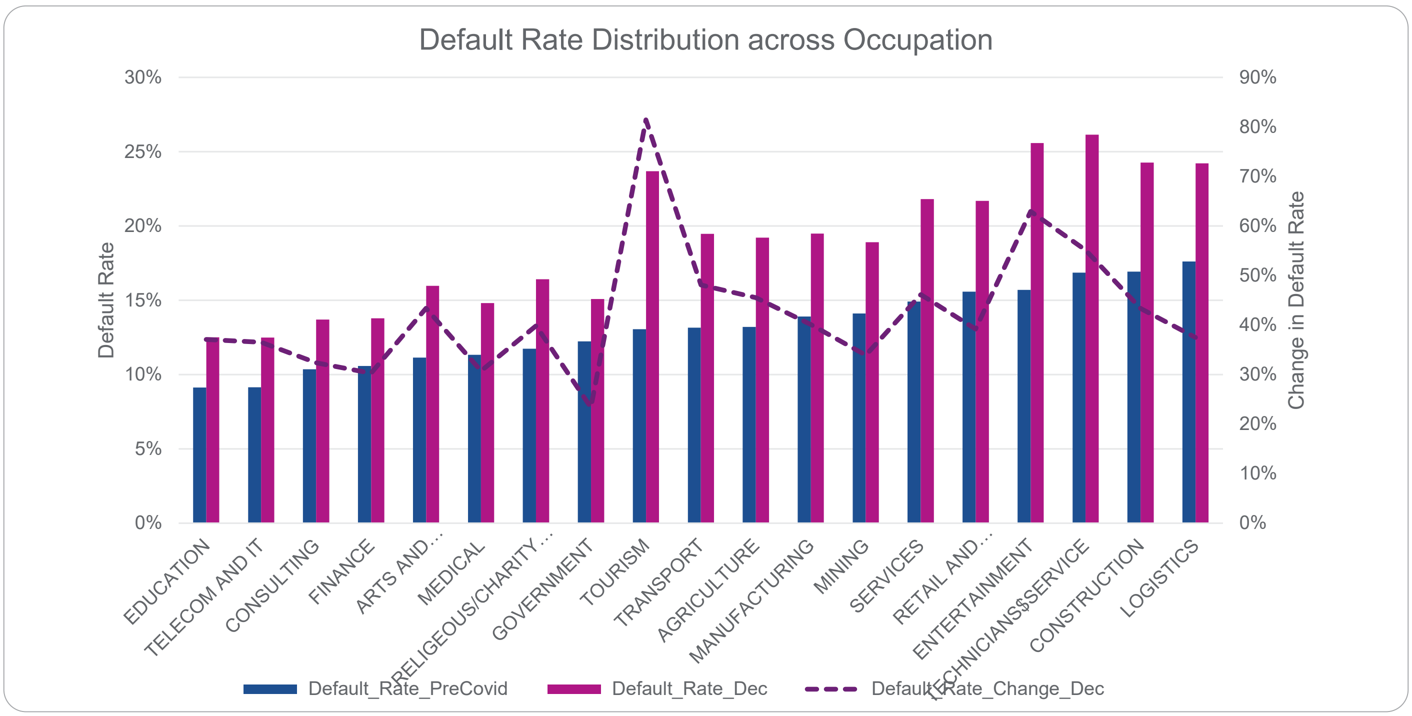
The "Self Employed" category displayed the highest increase in default rate in December 2020. The strict lockdown rules had a negative effect on smaller businesses and those not seen as an essential service were hit the hardest in early 2020. With the stringent lockdown rules over the holiday season, these entities are facing another challenge in terms of meeting their repayment obligations.

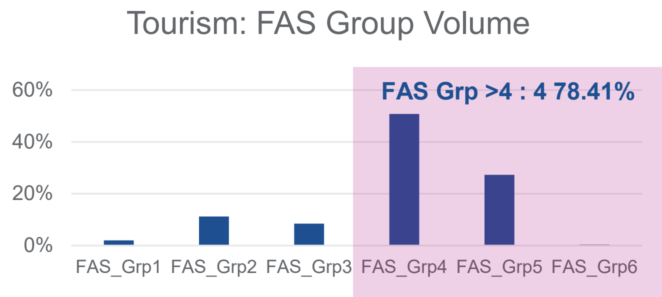
The second graph on the right shows the change in default rate over time. "Self Employed" consistently had higher changes in default rate except for October 2020. The change in default rate for "Salaried" and "Uncategorised" follow a similar trend. Overall, all groups show signs of distress during 2020. All occupation categories, except for "Self-Employed" consumers, showed a significant drop in the change in default rate in November 2020. This non-recovery of “Self-Employed” consumers means that they have seen the largest change in default rate over 4 of the last 5 months.

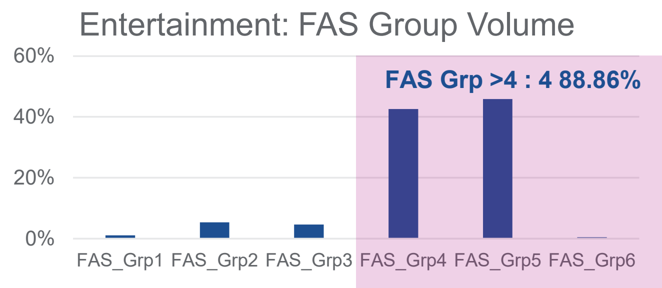
Default Rate on Credit Active Base across Occupation Groups: Level 2

The graph below depicts the default rate of more granular occupation groups. Tourism and Entertainment have the highest change in default rate. This is expected as the stringent lockdown measures over the festive season limited tourism activities as well as operating hours of restaurants, which are deemed Entertainment.

Looking at the FAS distribution of both these industries it shows that in both groups, 75% of consumers in these occupations fall into the higher risk FAS Groups 4, 5, and 6; whereas only 58% of the total credit active base falls into FAS Groups 4, 5, and 6.







	Default Rate		
Entertainment	PreCovid	Dec	Change
Beauty & Fitness	14.72%	22.96%	55.98%
Restaurants & Take Out	16.11%	26.68%	65.58%

Payment Quadrants

These quadrants illustrate how consumers with two or more product repay the products compared to how they repay other active credit products.

Personal Loans: December 2020

		Repay Banking Products	
		No	Yes
Repay Personal Loans	No	3.74%	21.04%
	Yes	5.67%	69.54%

Credit Card: December 2020

		Repay Banking Products	
		No	Yes
Repay Credit Card	No	2.89%	12.63%
	Yes	4.54%	79.94%

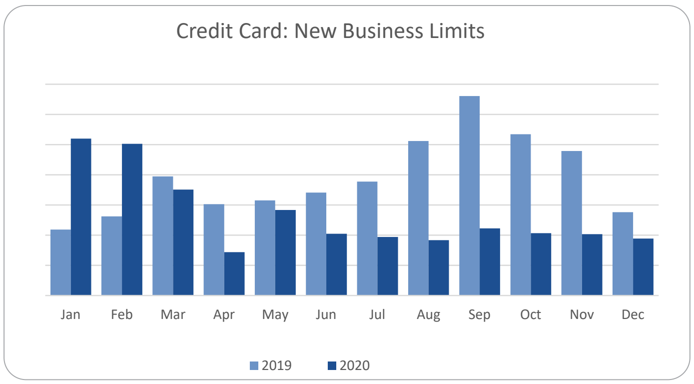
At 69.54%, a significantly lower percentage of consumers pay both their Personal Loans and other Banking Products compared to the 79.94% of Credit Card consumers repaying their Credit Card and other Banking Products, showing the distress of consumers not being able to repay their debt obligations.

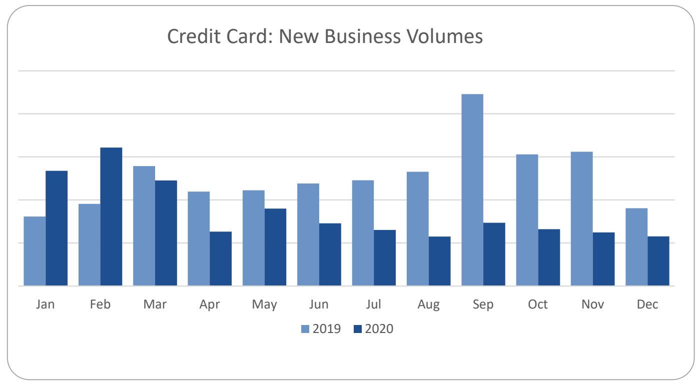
A high proportion of 21.04% of Personal loan consumers do not repay their Personal Loans but do repay other Banking products. This highlights that collection processes should continue to be a key focus to avoid having consumers not repaying their Personal Loans.

New Business analysis for Credit Card and Personal Loans

New Business Limits and Volumes

Credit Card New Business Limits and Volumes

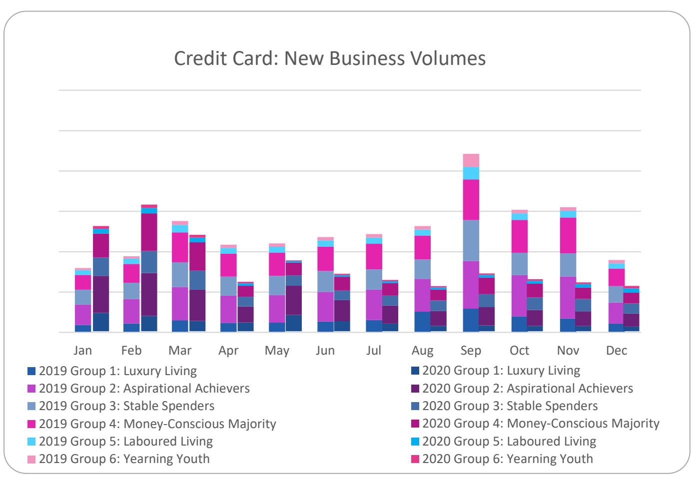


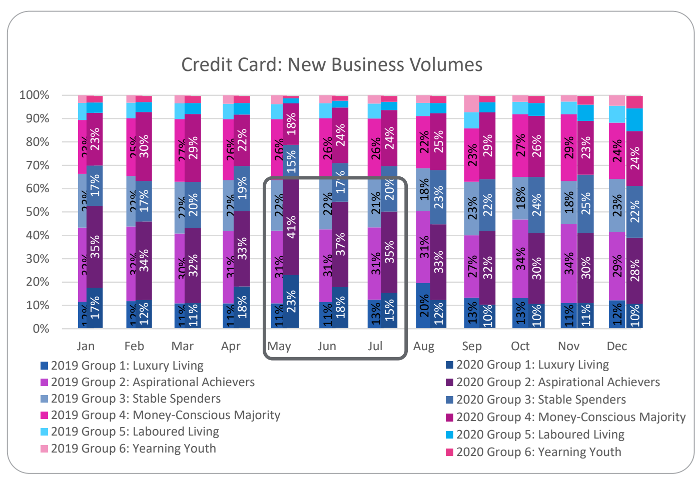


Credit Card new business value (Total Limit) in the early parts of 2020 exceeded the values observed in 2019. However, following the institution of the hard COVID-19 lockdown on 27 March 2020, these volumes dropped to values drastically less than what was seen in 2019.

Credit Card new business values have not recovered to 2019 levels – even with the gradual ease of lockdown measures right down to level 1 in September 2020. In fact, the drop in new business was so significant that the usual seasonality of decreasing new business during the festive season was not present in December 2020.

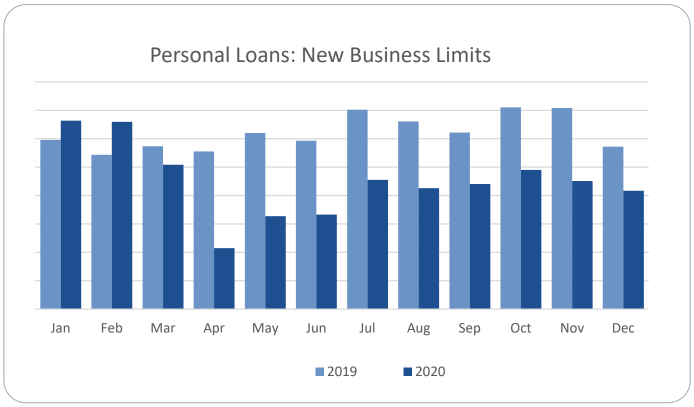
Credit Card New Business Limits and Volumes overlaid with FAS

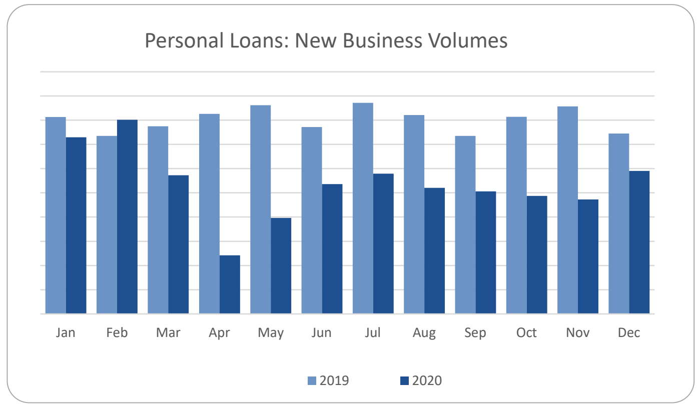




The split view of new business volumes among FAS Groups highlights that the new business in the most stringent lockdown period of May-July was skewed towards the more affluent FAS Groups 1 and 2. This, in all likelihood, points towards the relative ease with which FAS Group 1 and 2 consumers can navigate their way around digital channels when it comes to the processes associated with credit product on-boarding.

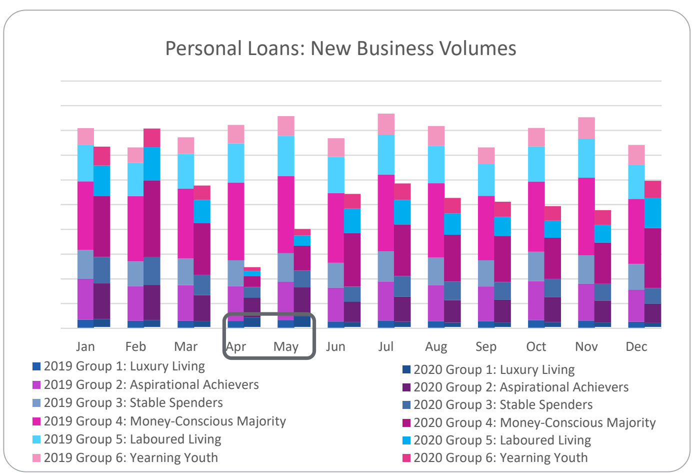
Personal Loans New Business Limits and Volumes

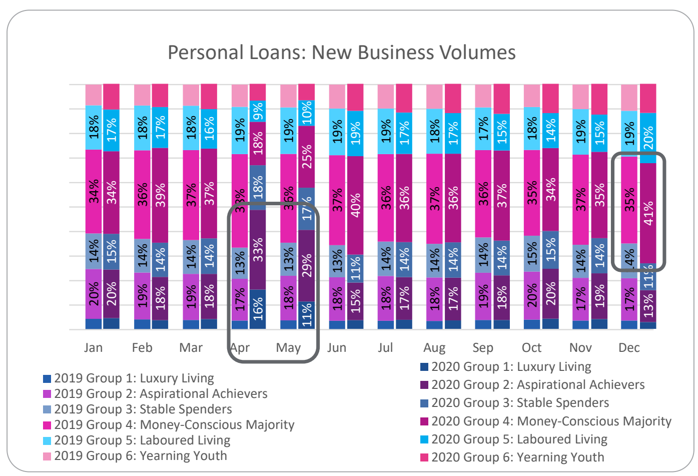




Personal Loans new business **value** dropped significantly with the dawn of COVID-19 lockdown. Although it has improved since, the volumes have not recovered to the same levels we saw in 2019. The seasonal pattern of spiking volumes in October/November with easing over December is, however, still evident. This is reflective of the heightened consumer spend associated with Black Friday. In 2020, we saw the Black Friday special offers being extended (in some instances to more than a month) to boost consumer spending, making up for lost income during the harder lockdown periods. In the instance of **account volumes**, the 2020 pattern does not exhibit the same seasonal trend seen in 2019. This suggests that during H2 (except December), the new business for Personal Loans was typical of higher value. One would generally associate this with the higher affluent consumer segments. Also, affluent FAS groups would also likely contribute a more significant part of the new business written during stringent lockdown periods; increased access to digital channels again being the driver.

Personal Loans New Business Limits and Volumes overlaid with FAS



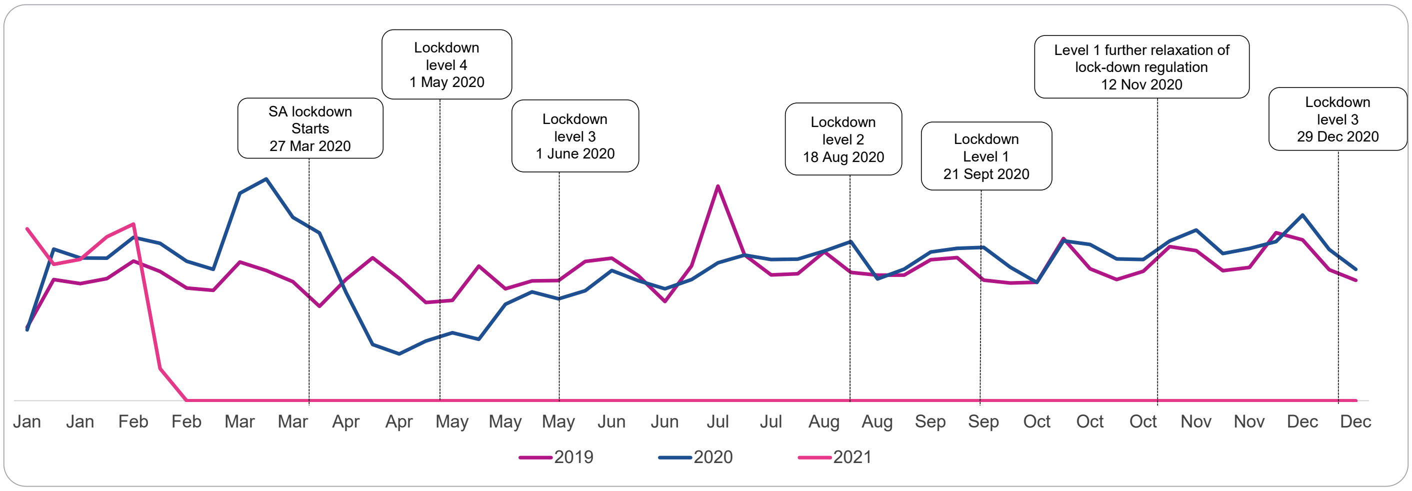


Splitting New Business volumes among FAS groups highlights that the volumes associated with more affluent consumers remained significantly less impacted in April and May (in the case of FAS Group 1, there was an increase in new accounts). Following the initial hard lockdown, the relative distribution of Personal Loans new business between the 6 FAS Groups remained relatively stable, when compared to 2019. During **December 2020**, however, we saw a significant increase in **FAS Group 4** consumers' representation, constituting 41% of the new business accounts opened in this period.

Update on the latest COVID-19 metrics

CI Credit Activity Trends – Weekly aggregates

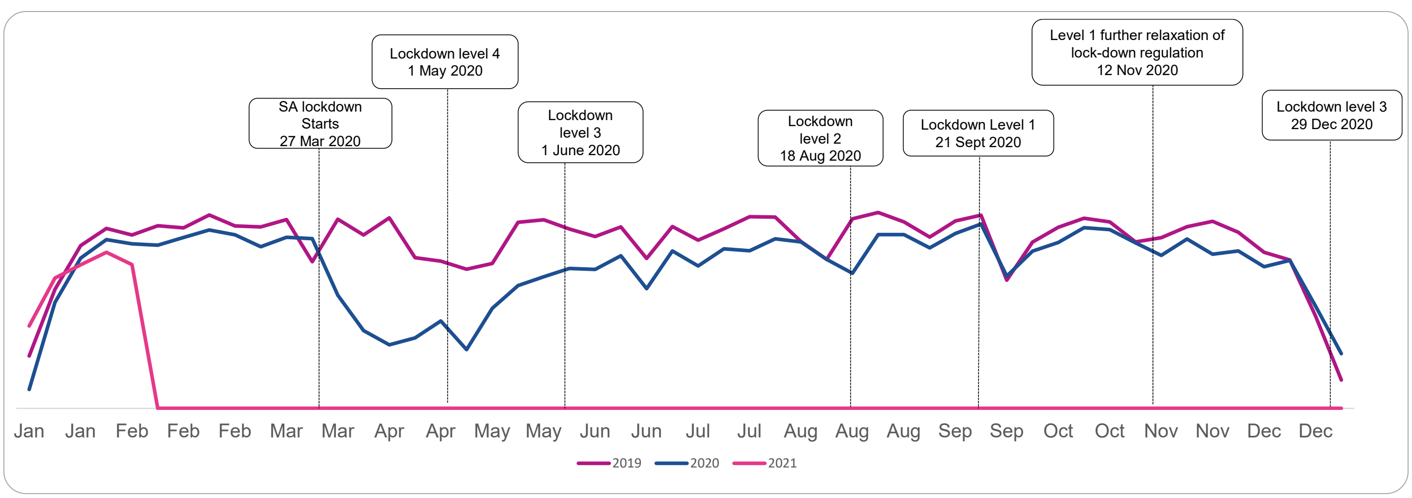
Overall Consumer Enquiry activity recovers to previous levels.



We have seen consumer information enquiry volumes mostly exceeding the levels observed over the same period in the preceding year since July 2020. This highlights the increased demand for credit.

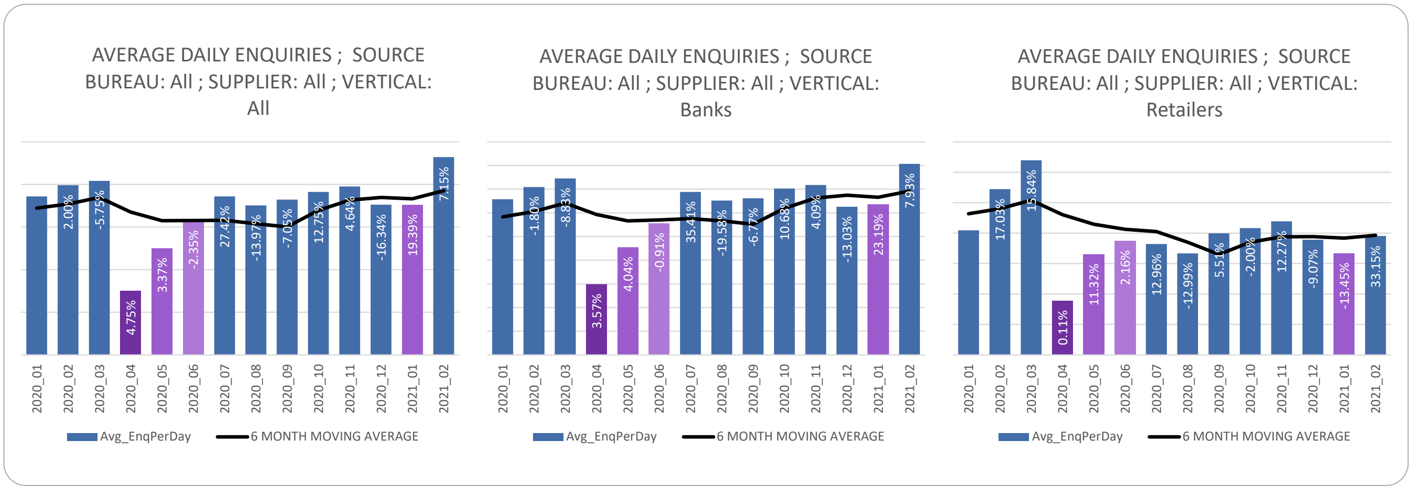
BI Credit Activity Trends – Weekly aggregates

Overall Business Enquiry picked up in January and seems in-line with volumes observed in 2019 and 2020.



Business information enquiry volumes have increased but not quite yet recovered to pre-lockdown levels. This suggests that, although credit appetite in business has improved since the relaxation of the lockdown measures, business activity is still dampened, relative to the same period last year.

Overall Consumer Enquiry eases in December and January following peak enquiry volumes in November (Black Friday) since COVID-19 lockdowns commenced in South Africa.



NOTE: Purple bars signify periods of more stringent COVID-19 lockdown.

Conclusion

The analysis of COVID-19 metrics derived and monitored by Experian suggests that consumers remained under severe stress for the fourth quarter of 2020, with strain particularly on consumers that are dependent on credit for day-to-day survival.

The impact of the already constrained economy and the COVID-19 pandemic has resulted in most South African consumers suffering various levels of financial difficulty, with those exposed to secured lending products and in the self-employed categories showing the most distress. These trends are expected to continue to deteriorate into the immediate future as payment holidays mature and many small businesses struggle to stay afloat – particularly considering the additional lockdown measures (alcohol ban and closure of beaches, parks, etc.) put in place over December 2020-January 2021 festive season. The tourism sector and many others will have to be creative in order to recover to pre-COVID-19 statuses.

With the lockdown rules and alcohol ban lifted, businesses and consumers may have some relief but are still expected to be under significant financial strain for the remainder of the year.

Experian
Ballyoaks Office Park, 35 Ballyclare Drive
Bryanston, Johannesburg, 2194
T: +27 11 799 3400
www.experian.co.za