Johannesburg, 19 June 2020

Consumer Credit Delinquencies Forecast to Rise in Response to COVID-19 Impacts as South African Consumers Struggle to Manage their Finances

- *Study reveals impact of COVID-19 on consumer finances expected to carry on for a significant period of time*
- *Delinquencies set to increase as South African consumers struggle to cope with changing economic environment*
- *Originations (new accounts opened) set to fall across all major consumer credit categories*

TransUnion (NYSE: TRU), today released the findings of its Q1 2020 South Africa Industry Insights Report (IIR). At the same time, it also highlighted some of the predictions from its forecast for the ongoing economic impact of COVID-19 on the consumer credit market. Between the two studies, the IIR and the COVID-19 forecast give an informed picture of the health of the market coming into the pandemic and the significant effect it will have on the nation's personal finances in the months, and even years, to come.

Carmen Williams, director of research and consulting for TransUnion South Africa, said: "Towards the end of 2019, the South African consumer credit market had already started to feel the impact of challenging economic conditions. This trend continued into Q1 2020 and began to accelerate as both consumers and lenders started to experience the impacts of COVID-19. With lockdown measures only taking hold towards the end of the first quarter, demand for consumer credit remained high. However, at the same time lenders were already responding to the challenging pre-pandemic conditions and had started to adjust their risk appetites accordingly and scale back on growth. This meant that overall, although there were still pockets of growth in some areas of the market, it was at a much-reduced rate."

The Q1 2020 IIR figures showed that outstanding balances continued to grow across all major consumer lending categories and was strongest for non-bank personal loans at 17.2% year-on-year (YOY). Although still growing, the annual rate of growth for most major credit products was less than the same time last year or the peak seen at the end of 2019 for credit cards and non-bank personal loans. Bank personal loans was the only category to maintain balance growth at a rate comparable to the highs of 2019.

Consumer demand for credit over the period was still strong with enquiries across the five major credit categories up 12% YoY in Q1 2020. Despite this growth, enquiry volumes and overall credit demand are expected to drop in Q2 in response to the COVID-19 crisis and resulting economic downturn.

Serious delinquency rates improved for credit cards and bank personal loans YoY in Q1 2020 but deteriorated for all other major consumer lending categories. Vintage analysis of the performance of more recently opened bank personal loan accounts shows significantly lower delinquency rates for consumer accounts aged six months or less compared to older accounts at the same point in their maturity. This suggests lenders have changed their risk appetite more recently and are more focused on lower risk consumers.

Q1 2020 Metrics for Major Consumer Credit Products

PRODUCT	Q4 2019 YOY % CHANGE IN ORIGINATIONS [1]	YOY % CHANGE IN TOTAL OUTSTANDING BALANCE	SERIOUS DELINQUENCY RATE [2]	YOY BASIS POINTS (BPS) CHANGE IN DELINQUENCY RATE
Credit card	1.7%	8.4%	11.8%	-80
Bank personal loans	-0.5%	9.7%	21.0%	-380
Non-bank personal loans	10.6%	17.2%	26.3%	200
Home loans	2.8%	11.3%	4.9%	90
Vehicle finance	-0.1%	6.7%	7.5%	230

1 Originations are viewed one quarter in arrears to account for reporting lag
2 Account-level serious delinquency rate, measured as percentage of accounts three or more payments past due

Challenging times ahead as lenders and consumers wrestle with the impact of COVID-19

TransUnion's COVID-19 forecast model tries to help lenders prepare for the impact of the pandemic. By looking at historical trends in the consumer credit, insurance and telco markets, as well as macroeconomic variables such as GDP, unemployment, inflation and disposable incomes, it suggests a range of possible outcomes based on different scenarios. By taking a data-driven approach to forecasting, the model looks at how delinquencies, originations and balance utilisation could change over time.

The forecast shows that, compared to a pre-pandemic baseline, the volume of originations (new account openings) will likely fall across all the major consumer credit categories. This forecast is supported by looking at more recent volumes of consumer credit enquiries (applications), which are a leading indicator of originations volumes. Enquiries volumes showed a significant drop in the number of consumers applying for credit overall in April, and although they recovered somewhat in May, they were still below pre-pandemic levels recorded in March.

Perhaps of greater impact to both households and lenders is the anticipated increase in delinquencies across all categories. As consumers struggle with higher unemployment, or in many cases reduced working hours, the knock-on effect on household finances will start to accelerate into Q3 and beyond. There has been a sharp increase in the number of consumers going onto payment holiday arrangements in the last few months, and with many of these expected to expire at the end of June and consumers needing to resume making monthly payments, it is likely that delinquency levels will start to increase as a result.

Williams continued: "By identifying consumers that might already be struggling, lenders can put strategies in place that not only allow them to manage overall portfolio risk, but that enable them to help customers on an individual basis. Our model shows that consumers will continue to seek products that provide them with much-needed access to finance and we know lenders want to assist them in any way they can. Only by having a complete picture of an individual's financial situation and likely outcomes can they make informed decisions that safeguard them and the consumers they serve."

South African consumers are expected to look for additional financial support as the pandemic continues to impact household budgets. Although originations are projected to fall as lenders tighten their underwriting criteria, aggregate outstanding balances for credit cards, which provide a flexible revolving credit facility, are anticipated to increase as consumers utilise more of their available credit limit.

While the TransUnion model doesn't predict when delinquencies and the wider consumer credit market as a whole might return to pre-COVID-19 levels, as it only shows directional trends until the end of Q1 2021, it does show that the impact could be sustained and that it will take time for the market to recover.

A recent TransUnion South Africa financial hardship study showed that 83% of consumers had seen their household incomes negatively affected by the pandemic, and of these impacted consumers, 91% said they were concerned about paying their bills. These and other insights are reflected in the South Africa forecast, which TransUnion will continue to update over time.

Economic uncertainty to continue to have an impact

Williams concluded: "The shape and duration of both the global and South African COVID-19-driven recession will have a significant bearing on the outlook and the shape of any recovery for the consumer credit market. Our forecast is designed to help lenders plan for potential scenarios, and identify people that might need extra help. Consumer education has an important role to play, and the businesses that actively engage with customers and help them navigate these uncertain times will be the ones that potentially create the greatest brand loyalty. Only as the lockdown measures continue to ease and consumers come off payment holidays will we start to see the true impact of the pandemic on the nation's personal finances. As this happens, now more than ever, it's important that lenders leverage data and advanced analytical techniques to identify and engage with customers in an informed way."

More information about the TransUnion South Africa Industry Insights Report, including details about a variety of credit products, can be found here. It includes more information about balance and delinquency trends, including for credit cards, personal loans, vehicle finance and home loans. Please visit the following website to register for TransUnion's COVID-19 Playbook - Scenario & Forecast Update: Understand What's Coming webinar scheduled for Thursday 18 June at 11am SAST.

About the South Africa Industry Insights Report

TransUnion's South Africa Industry Insights Report is an in-depth, full population-based report that provides statistical information every quarter from TransUnion's national consumer credit database, aggregated across virtually every active credit file on record. Each file contains hundreds of credit variables that illustrate consumer credit usage and performance. By leveraging the Industry Insights Report, institutions across a variety of industries can analyse market dynamics over an entire business cycle, helping to understand consumer behaviour over time. Businesses can access more details about and subscribe to the Industry Insights Report. The South Africa Industry Insights Report looks at major consumer lending categories: credit cards, personal loans, home loans, vehicle and asset finance (VAF), and clothing. The report primarily focuses on three dimensions across these categories: originations (new accounts opened), balances (outstanding total and average lending balances) and delinquencies (accounts in payment arears).

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