07 April 2020

Experian Africa 2020

Weekly Market Impact Report
A look at a rapidly changing economy

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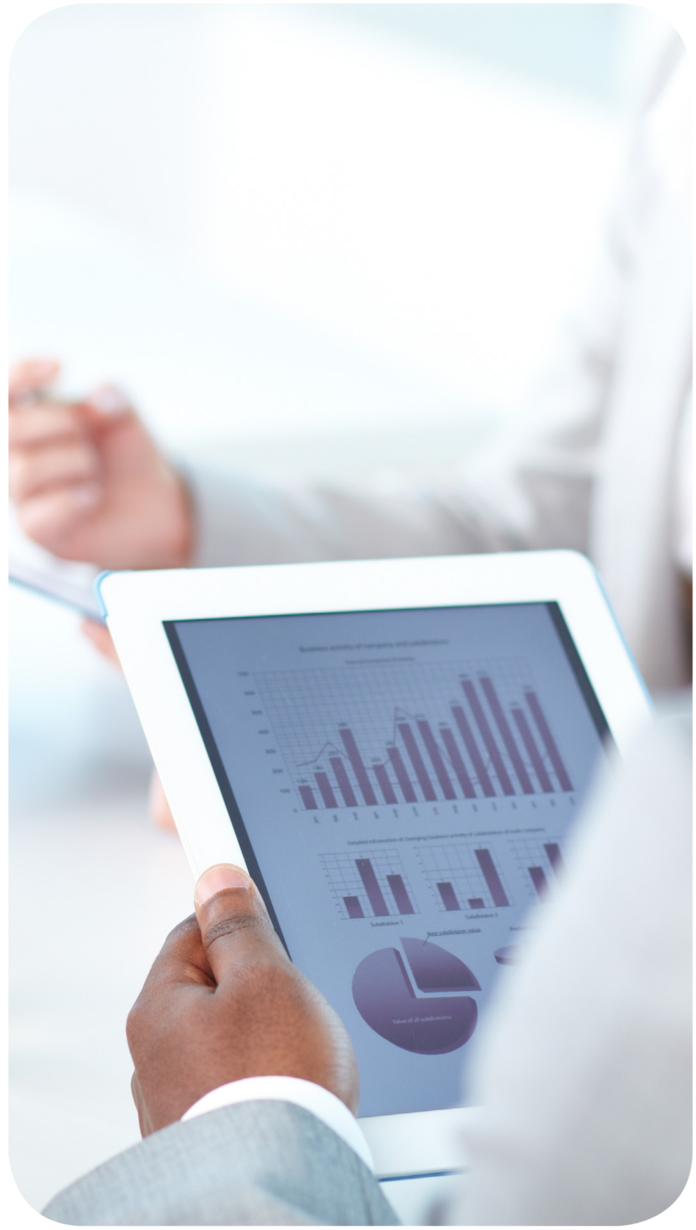
Introduction

At this point, the extent of the pandemic's economic impact is still largely unknown, but we're starting to see trends which are indicative of emerging patterns in the credit industry and could be early indicators of what is to come over the next few months. Our initial insights highlight some immediate risks across the consumer credit market, with some additional insight into the commercial credit sector too.

In this report, we will explore early consumer credit trends we see unfolding. All emerging trends will be tracked weekly 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.

Week ending 3 April 2020 focus areas

- What trends have we seen in other markets and what can we learn from them?
- What early trends are we observing in the South African market?
- What are we doing to make sure our product and service offerings remain relevant in the changing market?

Executive summary

- The extent of the drop in enquiry volumes across the Experian EMEA region directly correlates with the level of confinement in each country.
    - The stricter the lockdown criteria, the more significant the impact on overall enquiry volumes across all industries.
    - In countries where the confinement criteria are less stringent, enquiry volumes are less affected, with ECommerce transactions still growing positively.
    - For countries where stringent lockdown measures have been in effect the longest (Italy and Spain), it took circa 21 days for enquiry volumes to reach a new normal.
- South African trends appear to be more aligned with countries where similar severe lockdown measures are in place.
    - The most significant drop in enquiry volumes occurred from the date the lockdown was formally enforced.
    - The drop in enquiry volumes were similar across all industries, with retail and non-bank loan industries the most severely impacted due to complete closures.
    - An immediate drop in number of accounts opened and outstanding balances was observed at the same time as the lockdown took effect.
    - Whilst the number of applications for Debt Counselling remained relatively stable, approved applications significantly reduced.
- Experian continues to actively track all components of our value chain to ensure that all available data is loaded timeously and is complete. We further actively monitor our various scoring solutions to ensure ongoing accuracy.

What trends have we seen in other markets, and what can we learn from them?

With the Experian operating base spanning multiple countries across the globe, we are in a fortunate position to monitor specific country trends and look for similarities and lessons learnt which will support a more proactive and comprehensive approach in South Africa.

COVID-19 Global Impact

Credit activity has been severely impacted across the globe, with the relative impact dependant on the severity of the confinement applied in each country. In the EMEA region, the confinement severity levels vary by country based on the spread of the disease and has been implemented at different dates with variable effective timeframes. The table below show the confinement levels by country where Experian operate, with Italy and Spain the first to implement full quarantine measures as the virus spread which had a significant negative impact on new credit application volumes. The remaining European countries listed in the table below implemented less stringent measures resulting in a limited impact on application volumes, however this can change if the spread of the virus is not contained sufficiently.

Situation as of 30 March	Level of confinement *	Quarantine start date	Estimated end date
Italy	High	10/03	13/04
Spain	High	14/03	11/04
Netherlands	Medium		
Norway	Medium		
Denmark	Medium		
South Africa	High	25/03	16/04

* High: full quarantine (schools closed, forced home office), Medium: partial quarantine (schools closed, recommended home office, possibility to go outside home), Low: soft quarantine (early stage of economic activities reduction).

Italy and Spain have been impacted the most by the COVID-19 virus in Europe

As reported widely across the world's news networks, in Europe, Italy and Spain have been hit the hardest by the impact of the COVID-19 virus, resulting in complete lockdown in both countries. As anticipated, the lockdown resulted in a significant reduction in consumer demand for credit across all industries, resulting in a drop in enquiry volumes. With the lockdown in place for more than 3 weeks now, we have observed the following trends in each market:

- Enquiry stabilisation around 21 days after quarantine.
- Submitting entities focusing on standardised submission criteria to ensure consistent reporting, which takes relief policies into effect.
- Impact in Italy equally felt across all verticals as business closures strictly enforced.
- Some industries in Spain are less impacted as they received critical service status and thus continue trading, mostly online.

In comparison, credit activity in the Netherlands and Denmark has been less impacted due to less restrictive confinement measures, resulting in a much-reduced impact on demand for credit and thus enquiry volumes. Trends observed in these countries include:

- Impact on enquiry activity less severe due to the limited nature of restrictions and confinement.
- Trends starting to change as more restrictive policies are implemented.
- ECommerce remains resilient due to strong local adoption across various industries, with volumes in the Netherlands growing strongly due to increased online activity during closures.
- Non-core industries are starting to show reduced activity due to more broadly recommended resident confinement strategies.

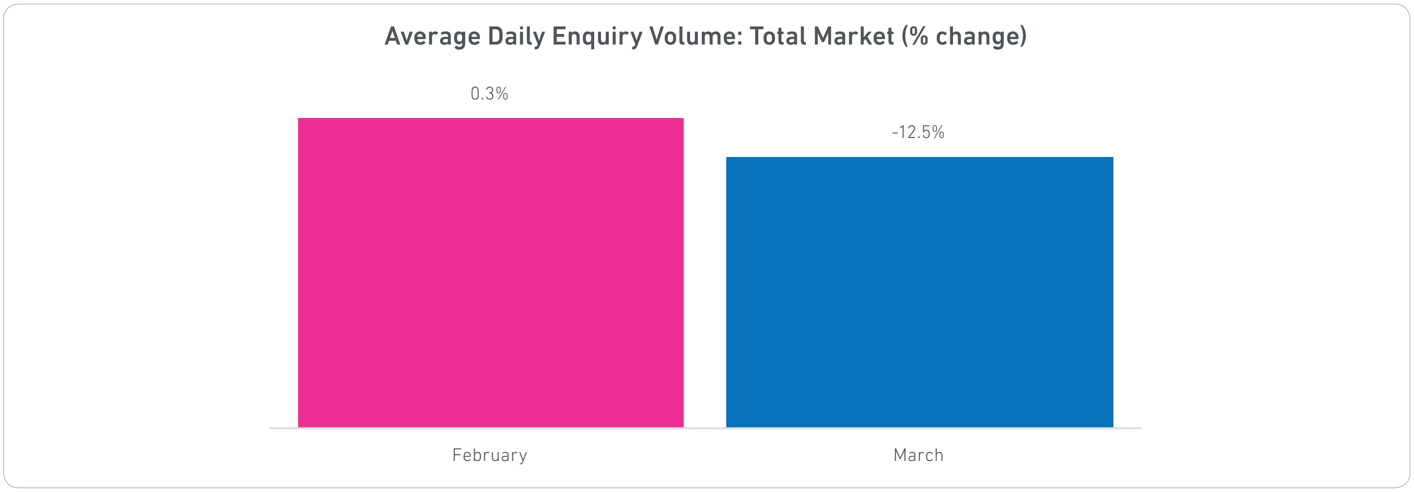
Conclusion

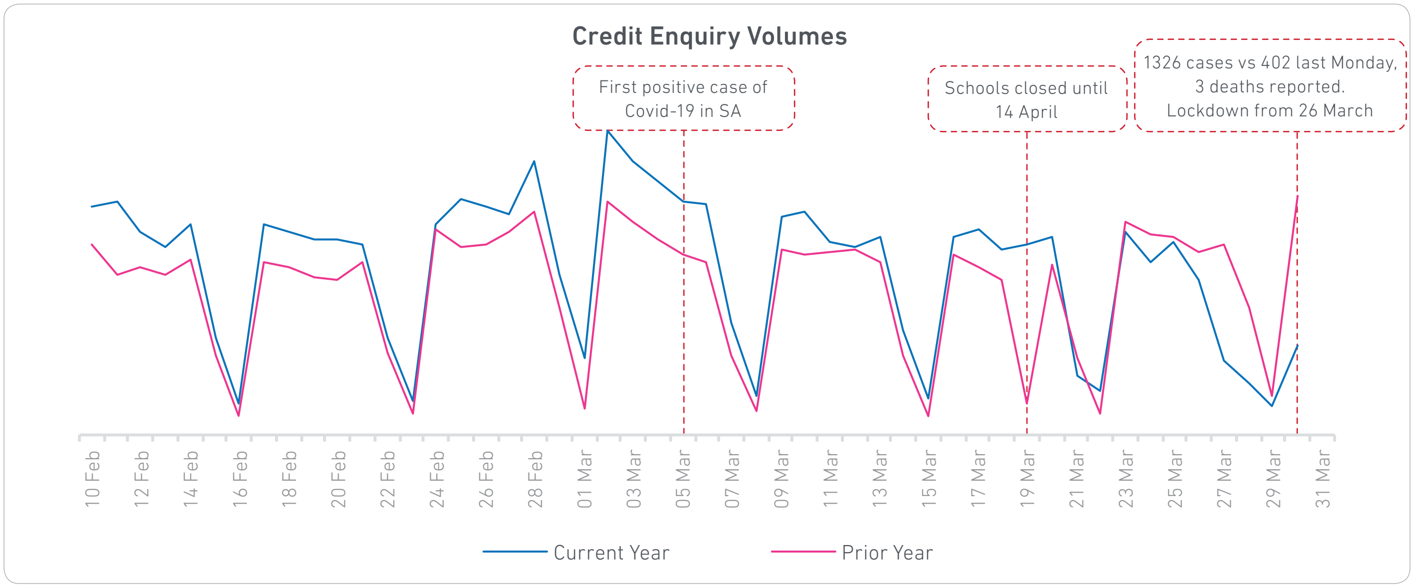
With the impact of the COVID-19 virus felt equally across the world, it is only the way in which governments respond to the challenge that varies. The overall impact on the respective credit environments correlate directly with the severity of the local lockdown conditions, with markets that have adopted ECommerce most aggressively best situated to limit the overall impact.

What early consumer credit trends are we observing in the South African market?

It must be noted that the South African economy was already in a fragile state prior to the onset of the COVID-19 pandemic. Early signs observed with regard to volumes of new credit applications and more specifically new accounts opened (short-term payday and 1-month loans) suggest the credit market is slowing down.

The initial trends in South Africa seem to align more with Italy and Spain, where similar confinement measures are in place.





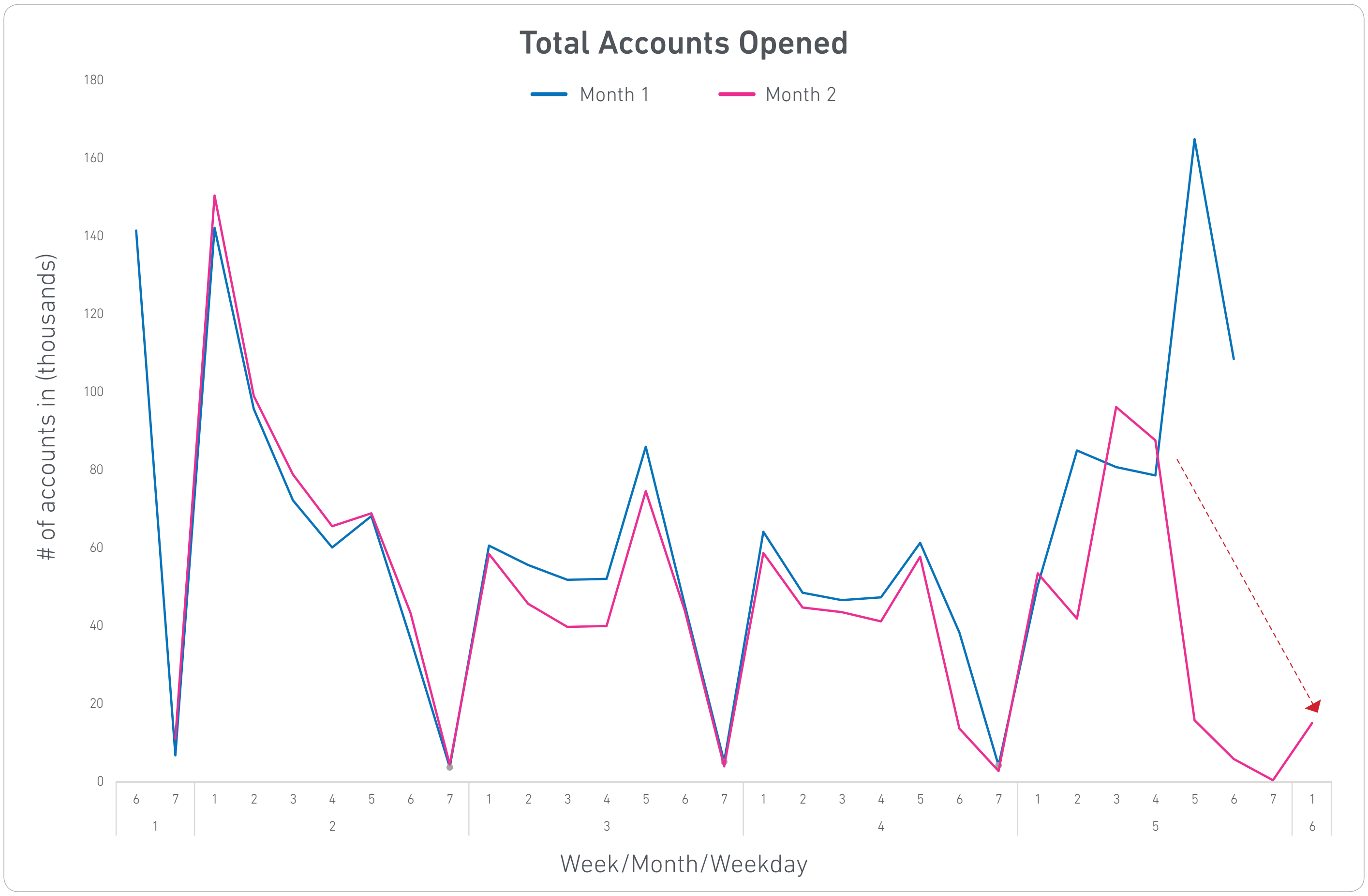
Key Insights

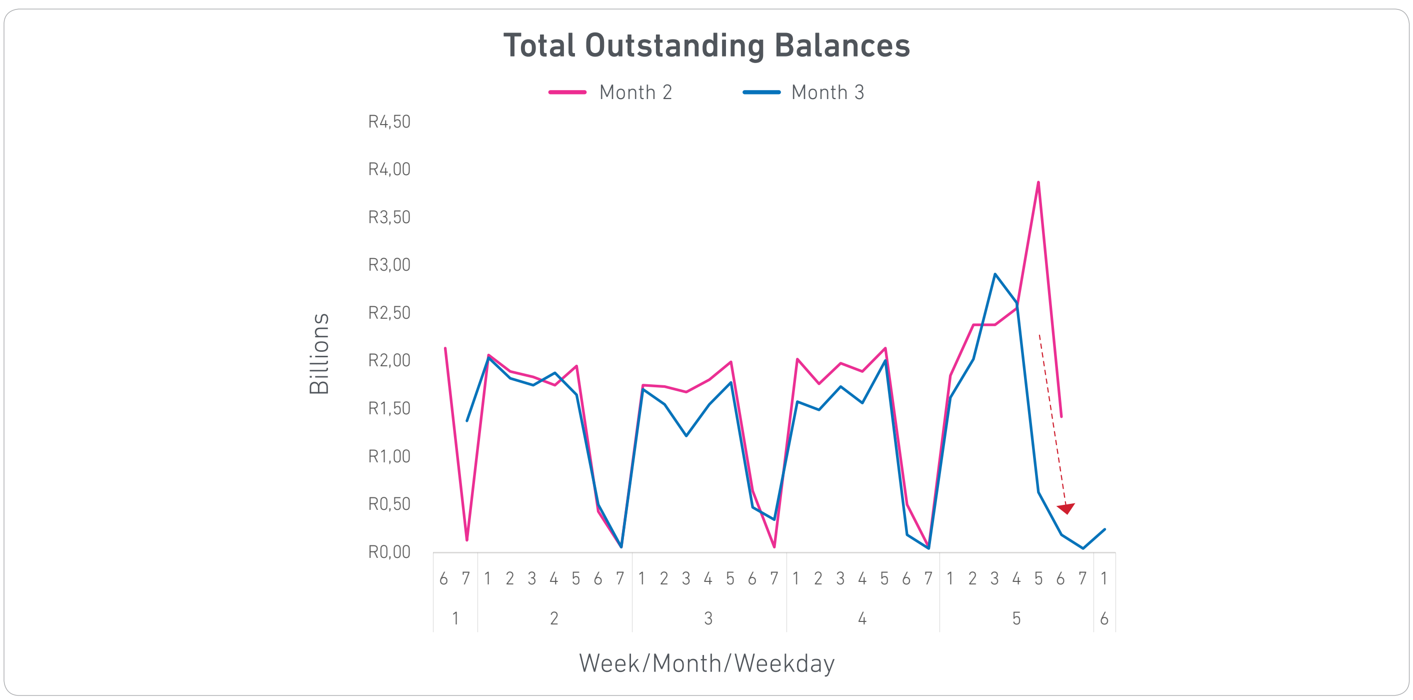
- When comparing February and March 2020 at an average enquiry level, we already notice a drop in volumes.
- Average April enquiries are expected to be significantly worse due to the lockdown imposed at the end of March.
- The observed drop is primarily due to the impact of the Government Disaster Regulations and can be seen post 26 March.

Most industries have been impacted by the imposed nation-wide lockdown.

Credit Enquiry Volumes

The drop in enquiries correlates with both the volume of new accounts opened and total outstanding balances.

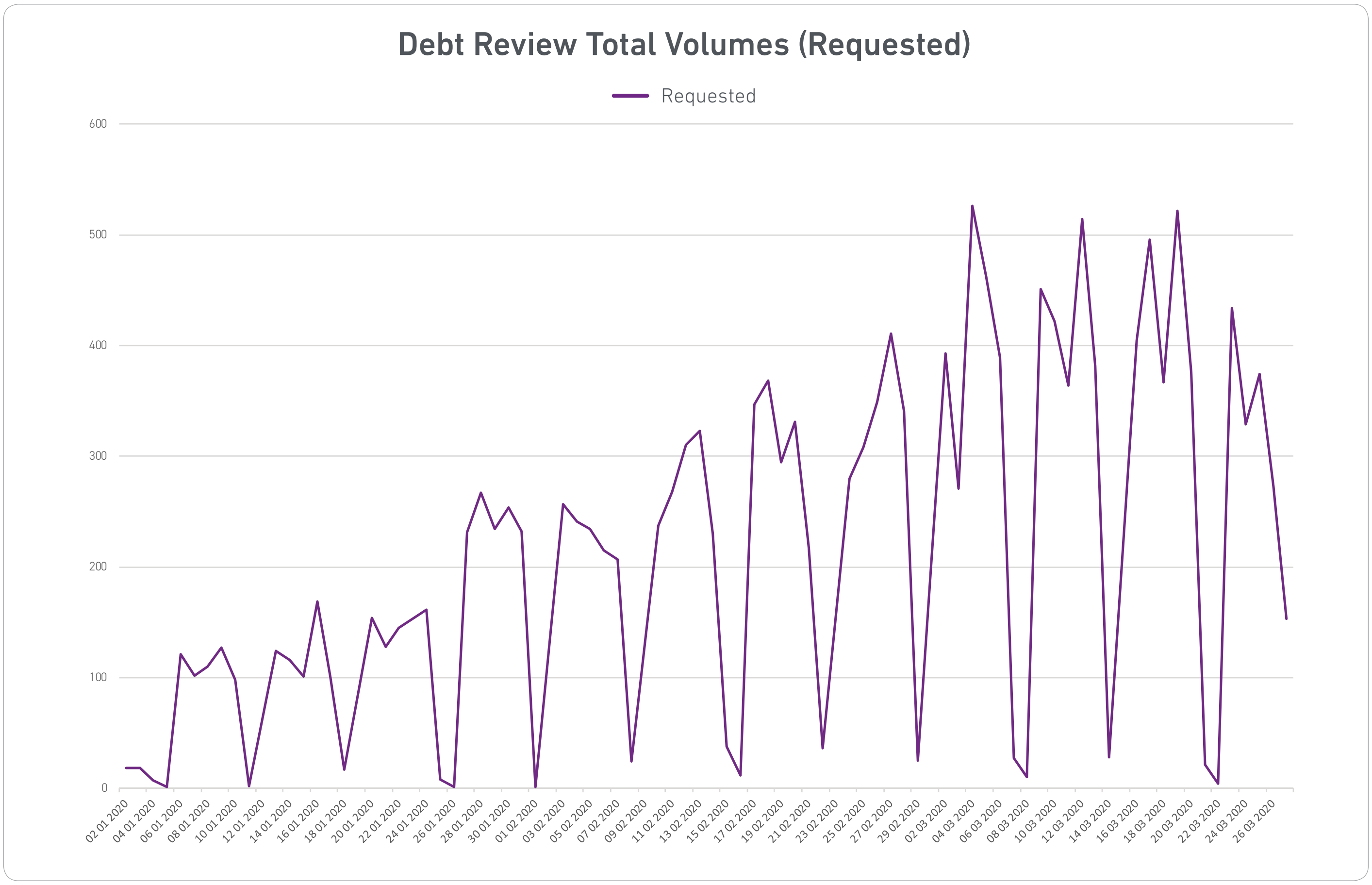


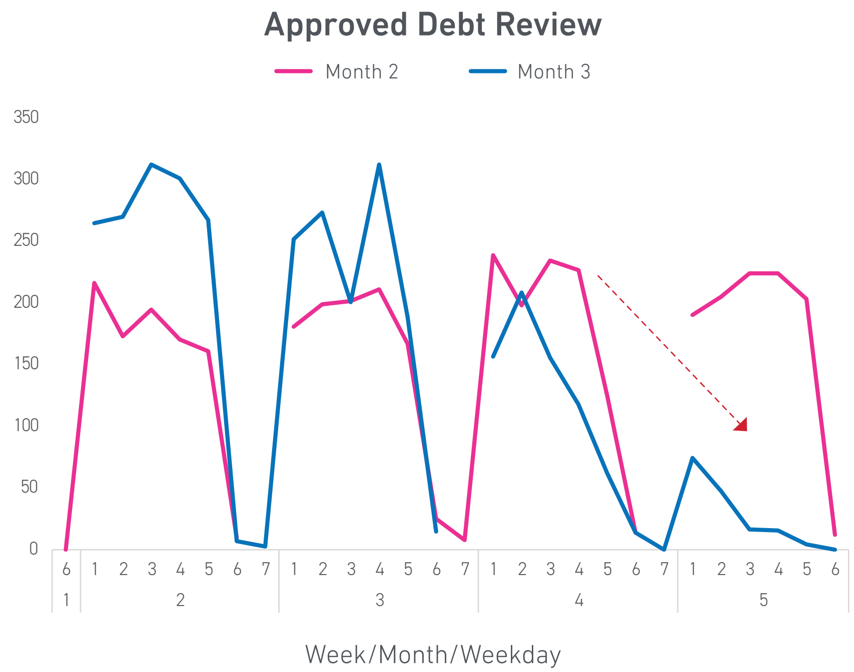


Key Insights

- The reduction in the volume of new accounts opened strongly correlates with the timing of the national lockdown.
- Similarly, total outstanding balances across all products exhibit a similar reduction caused by the significant drop in numbers.
- Whilst the drop in both volume and value across all industry verticals is similar, most concerning is the drop to almost ZERO in payday loans.
- The lack of access to payday loans could materially impact consumers' ability to acquire core goods and services, resulting in increased distress.

Whilst there is only a marginal drop in the volume of debt review requests, approved volumes have significantly reduced.





Key Insights

- Consumer requested debt review applications have only marginally reduced since the lockdown took effect.
- However, the number of approved debt review requests has reduced significantly, even though the debt counselling industry is deemed an essential service which is a bit concerning at this early stage.
- It must be noted that once the market returns to a sense of normality in weeks or months to come, a significant uptick in both requested and approved debt reviews is expected.
- The challenge lenders have until then is whether all the required data is available for distressed consumers to make appropriate lending decisions.

Conclusion

It is clear from the early trends observed in the South African credit market that application volumes have significantly reduced which is expected to put pressure on both businesses and consumers alike. What is still to be seen is the extent to which the lockdown and expected impact on employment and remuneration impacts on the performance of existing agreements. It is however expected that default rates will increase resulting in additional distress for both businesses and consumers.

Experian will continue to closely monitor both application volumes and debtors' performance to ensure government, regulatory bodies, clients and consumers are kept informed of how the credit industry unfolds, with ongoing support to ensure we address any structural changes in a coordinated effort.

What is the impact on the Credit Bureau and how are we responding?

To ensure we constantly address any pressing questions that our clients might have, we will consolidate and continually update business critical questions we receive to support decision making across all industries.

FAQ – Data Submissions and Updates

1. **Do we foresee any delayed or non-data submission from SACRRA members during the lockdown period?**
   i. We remain in constant contact with SACRRA to ensure we stay informed of any changes to standard data provisions and update frequencies.
   ii. We were further advised by SACRRA that some providers, especially retailers, have indicated they will not be acquiring new business during the lockdown; hence no daily registrations will be supplied. We will, however, continue to receive daily closure updates.
   iii. To date, Experian has only had formal written confirmation from two suppliers who will not supply data during the lockdown.

2. **Do we foresee any delays in the updating of court data, i.e. judgments, sequestrations and deeds data, and the subsequent loading thereof?**
   i. We have seen an impact on the upliftment of court records as agents are not allowed into courts. As agents are not certified as essential services, we expect this trend to continue throughout the lockdown period.
   ii. However, we have continued to receive files from our judgment data provider, albeit with reduced volumes.

3. **Have we seen a decrease in the volume of Debt Review updates?**
   i. We continue to receive daily updates from automated DHS service; however, the volumes have decreased since the lockdown.
   ii. Our manual DHS update requests have decreased dramatically as a result of the court agents not been seen as an essential service and are expected to remain low.

4. **What is the expected impact on CIPC data updates?**
   i. We have been informed that CIPC data will not be updated during the lockdown with the last update being loaded on 26 March 2020.

5. **How will the introduction of various consumer payment relief measures such as 'payment holidays' be treated?**
   i. We have been informed by our clients that they are generally considering using either the deferred payment or extended term options that are already available on the Format 702 bureau layout.
   ii. As many providers will be using the differed payment and/or payment relief functionalities for the first time to support consumers during this period, Experian will closely monitor submissions to ensure accurate reporting with variances reported to SACRRA to manage corrective action where required.
   iii. We urge all SACRRA members to follow the agreed formats to ensure the consistent treatment of data as our joint focus should remain on the correct treatment of consumers.

6. **Will Experian continue to support dispute queries from data providers throughout the lockdown period?**
    i. As the credit bureau industry has been certified as an essential service, all Experian dispute and customer service teams remain fully operational.
    ii. We continue tracking the number of disputes, and have seen a decline in disputes logged. We also monitor all data being removed from the bureau due to no feedback being received from the data provider within the 20 business days period.
    iii. However, Experian is in discussions with the National Credit Regulator (waiting for final confirmation) on whether cases where credible evidence is provided after the 20 business days and after lockdown, should have the data reinstated.

FAQ – Bureau Scores and Segmentation variables

1. **How do we foresee credit bureau scores and other variables used by our customers being impacted?**
    i. Credit bureau scorecards continue to rank-order credit risk, even during a recession. Although observed default rates are likely to increase across the full spectrum of scores, it will still provide risk differentiation to inform credit and service granting decisions.
    ii. Robust model development methodology includes validation of each newly developed score against those created historically – this helps to capture underlying relationships and ensures that our scorecards perform well throughout the full economic cycle.
    iii. We are confident that our credit bureau scorecards remain a pivotal tool at our clients' disposal.
    iv. We are committed to continue monitoring the outbreak of COVID-19 and its potential effects on businesses and individuals; track the market dynamics using the wealth of credit bureau data at our disposal; and provide proactive guidance to our clients through advanced analytics, consultancy and benchmarking reports.

2. **What do we foresee will change in terms of credit bureau information and use thereof?**
    i. Credit bureau scorecards are behavioural in nature and promptly adjust to a changing economic environment – the average credit bureau score increases in an expansion phase and decreases in a recession. More people will potentially miss payments in coming months due to either a temporary loss of income or permanent unemployment.
    ii. Credit and service providers need to revisit score cut-offs utilised in their decision-making process (including limit reviews) in order to be more conservative and retain the quality of their portfolio – this can be done based on expert judgment or economic impact analysis and affect either all customers or just specific industries that are expected to be hit the most by the crisis.
    iii. Credit and service providers should be cognisant of the increased correlation between Probability of Default (PD) and Loss Given Default (LGD) observed during recessions. Prudent reviews of IFRS9 forward-looking overlays will be necessary depending on the customer base and the expected change in payment behaviour.
    iv. We will be working closely with data providers to ensure that initiatives arising from the COVID-19 pandemic are identified to minimise the impact on scores. E.g. if regulators and/or the government are providing assistance to borrowers or asking the lenders to do so.
    v. Subscribers need to continue submitting data as per usual and in addition, adhere to prescribed guidelines to submit new types of initiatives (e.g. payment holiday, term restructure) data to ensure an accurate reflection of the customer's credit standing. It is expected that for some subscribers, the first month's submission might not align yet to the prescribed guidelines due to development needed with new initiatives taken on.
    vi. The data fed into the Experian and Compuscan databases will incorporate the updated agreements, e.g. payment holidays and other short-term measures, which in turn, will be reflected in the scores.

3. What is the potential impact on credit bureau variables utilised in models and decision-making processes?

Variable type	Description	Potential impact
Stability	Encompasses duration and depth of credit history	Duration should not be affected, but the depth of credit taken could be affected by changes in credit appetite from consumers.
Payment & Arrears	Looks at the payment history of customers, including arrears	A general negative is expected as more people are expected to miss payments in the coming months.
Type of Accounts	Shows the number of accounts by product type	Little impact expected.
Debt Trajectory	Determines trend in credit commitments over time	A general negative trajectory is expected as more people are expected to miss payments in coming months resulting in a slower reduction in outstanding balances, and an increase in credit appetite is expected from consumers as they become strapped for cash.
Negative Information	Including judgments & adverse information	A temporary improvement is expected as courts are closed during the lockdown period, thereafter volumes of new judgments will gradually increase.
Indebtedness	Looks at the customers' utilisation of available credit	Utilisation on revolving products is expected to increase, although a temporary dip might be visible during the lockdown period.
Alternative Data	Variables built using for example deeds or CIPC information	Closure of deeds offices, etc., might affect the data temporarily due to the lockdown.

4. What is the potential impact on specific Experian and Compuscan scores?

Credit Bureau Score	Factors with potential negative impact	General trend expected
Delphi 4.1 BF Delphi 4.1 RC Delphi 4.1 NM	Payment & Arrears, Type of Account, Indebtedness, Stability	Several variables could be affected due to changes in payment behaviour; however, no impact expected from payment support measures mostly banks are offering. Overall medium negative shift in scores expected.
Prism V3 MI Prism V3 TM	Payment & Arrears, Type of Account, Indebtedness, Stability	Several variables could be affected due to changes in payment behaviour; however, no impact expected from payment support measures mostly banks are offering. Overall medium negative shift in scores expected.

- Even if scores remain stable for the duration of the payment holiday, the expectation is that scores can deteriorate thereafter, as customers remain under economic pressure resulting in missed payments.
- For every 20 points decrease in score, risk doubles.

FAQ – Data Submission

1. **What is happening in the credit and service granting industry?**

   Several credit and service providers are offering assistance to customers to alleviate the current economic pressure felt due to the COVID-19 pandemic. This assistance includes initiatives such as:

   i. Payment Holidays
   A deferred payment is utilised in a "buy now, pay later" scenario as well as where there is a temporary deferment of an instalment. To indicate this, the expected deferred instalment amount may include future insurance, costs and interest to the point of the expected payment. The expected repayment date is provided within the deferred payment date field along with the payment type "02" to allow members to consider the expected instalment within credit and risk decisions. It is critical that members monitor the submission of "months in arrears" during this time as this field will not only impact the consumer, other credit and risk data providers, but also the calculation and reporting of delinquent consumers to, and by the NCR. Once a payment holiday is granted to a consumer, it is expected that the months in arrears being reported will remain static until the consumer has missed the agreed-upon deferred instalment repayment date. Only then would an increase in the months in arrears be expected. We urge members who have any queries regarding the reporting of the months in arrears to please engage the SACRRA Office for clarity. Further details on the correct population of the financial fields will be available in the guideline.

   ii. Terms Extended
   In the event of a current agreement being restructured and the terms of the agreement having been changed, the Status Code "E" should be utilised. In these instances, we would expect a change in the "Terms" of the agreement to be reported, e.g. where a 6-month loan has been restructured to be repaid within 12 months, we would expect the terms to change from 6 to 12 months. When submitting this Status Code, we would also expect the population of payment type "06".

FAQ – Account Management and IFRS9 impact(s)

1. **Do we foresee any impacts on account management strategies and IFRS9 modelling?**

   i. Many clients make use of credit bureau data in account management strategies across the entire lifecycle and in their internal IFRS9 models. As such, it is imperative that all submitting entities strictly adhere to the agreed SACRRA submission rules to prevent unintended consequences of incorrect or incomplete submissions.

   ii. Experian will continuously review and validate submitted data, tracking instalment, balance and term movements relative to any changes applied to accounts, whether through payment holidays or term extensions.

2. **What specific IFRS9 issues is Experian keeping a very close eye on?**

   i. Lack of growth activity due to more stringent acquisition criteria implemented by various credit providers.
   The lack of growth caused by the lockdown and many industry decisions to no longer grant credit to first-time applicants will result in portfolios 'maturing' at a faster rate. Due to the 'maturing effect', the contribution of delinquent balances (in later stages) will contribute more on a relative basis, ultimately resulting in growth in provision percentages.

   ii. Increased delinquency levels due to consumer distress.
   With the deteriorating economic environment, consumer distress is expected to increase in the coming months. The impact of such deteriorations will result in higher roll rates, thus more accounts moving into seriously impaired statuses, resulting in increased provision percentages.

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