15 April 2020

Experian Africa 2020

Weekly Market Impact Report (Week 2)
A look at a rapidly changing economy

Compuscan an experian company

Scoresharp an experian company

15 April 2020

Market Impact Update

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Introduction

While the lockdown in multiple countries across EMEA has appeared to have had a positive effect on decreasing the spread of COVID-19, it continues to have a negative impact on various industries.

With many countries announcing extensions of lockdown periods, 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 are seeing early indicators of what is to come over the next few months.

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

In this report, we will highlight early consumer credit trends and risks we see unfolding, explore fraudulent activities that are manifesting, and address additional questions and concerns that have been raised over the last week.

All emerging trends are 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.

Week ending 10 April 2020 focus areas:

- What does credit activity look like in week 2?
- How are we addressing the risk of increased fraud during this time?
- Update on Frequently Asked Questions from the week.

Executive Summaries

Week 1

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 was similar across all industries, with retail and non-bank loan industries the most severely impacted due to complete closures.
- An immediate drop in the number of accounts opened and outstanding balances was observed at the same time as the lockdown took effect.
- While the number of applications for Debt Counselling remained relatively stable, approved applications significantly reduced.

Week 2

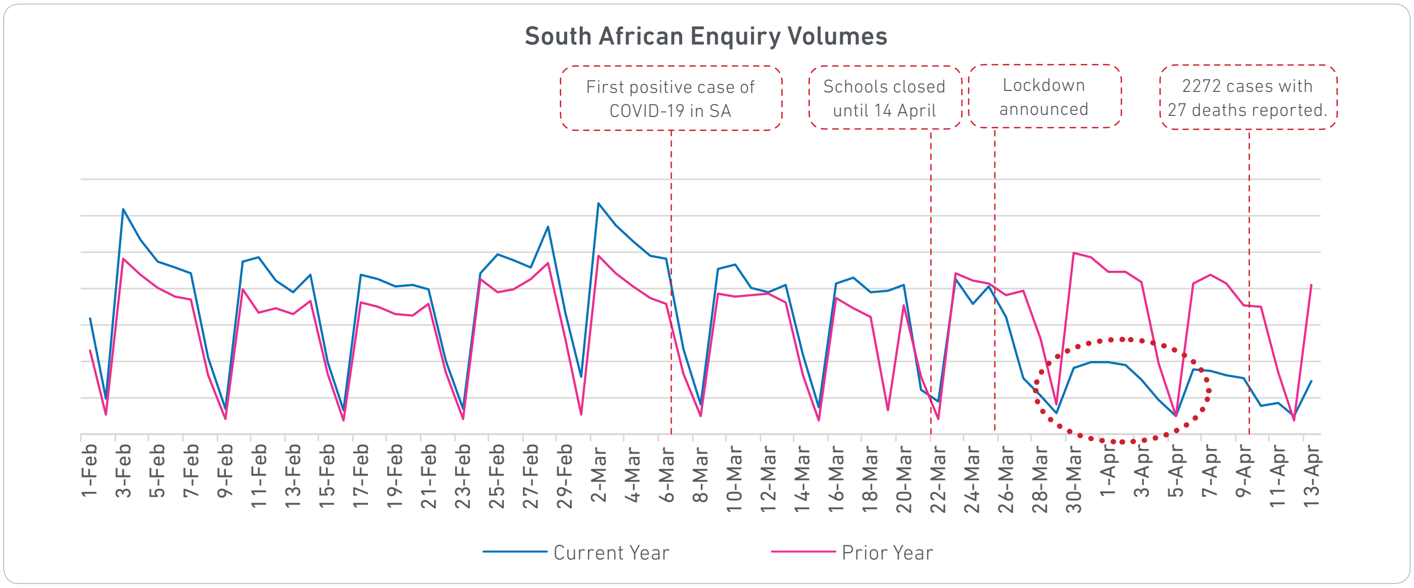
Enquiry activity trends seem to be stabilising across the Experian EMEA region. However, still in its early stages, South Africa continues to experience a negative effect on enquiry level.

- On average, the month of March was only 12% lower than February; we expect April to be significantly lower than March due to the impact of the extended lockdown in South Africa.
- The retail and non-bank loans industries in South Africa remain hit the hardest due to the total lockdown.
- Overall, the lack of credit activity across multiple industries (clothing and furniture retail, telcos, asset-based finance, short-term loans, credit cards, etc.) will have a medium- to long-term impact on these industries.
- While volumes of requested and approved debt review applications have decreased considerably during the past week, they are expected to increase dramatically once the lockdown is lifted and the courts reopened.
- Fraud attacks are expected to increase; however, we expect our fraud solutions to remain stable and provide the desired support to our clients.

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 does credit activity look like in week 2?

The enquiry activity trends seem to be stabilising across the Experian EMEA region.

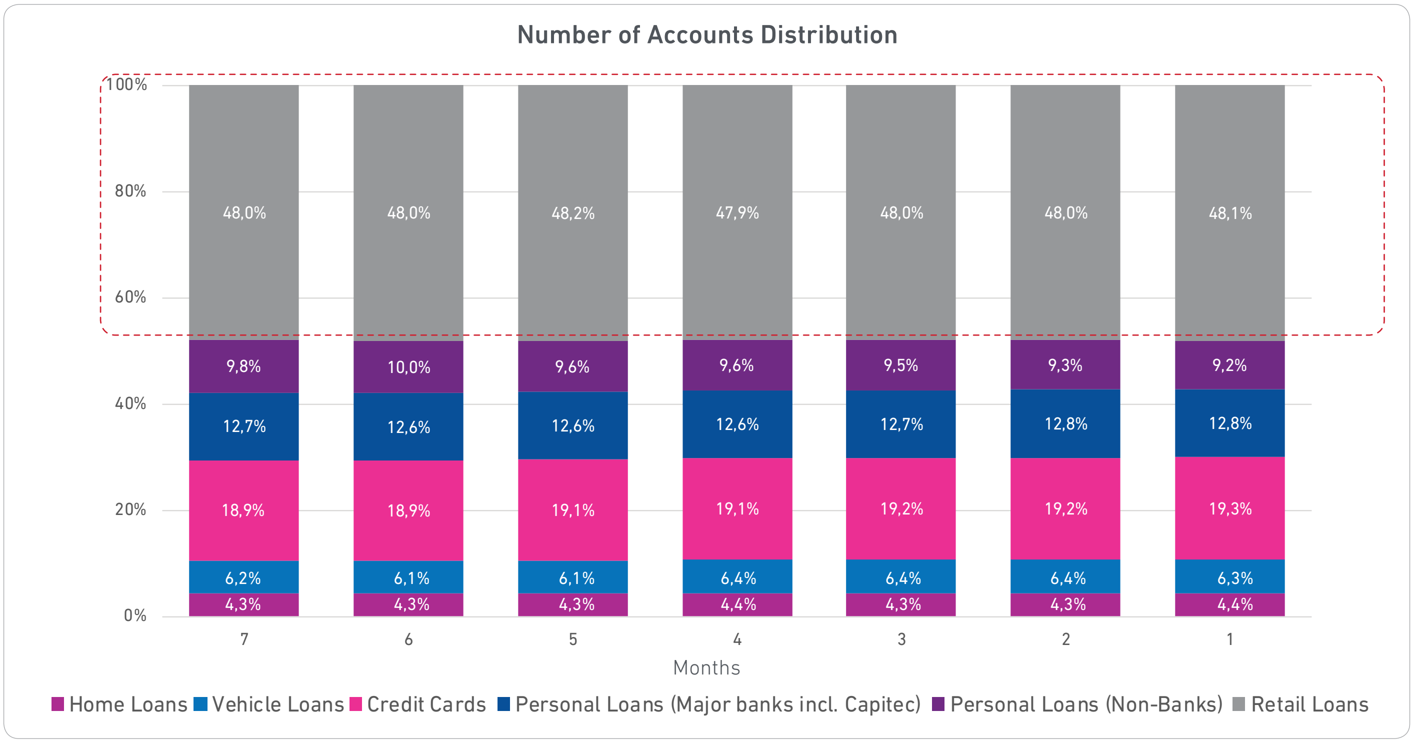


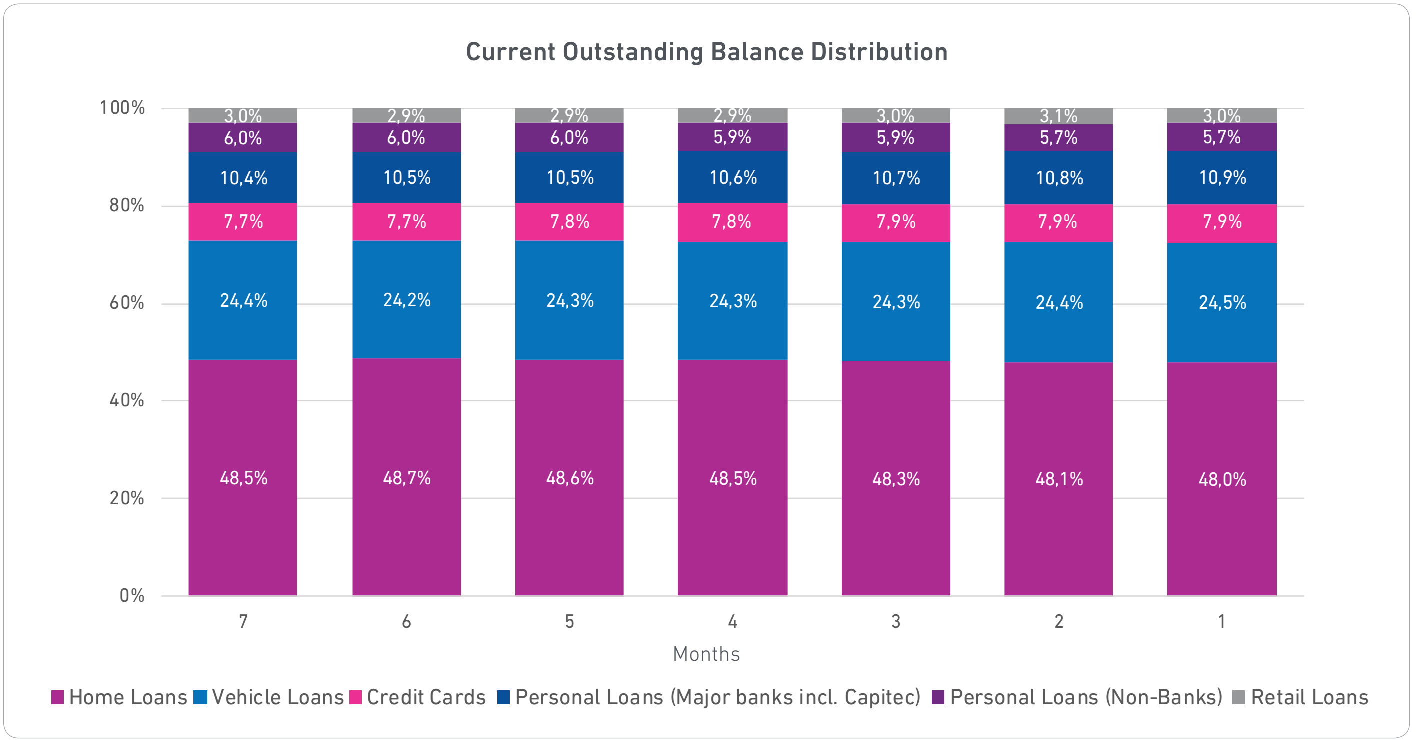
*Note: On 9 April South African President Cyril Ramaphosa announced an extended lockdown until 30 April.

Key Insights

- Weekly enquiry volumes across the EMEA region appear to have settled at new levels.
- Italy and Spain remain most impacted due to the severity of the lockdown criteria.
- Denmark, the Netherlands and Norway are less impacted however still lower than prior years.
- In South Africa, on average, March was only 12% lower than February; we expect April to be significantly lower than March due to the impact of the announced extended lockdown.

The retail and non-bank loans industries in South Africa remain hit the hardest due to the total lockdown, with the lack of credit activity in the clothing and furniture retail sectors expected to have a longer-term impact on the broader credit industry.

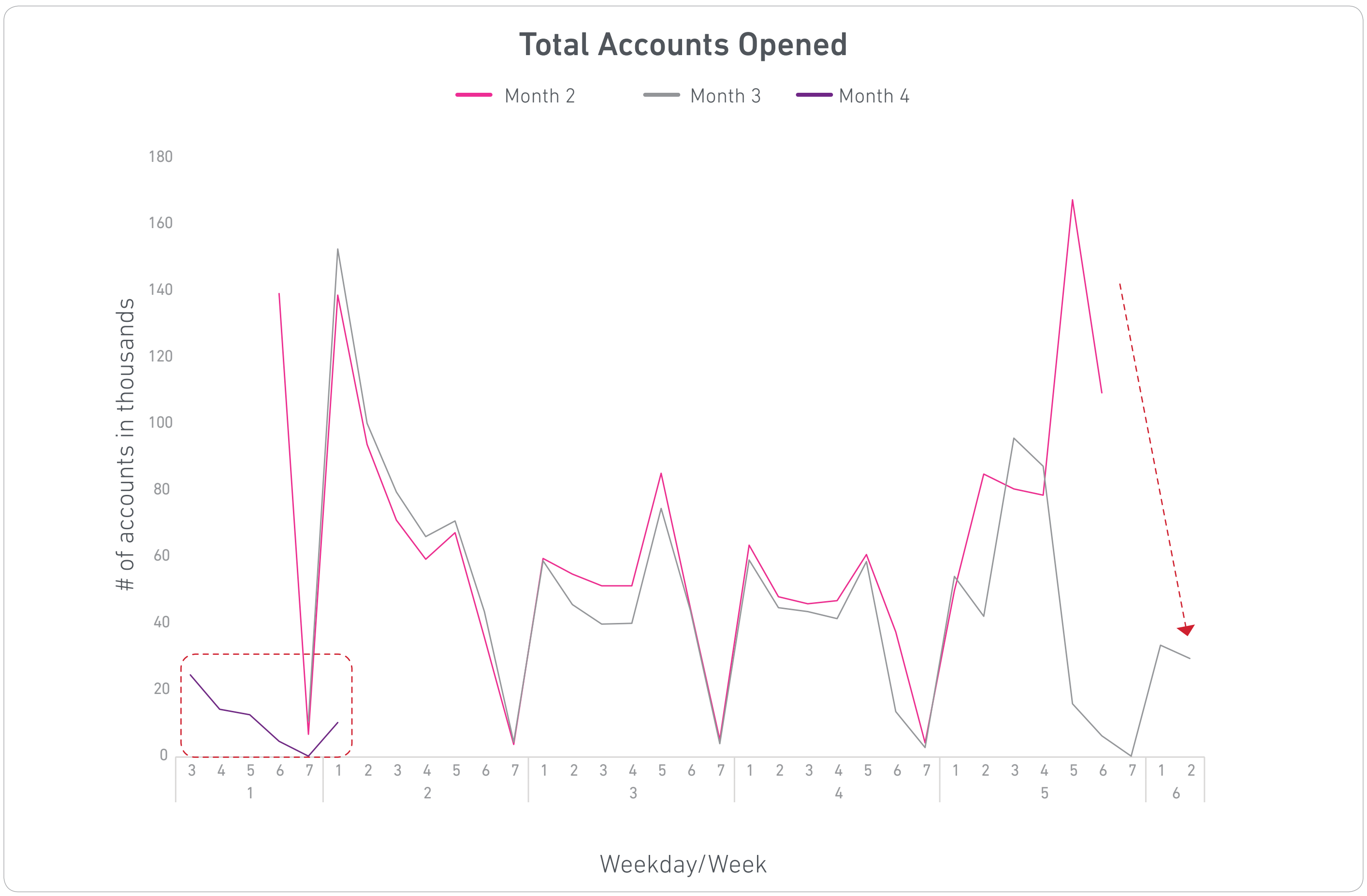


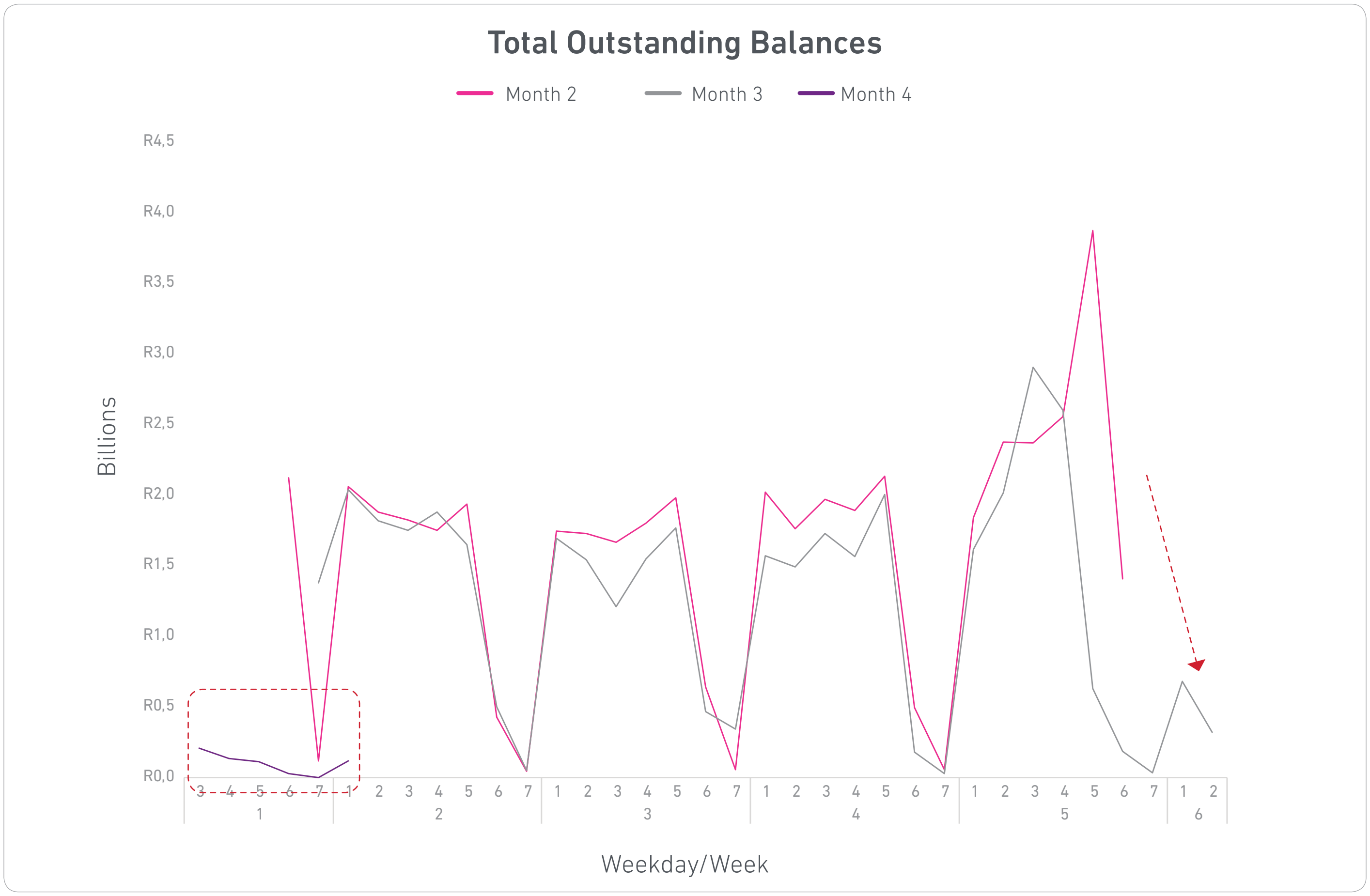


Key Insights

- The clothing and furniture retail credit industry contributes ~50% of the total number of accounts on the credit bureau.
- The more inclusive nature of the industry (ability to fund higher risk through retail margin) allows for more consumers to start their credit journeys via retail accounts.
- A significant portion of consumers that begin their journeys with retail accounts migrate to other credit products over time.
- The lockdown and subsequent lack of credit activity, for both new and existing accounts, is expected to have a negative impact on the overall credit industry.
- It is therefore essential, from a holistic industry perspective, that the retail credit industry remains strong to ensure an accelerated growth phase when we reach the new normal.

The reduction in volumes and balances continues as a result of the lockdown:

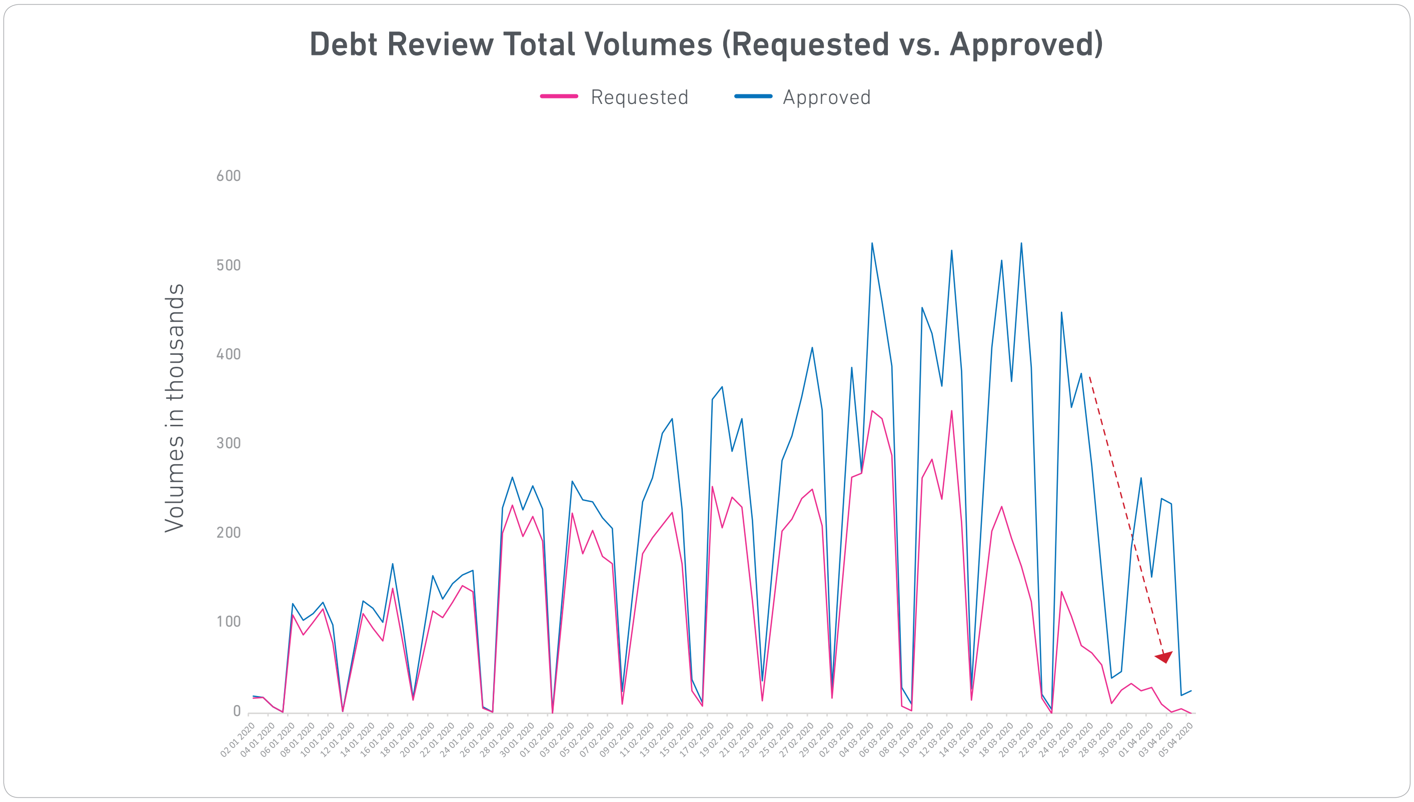




Key Insights

- The lockdown continues to have a negative impact on both volumes and balances due to a significant drop in short-term loans.
- Payday and short-term loans remain the most impacted due to the inability of consumers to access providers of these types of facilities.
- Home loans, vehicle finance, retail and telcos are suffering similar fates as volumes have all but disappeared due to the lockdown.
- While still negatively impacted, credit card volumes seem to be the most resilient, which could be attributed to online applications and facility increases.

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



Key Insights

- The volumes of requested and approved debt review applications have both decreased considerably during the past week. Note: Debt review approvals are conducted as part of a court process; courts are currently closed during lockdown.
- It is expected that these volumes will increase dramatically once the lockdown comes to an end and consumers and debt counsellors start requesting and processing requests respectively.

Conclusion

While necessary to deter the spread of COVID-19, lockdowns in many countries continue to have a negative impact across various industries. The initial and subsequent extended lockdown in South Africa has resulted in significantly reduced credit activity, which has particularly effected retail and non-bank credit applications and balances, as well as debt review requests and approvals. Should the lockdown be further extended, we are confident that we'll will see a continued negative effect on our economy and credit bureau related industries. That said, once the lockdown is lifted, it may take time for these industries to recover and return to normal levels.

How are we addressing the risk of increased fraud during this time?

We expect fraud attacks to increase as criminals take advantage of the COVID-19 crisis.

Recent stimulus programmes create the opportunity for social engineering and credit push payment fraud, including:

- COVID-19 tax rebate scams.
- Deceptive WHO or government sites and email campaigns.
- Fake charities asking for donations.
- Company impersonations and crowdfunding scams.
- COVID-19 cures and COVID-19 immune booster products for sale.
- Supply scams: sale of high-demand hygiene products which are counterfeit or never delivered.

Cybercriminals selling coronavirus-related malware packages, such as:

- Latest pandemic news alerts with malicious attachments.
- Hackers have started using fake coronavirus maps to spread malware for capturing user data including usernames, passwords, credit card numbers and other sensitive information that are stored in the users' browser when they click on the map.
- Phishing (emails), pharming (fake websites), vishing (voice calls), and smishing (text messages) campaigns aimed at collecting personal information, financial details, access codes, etc.

Fraudsters are targeting multiple areas of a business to optimise their success rates:

- ATO (Account Take-Over)
- AO (Account Opening)
- Compromised PII for sale on the dark web and social media platforms.
- BIN attacks
- ECommerce merchants
- Supply scams
- Expose weak authentication processes
- Ransomware

In light of the circumstances as well as the need to adapt to new working and financial conditions businesses and consumers alike have become increasingly vulnerable.

Business operations and security protocols are overwhelmed:	**Consumers are trying to stay informed and protected:**
Increase in demand for software has led to the introduction and utilisation of additional computer programs and applications.	Curiosity without caution is dangerous (opening phishing emails, news headlines from untrusted sources).
IT, cybersecurity, and investigations teams are inundated due to the influx of internal demands and external cyberattacks.	Significant increase in time online (work, shopping, education, social, etc.) with poor security protocols in place.
There has been no recent precedent for the risk management of an event of this magnitude.	Social engineering made easier as consumers want to stay connected.
Companies are aiming for speed rather than safety to ensure fast access to systems for business continuity with fewer security protocols than seen in the office.	Financial constraints due to loss of work hours or even jobs push consumers to be attracted to potential scam-based deals online.

Workforces that are new to remote working circumstances (especially those without previously established remote working security protocols) must be vigilant.

- Businesses are rushing to resolve technology gaps to enable employees to be productive and efficient while working remotely:
  - Security is often an afterthought for small- and mid-sized organisations.
  - Quick search for new and cost-effective tools to enable employees and customers.
  - Newly remote workers need training in the systems and protocols set in place.
- New processes and protocols expose gaps for attackers:
  - Increased personal use of company devices to access personal emails, social media, online shopping.
  - Recent remote employees may struggle to understand new processes and controls.
  - Malware disguised as freeware could be attractive to smaller companies without adequate resources for paid-for software.

Which areas do we recommend our clients focus on during the crisis?

Business Issue	Observation	Treatment
1st-, 2nd-, and 3rd-party fraud	Economic conditions will increase fraud attempts. Financial pressure could result in customers altering and fabricating income to pass credit checks. 3rd-party fraud will increase on digital platforms as social engineering attempts grow. Finger biometrics will not be favoured due to hygiene concerns around COVID-19. Clients will explore other avenues – facial recognition and liveness checks, behavioural biometrics, device intelligence.	Review relevance and impact of current fraud strategy and structures. Move away from a single-layered approach to fraud management. Data sharing across verticals will be important at account opening and account take over. Rules and process monitoring needs to be refreshed pro-actively. Implement re-KYC strategies to ensure that you have updated consumer information. Device intelligence technology for account take over is critical. SCA (Strong Customer Authentication). Create fraud awareness.
Existing client fraud detection	Long-standing clients with a good history; however, circumstances have changed. The objective is not to introduce friction but to foresee misrepresentation and or potential default payers.	Majority of fraud areas rate such clients as low-risk due to good standing accounts. Consider client transactional behaviour. Shared transactional indicators – benefit the industry and enrich decisions.
KYE (Know Your Employee)	Major fraud risk area for organisations are the custodians entrusted to run them. *	Implement KYE strategies with HR. Review current wellness and awareness programmes to ensure specific measures are in place to circumvent risk. Implement whistle-blower/tip-off lines.
KYV (Know Your Vendor)	Ensure that current and new vendors are vetted correctly and follow internal procurement protocols.	Ongoing monitoring of vendors is critical. Besides fraud, identify the reputational risks and ensure distancing. Implement whistle-blower/tip-off lines.
Merchant fraud	Friendly fraud will rise as consumers look to purchase goods online and claim non-delivery of goods. Authenticated fraud at merchant or merchant processing cards.	Merchants need to ensure that they have strict policies in place to address disputes raised by consumers when handing goods over. Ensure 3D secure processing. Acquiring bank should have velocity transactional monitoring checks in place regardless of POS entry mechanism. Requiring bank to review onboarding criteria to improve the quality of sign–up.

Respond and report	42% of South African organisations (global: 44%) did not conduct an investigation after finding fraud. * 55% of South African organisations have formal governance over anti-fraud programs. Globally, 72% of incidents were not disclosed to auditors, while 66% were not disclosed to law enforcement, and 59% were not disclosed to the board of directors. *	Implement an effective anti-fraud strategy. Have a code of ethics. Develop an ethical anti-fraud culture. Frequent fraud risk assessments. Awareness training. Reporting mechanisms and whistleblowing in place.

* Source: PWC 2020 Economic Crime Survey (https://www.pwc.co.za/en/publications/global-economic-crime-survey.html)

How will we support our clients through this crisis?

- Proactive communication with our partners:
  - Listen to your challenges and how you are responding to the crisis.
  - Understand the impact of COVID-19 on your business and where you need help.
  - Ensure that you have relevant fraud strategies, models, rules, etc. to counter the attacks.
  - Ability to react quickly to your needs.
- Offering the right solutions to help:
  - ID & fraud and risk solutions effective at protecting businesses and customers.
  - Committed to helping consumers and businesses get accurate information quickly.

We expect our fraud solutions to remain stable and provide the desired support to our clients.

NFPS	FraudNet	Email Risking	Custom Fraud Score	Identity Verification	CSID
Collaborative Application Fraud Management	Digital Device Identification	Limited Data Fraud Prevention anyone@gmail.com	Client Data Driven Fraud Prediction	Is the customer who they say they are?	Is PII data being sold on the dark web?
App Data, Contact, Address Asset Data	**App Data, Device data, Link analysis**	**Global Email consortium risking**	**App Data, Contact Bureau Data, SAFPS**	**DHA, Bureau Data**	**Dark web searching**
Fewer applications, less fraud investigation	More personal device; no expected impact	Increase in free mail accounts; no expected impact	Minimal impact; some account performance variables used	First- and third-party fraud has increased	More data available on dark web

Conclusion

As a result of the COVID-19 situation and related government mandated protocols, in a rush to establish business continuity and to mitigate the impact on their professional and personal lives, businesses and consumers alike are choosing speed over security to establish interim measures. Criminals are exploiting both businesses and consumers at multiple touchpoints – digital, analogue and psychological attacks are being used to gain information, obtain money or infiltrate systems. Understanding the increased trends in these types of crimes, Experian's suite of fraud and risk mitigation products and services are aimed at helping clients prevent and decrease instances of fraud and risk.

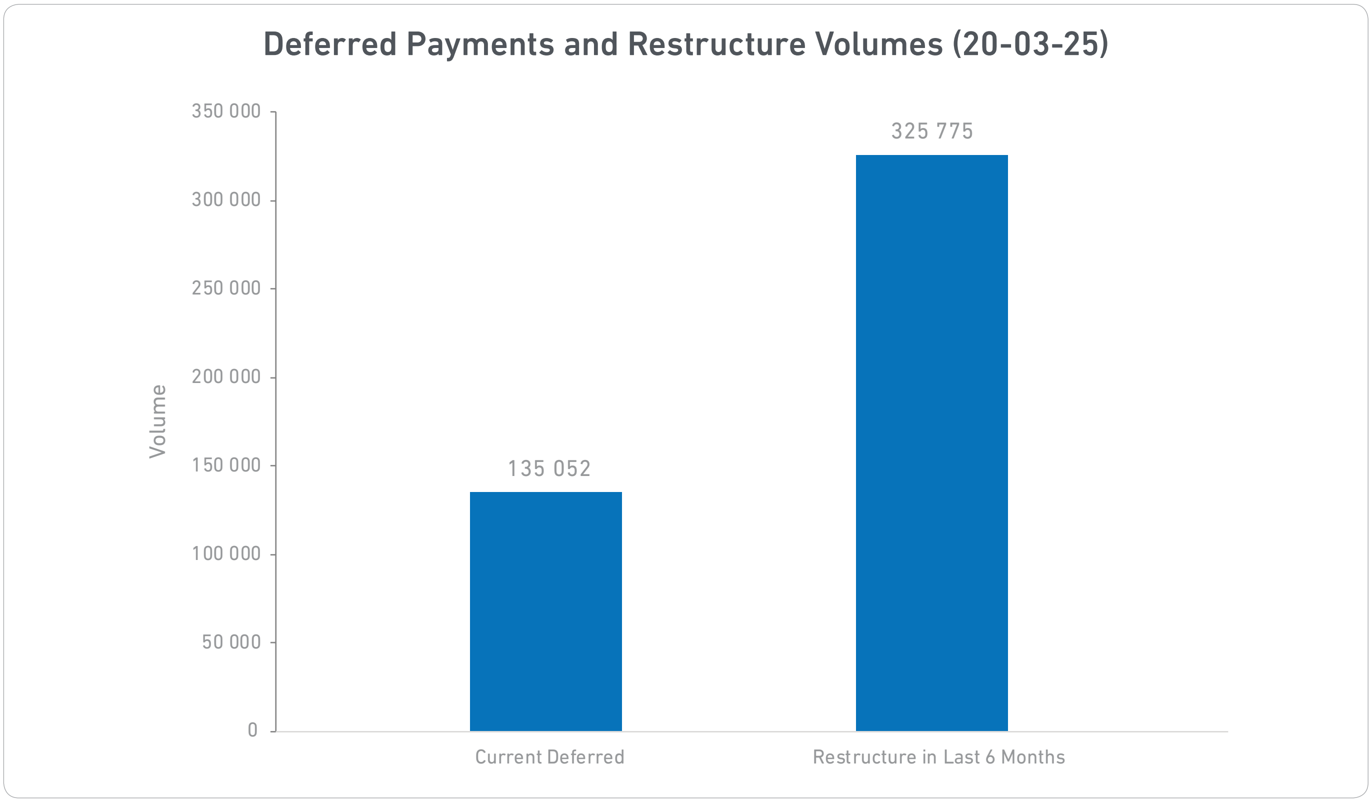
FAQ Feedback

During uncertain times, questions arise as businesses and consumers search for clarity. Understanding the importance of providing our clients with answers to these questions and through the analysis of various data, Experian aims to address the questions raised over the past weeks.

1. How do we plan to track data accuracy?

Deferred Payments and Restructured Accounts – Volumes

We will track and report on movements in volumes of both deferred and restructured accounts to determine how consumers respond to banks' support.

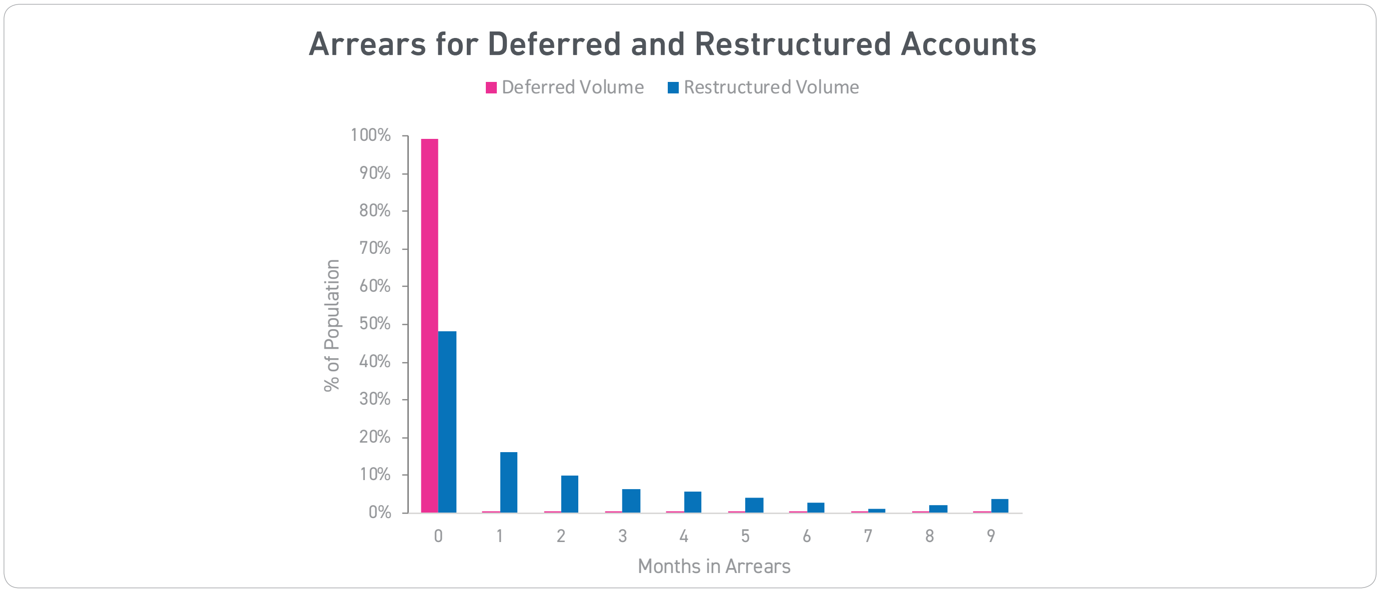


Pre-COVID-19 snapshot

- Accounts with deferred indicators totalled 135 052 accounts.
- Accounts with restructured indicators totalled 325 775 accounts.
- Accounts with both a deferred and restructure indicator amounted to 1 150 accounts.

Deferred Payments and Restructured Accounts – Arrears

We will track and report on movements in delinquency levels of both deferred and restructured accounts to ensure data accuracy (deferments) and consumer performance for restructured accounts.

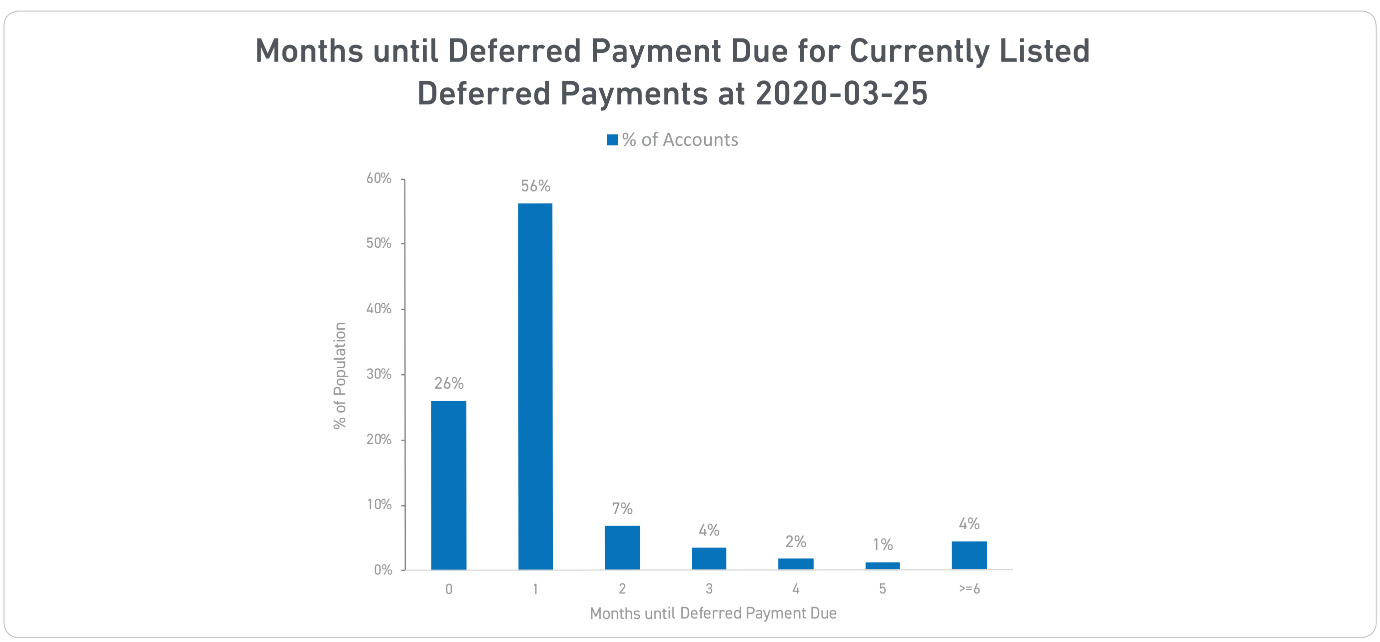


Pre-COVID-19 snapshot

- All deferred accounts were up-to-date as at 25 March (as expected).
- ~80% of restructured accounts are less than 3 months in arrears.

Deferred Payments and Restructured Accounts – Payments

We are tracking and reporting on movements in the month until a deferred payment is due to determine the take-up and term of such deferrals.



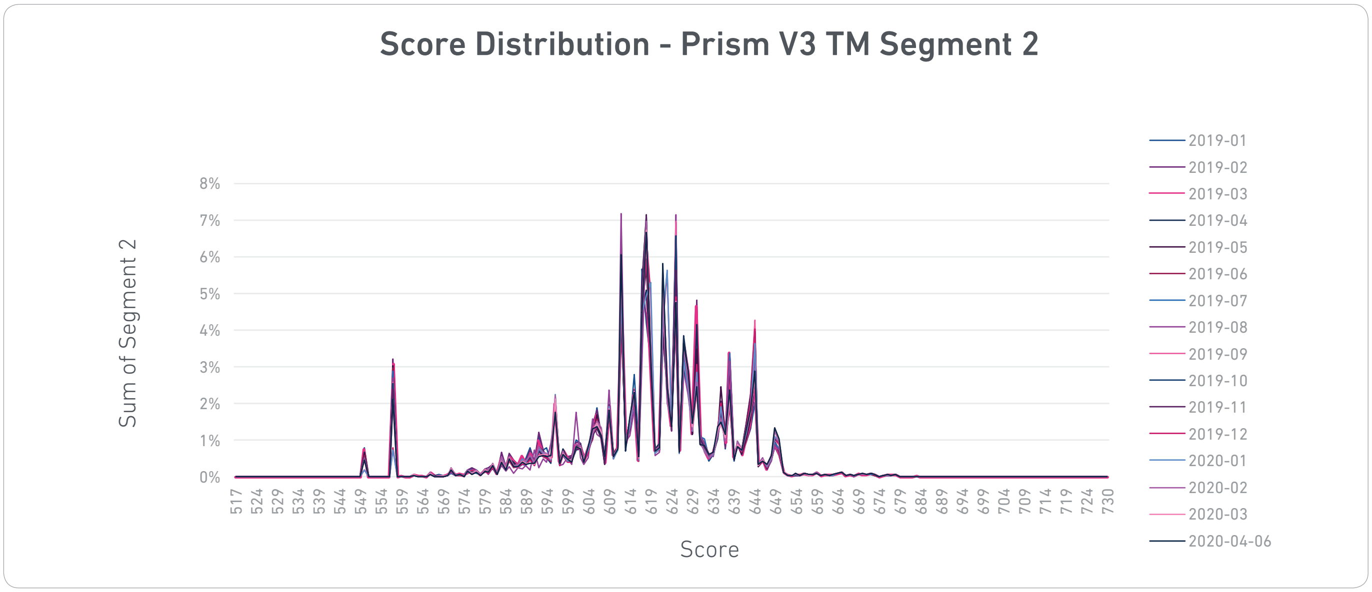
Pre-COVID-19 snapshot

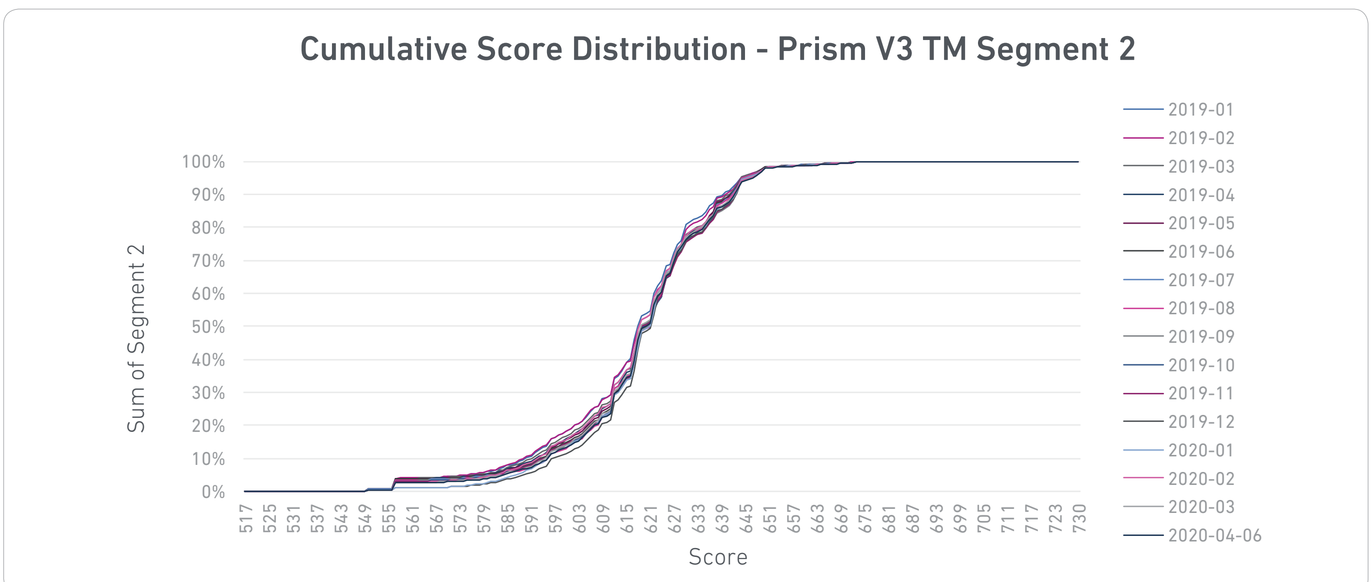
- 82% of accounts with a deferred payment indicator are due in either the current or next month.
- As more consumers take up payment holiday offers from banks, these trends are expected to lengthen.

2. How do we plan to track scoring accuracy and sustainability?

Baseline pre-COVID-19 bureau scores and track future movements

We are tracking the validity of all bureau scores pre- and post-COVID-19 across all segments to determine whether consumer inability to pay impacts accuracy.

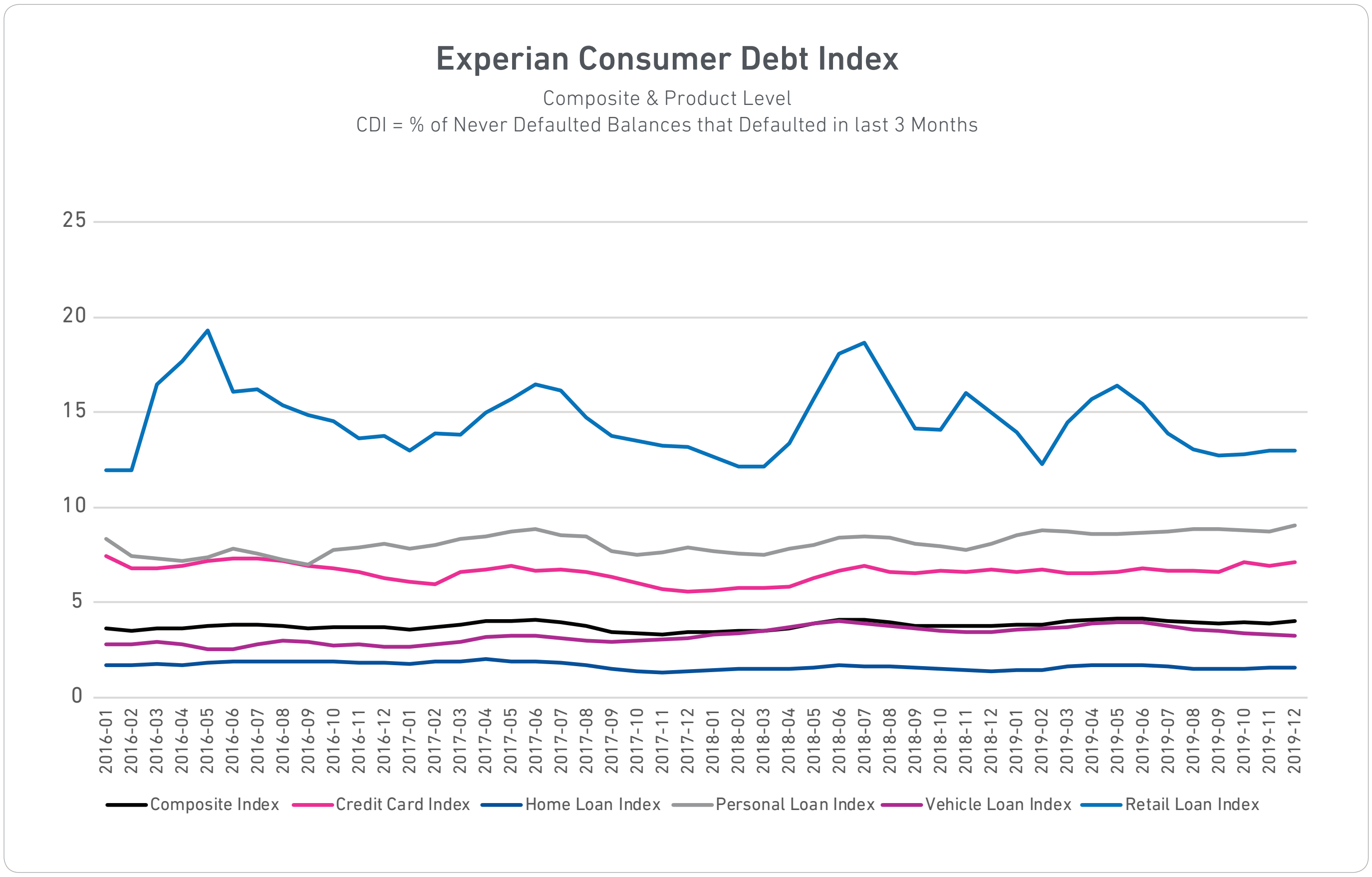




Key Insights

- Behaviour scorecards, by nature, predict the willingness of a consumer to pay an account with the score predicting the likelihood of payment occurring.
- The current crisis could result in a willingness to pay being trumped by the ability to pay thus potentially negatively impacting on the ability of the scorecards to predict risk accurately.
- To track the impact of the inability to pay on the various bureau scorecards, Experian analytics experts are closely tracking first-ever defaulters post-COVID-19 with the respective bureau scorecards validated against these subsets to validate the predictive power of scorecards.

Using the Experian Consumer Debt Index (CDI) default definition to track first-time defaulters



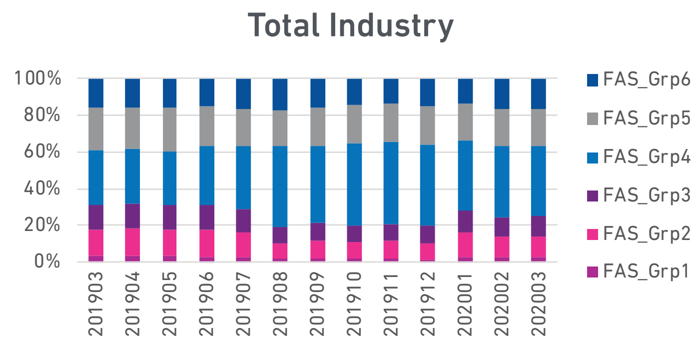
Key Insights

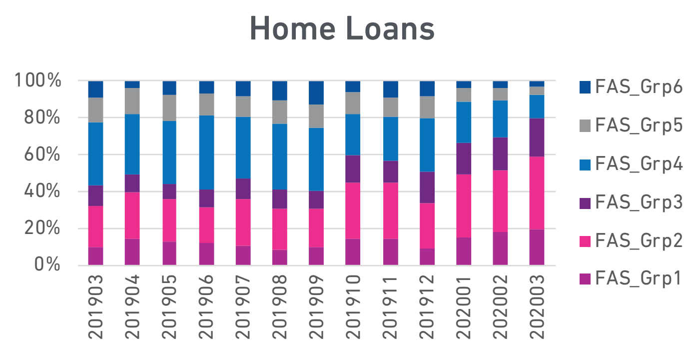
- The Experian Consumer Debt Index (CDI), which tracks the rate of first-ever defaulters, will be updated monthly to identify products and consumer segments most impacted by the crisis.
- The increase in the CDI composite index in 2019 Q4 is expected to significantly increase further in the coming quarters as the impact of the lockdown takes its toll on consumers.

3. How do we plan to ensure consumer insights and segmentation remains relevant?

Baseline pre-COVID-19 Financial Affluence Segmentation (FAS) is used to track movements across segments.

We are tracking the population movements across the Experian FAS segments to ensure stability and accurate identification of a marketable population for direct marketing campaign selection.





Key Insights

- Similar to the various behavioural scoring models developed by Experian, our FAS models, which are updated monthly, could be impacted by a change in consumer ability to pay their debt.
- To track the impact of the inability to pay on the various FAS segments, Experian analytics experts are closely tracking movements across the various segments at a product level.
- Movements in the distribution across the various segments will provide the required insights to support the ongoing optimisation of direct marketing strategies across industry and product.

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