13 May 2020

Experian Africa 2020

Weekly Market Impact Report (Week 5)

A look at a rapidly changing economy

A Look at the New Normal: Are we witnessing a structural change in the South African credit industry?

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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 see 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.

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 5 ending 08 May 2020 focus areas:

- What does credit activity look like in week 5?
- Will traditional lending practices withstand the COVID-19 crisis?
- What did pre-COVID-19 consumer's credit journey look like and why is it important to ensure the fundamentals remain in place post-COVID-19?
- Have we seen any early signs of a structural change in the post-COVID-19 credit industry?
- What does the initial finding of the early performance indicators suggest?

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 dramatically increase 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.

Week 3

Enquiry activity trends appear to be further stabilising across the EMEA region. However, South Africa continues to experience a negative effect on enquiry level as we move through the lockdown period.

- Europe continues to struggle with the effects of COVID-19 with the lockdown in Italy and Spain having the biggest impact.
- The impact on the rest of Europe is starting to increase as more stringent lockdown criteria are put into effect.
- South Africa's infection trends continue to increase; however, at a rate lower than that observed in the rest of Europe.
- The lockdown continues to negatively impact enquiry volumes with only the telco industry showing growth due to the increased demand for data.

Key indicators Experian tracks weekly continue to show distress due to the lack of economic activity:

- New account volumes and outstanding balances remain depressed due to lack of market activity.
- Applications for debt review dropped to almost zero due to non-essential service classification.
- Increased consumer demand for both deferred payment and restructures have not yet materialised; however, it is expected to increase over the coming weeks and months as the impact of the lockdown takes effect on consumers.
- Both bureau scorecards and segmentation models remain stable.

SME sector suffering the same fate as the consumer sector due to depressed demand:

- Enquiry volumes significantly lower since the onset of the lockdown.
- Experian Business Debt Index is expected to significantly deteriorate in coming quarters due to the pre- COVID-19 ailing economy and impact of the strict lockdown criteria.
- Average debtors days already show initial signs of deterioration, with significant extensions expected.
- While all industries show destress, the construction, transport and communication industries are most severely impacted.
- Business conditions are expected to significantly deteriorate in the coming months as the impact of the lockdown and weak economy result in increased company closures and job losses.

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.

Week 4

Enquiry activity trends seem to have stabilised across all the Experian EMEA regions, including South Africa.

On the local front, new account volumes and outstanding balances remain depressed due to lack of market activity as we enter the 5th week of total lockdown. Similarly, debt review applications remain low with requests for deferred payments and restructures at pre-COVID-19 levels, with volumes expected to increase in coming weeks. Both bureau scorecards and segmentation models remain stable as the expected impact of the crisis has not yet materialised in reported data.

The Rest of Africa countries are showing similar trends as observed in the EMEA region and South Africa:

- The most significant drop in enquiry volumes occurring from the date each country's lockdown was formally enforced.
- This trend is consistent across the banking and non-banking industry with the larger impact being on the non-banking sector due to the lockdown.
- Experian continues to actively track all components of our value chain to ensure that all available data is loaded timeously and is complete.
- We will further actively monitor our various scoring variables to ensure ongoing accuracy.

Week 5

- In recent weeks, we observed a sharp decline in the number of new infections across most of the European countries in which Experian operates.
- In South Africa, we have, however, observed a material increase in both new weekly cases and subsequent overall infection rates which can be attributed to more tests being conducted countrywide.
- During the last week of April and the early weeks of May, we have noticed an increase in enquiry volumes across industries as the lockdown level was eased.
- Whilst still stable (bureau data up to end March), recent trends suggest that the increase in consumer distress in certain segments is starting to impact on behavioural metrics.
- Based on recent trends observed in some post-COVID-19 data, we expect the following:
    - o Traditional model development and re-calibration techniques will become less effective due to the emergence of new segments influenced by non-behavioural factors.
    - o Portfolio and product management strategies along with subsequent operational execution activities will require alignment to consumer segments.
    - o Daily monitoring of every component of the credit lifecycle will become more critical than ever to optimally manage expected future and actual cash flows.

What does credit activity look like in week 5?

Enquiry activity trends remain stable across the Experian EMEA region.

In recent weeks we observed a sharp decline in the number of new infections across most of the European countries in which Experian operates.

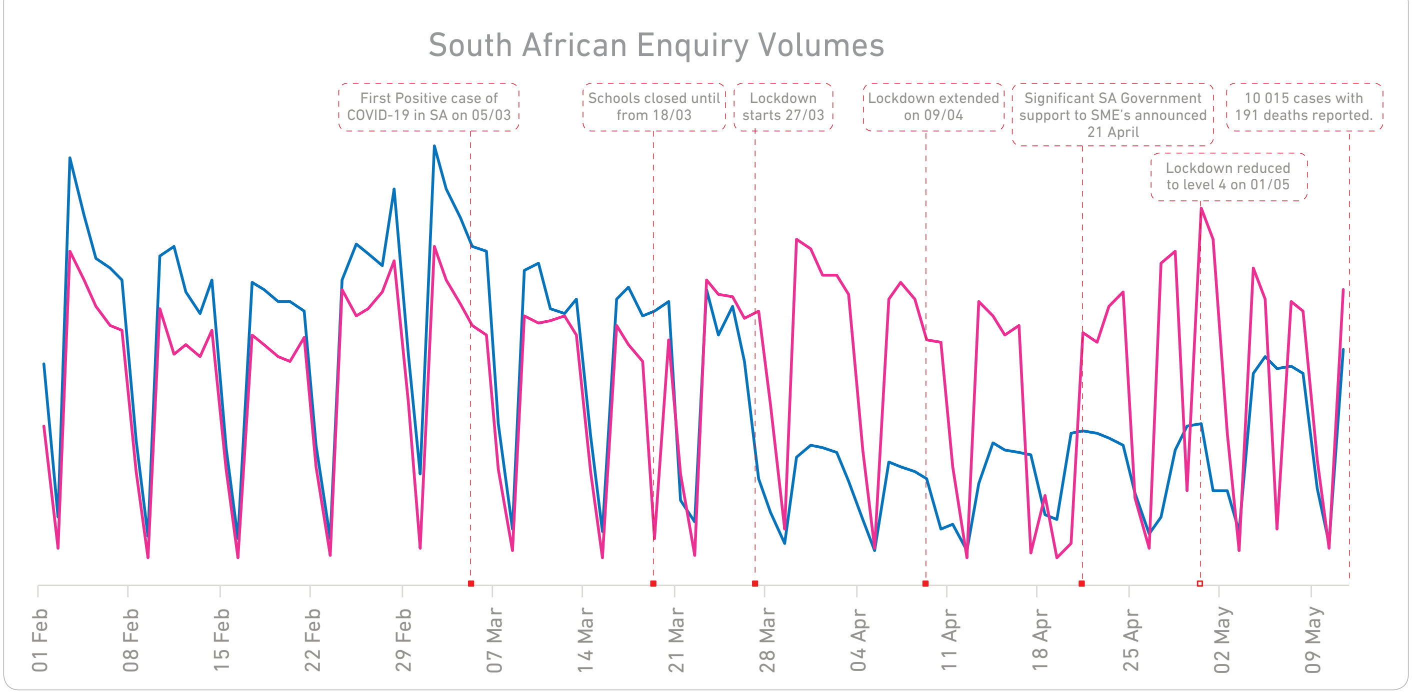
In South Africa, we have, however, observed a material increase in both new weekly cases and subsequent overall infection rates which can be attributed to significantly more tests conducted countrywide.

Situation as of 13 April	Level of confinement *	Total cases (variance vs the day before)	Quarantine start date	Estimated end date
Italy	High	215,858 (+1,401)	13/04	13/05
Spain	High	256,855 (+3,173)	11/04	25/04
Netherlands	Medium	41,774 (+455)		
Norway	Medium	8,035 (+38)		
Denmark	Medium	10,083 (+145)		
South Africa	High	10,015 (+595)	30/04**	30/04

* 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).
** End of Level 5 entered Level 4 on 1 May 2020

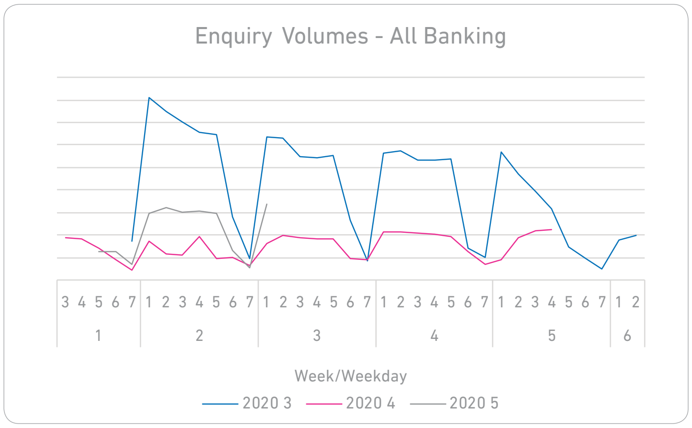
Enquiry activity trends show a marginal increase as more businesses are allowed to trade.

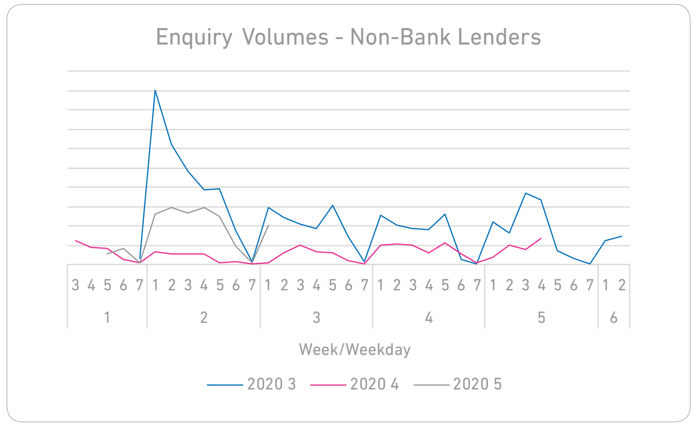
On 1 May 2020, South Africa moved into a lower lockdown level allowing more businesses to reopen. As a result, we observed a marginal increase in enquiry activity as access to and demand for credit increased.

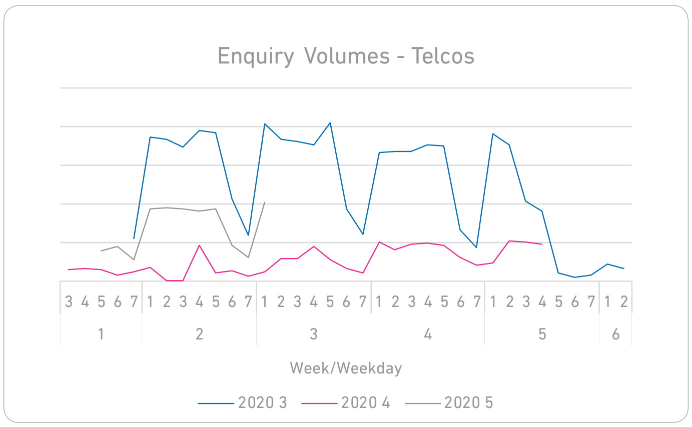


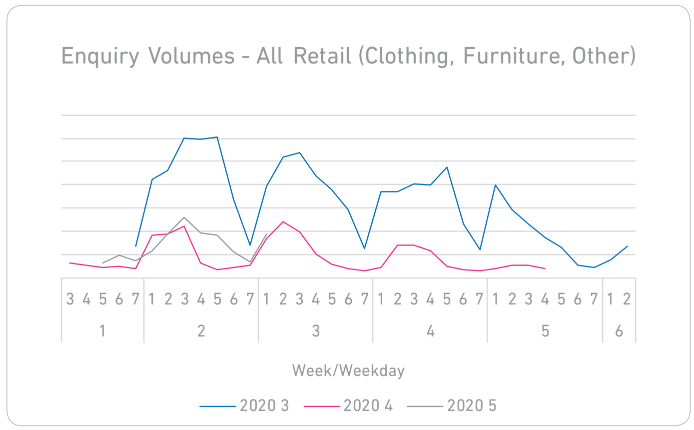
South African Enquiry Volumes.

Whilst enquiry volumes remain well below the previous year and pre-COVID-19 months, a slight increase is observed across industries opened as a result of less stringent level 4 restrictions.









Key tracked criteria show marginal changes as the market gradually re-opens. Whilst still generally stable, bureau scorecards start to exhibit some movements across specific segments.

Measure	Comment	Wk 1	Wk 2	Wk 3	Wk 4	Wk 5
New accounts opened	The volume of new accounts opened remains under pressure as payday loans, short-term loans, secured lending products and retail loans demand remains subdued.	↓	↓	→	→	↑
Total outstanding balances	Similarly, outstanding balances remain under pressure due to low renewal of short-term and payday loans, and lack of activity in the secured lending market. Credit card balances are the least impacted due to preferred payment mechanism status.	↓	↓	→	→	↑
Debt review	Requested and approved volumes continue to drop as industry seen as non-essential service. Post-lockdown growth expected as requests increase.	↓	↓	→	→	↑
Deferred payments	Deferred payment volumes remain in line with pre-COVID-19 levels. This is expected to increase in the coming weeks (post lockdown) as consumers take advantage of the option to manage cash flows.	→	→	→	→	↑
Restructures	Restructures remain in line with pre-COVID-19 levels. This is expected to increase in the coming weeks (post lockdown) as consumers take advantage of the option to manage cash flows.	→	→	→	→	↑
Bureau scores	Bureau score distributions and characteristic stability remains in line with development expectations.	✓	✓	✓	✓	✓
FAS stability	Segmentation distributions and characteristic stability remains in line with development expectations.	✓	✓	✓	✓	✓

Will traditional lending practices withstand the COVID-19 crisis?

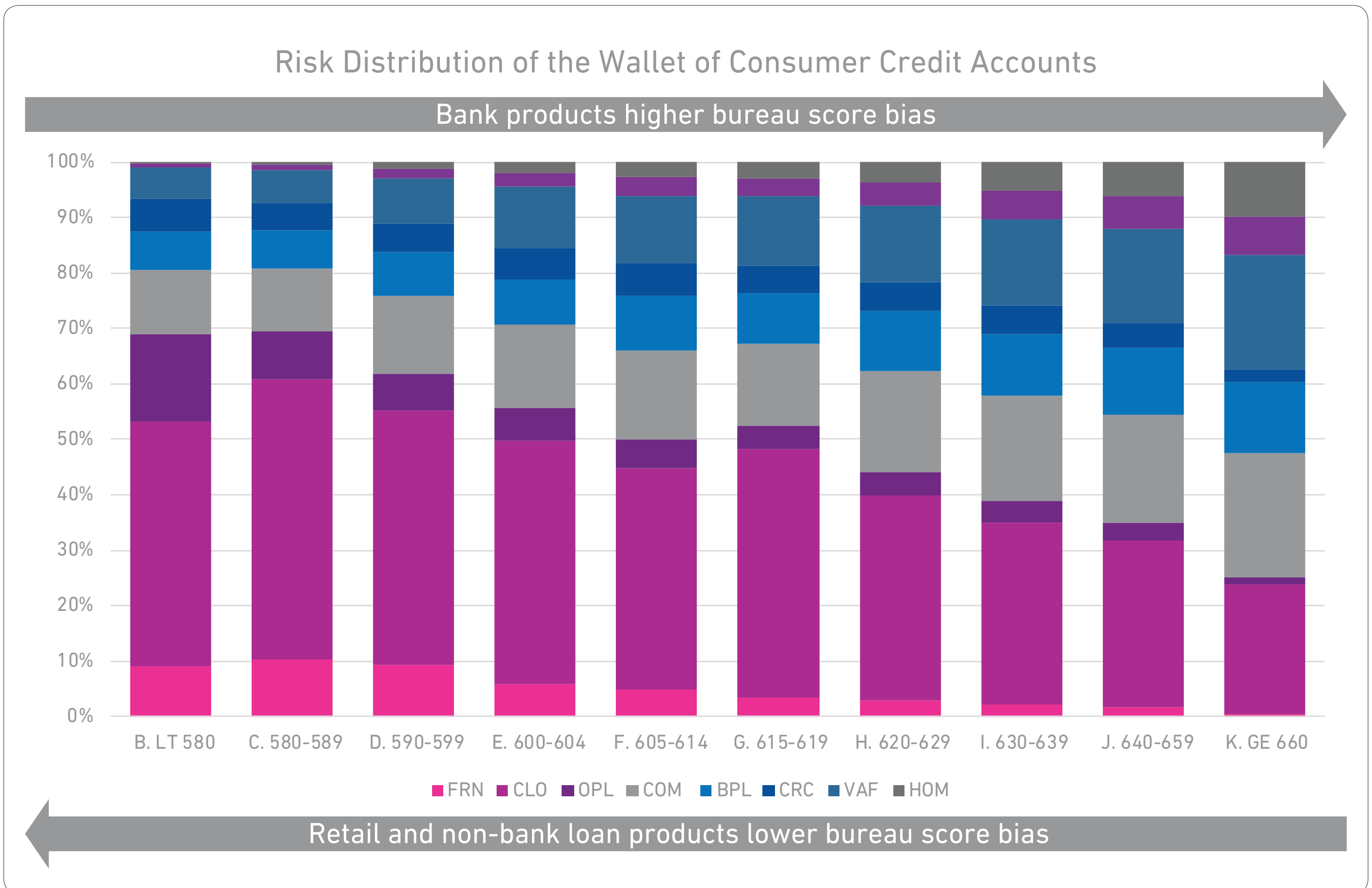
Traditionally risk segmentation directly correlates with products held by consumers.

At the lower end of the market:

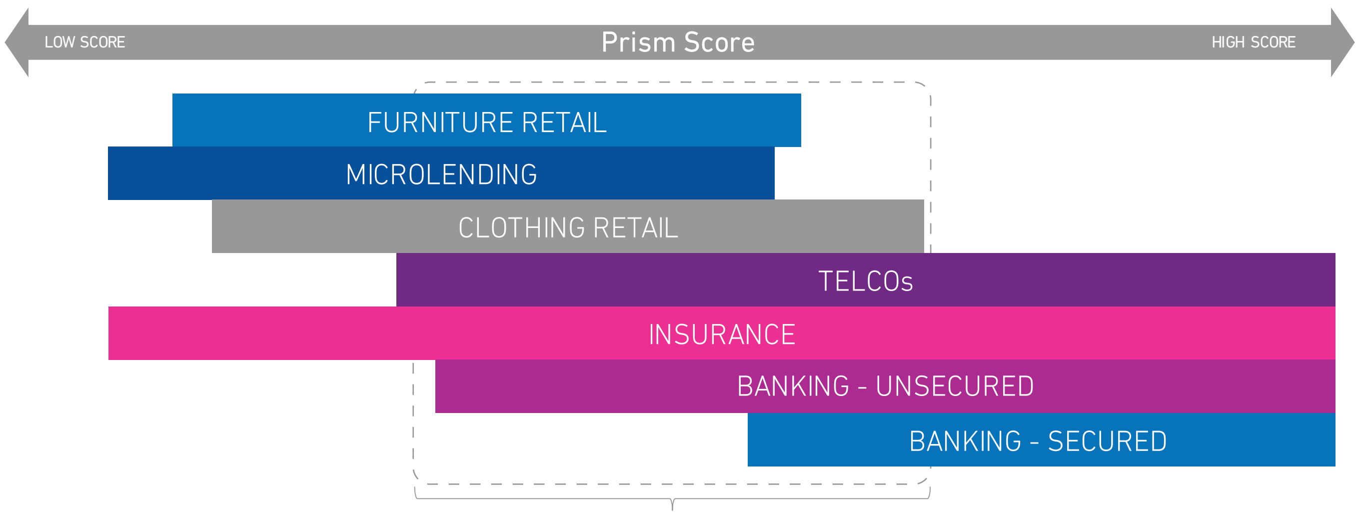
- There is limited access to credit.
- The primary focus is getting credit.
- Consumers will take what they can get; price and term insensitive – more about affordability.
- Loyalty and rewards programmes are largely ineffective.

At the upper end of the market

- There is access to multiple credit offers.
- Consumers are more focussed on value proposition than credit products.
- They will compare loan sizes, terms and credit limits.
- There is an increased "what's in it for me" attitude in the market; loyalty and rewards schemes are increasingly important.



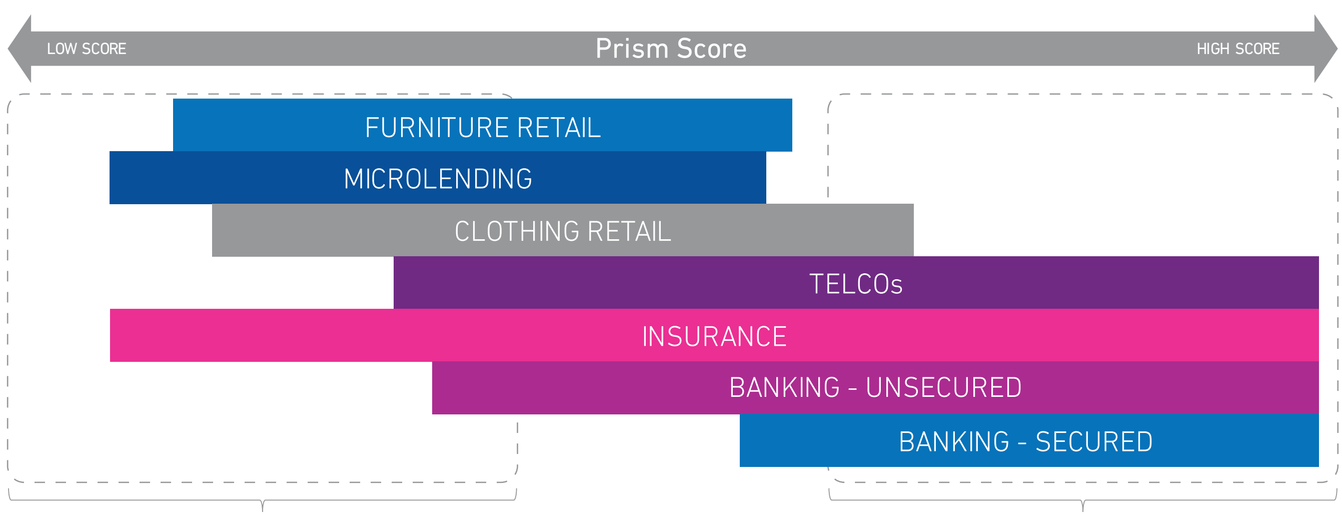
The credit market has become overtraded in the 'acceptable risk' segment with most industries targeting the same population resulting in the establishment of two distinctly different segments of credit consumers in the South African market.



Fewer lenders, consumers keen to engage, but higher risk

- Continuously targeted by all credit providers through direct marketing campaigns – highest response and take up rates
- On average 5+ credit products per consumer, and increasing
- Typical revolvers which manages credit on a minimum monthly payment basis

Niche lenders, consumers difficult to engage, very good risk



Credit Needy

- Majority of total credit active population, but relatively low overall exposure
- Less than 3 credit products on average
- Will take any credit – not cost sensitive

Credit Affluent

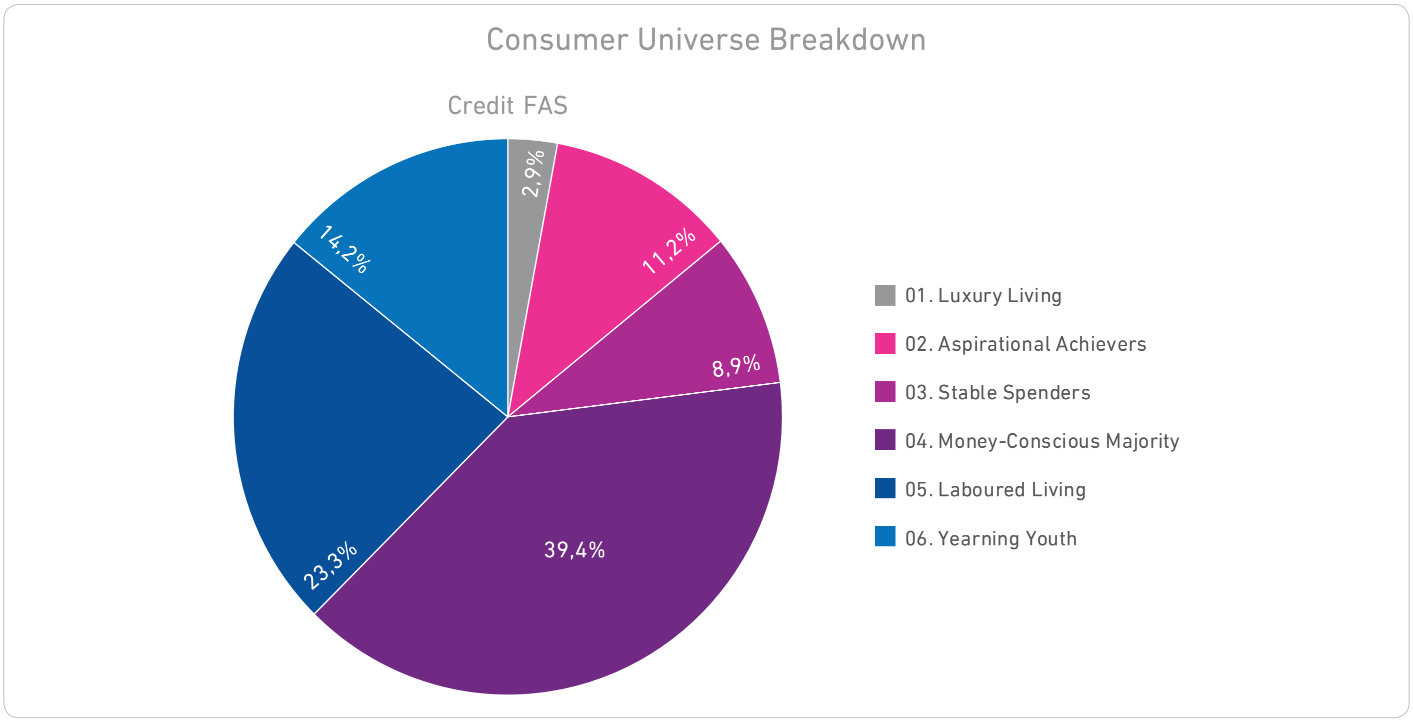
- Lower portion of credit active population with most of the total credit exposure
- More than 6 credit products on average
- Shops around for credit with a 'what's in it for me' approach

Financial Affluence Segmentation (FAS)

Risk segmentation is no longer the primary driver as consumers are looking for specific value adds based on their life stage.

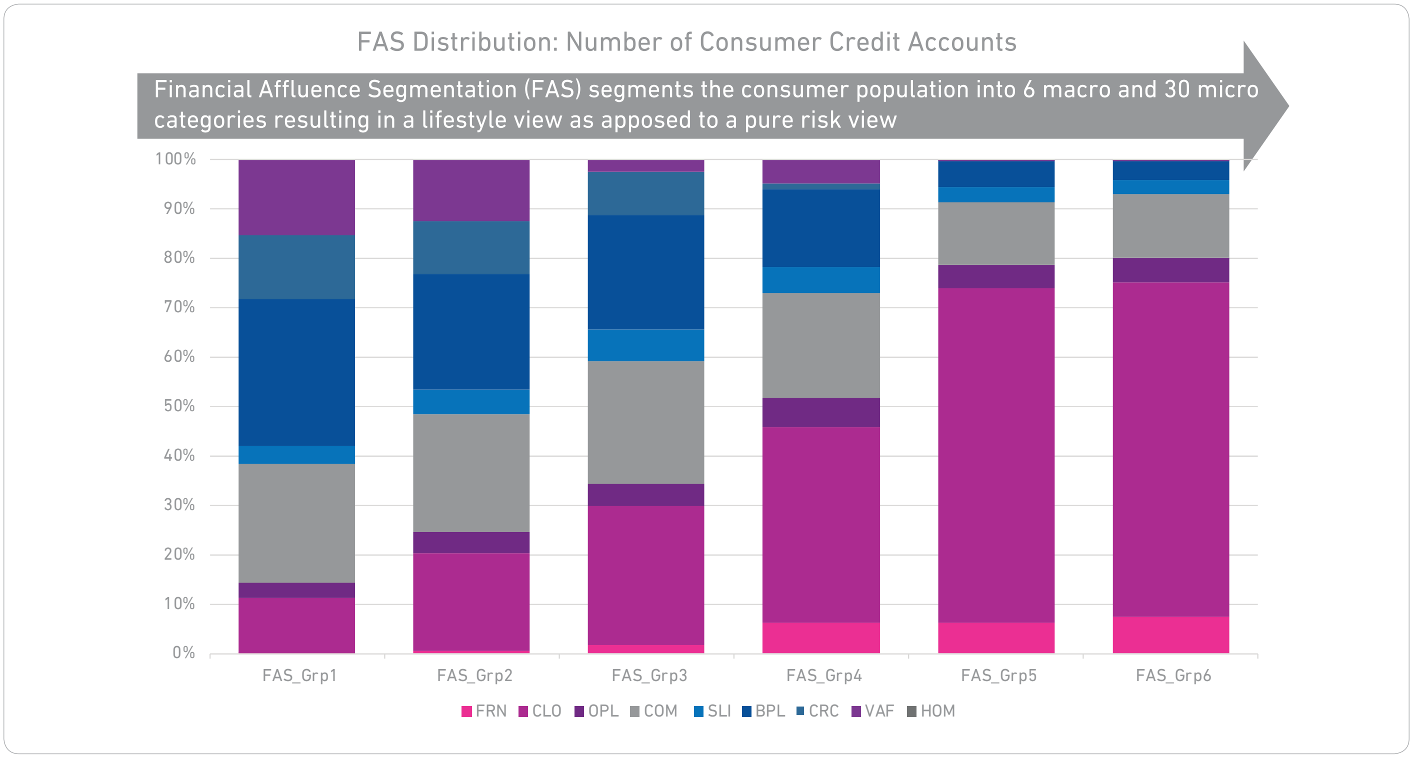
FAS delivers 6 broad segments and a further 30 more granular subpopulations. It analyses over 140 variables to describe consumers' life stages and likely wealth profiles accurately. Grouping is based on a number of similarities, credit consumption, including income and wealth, demographics, needs, wants, and preferences.

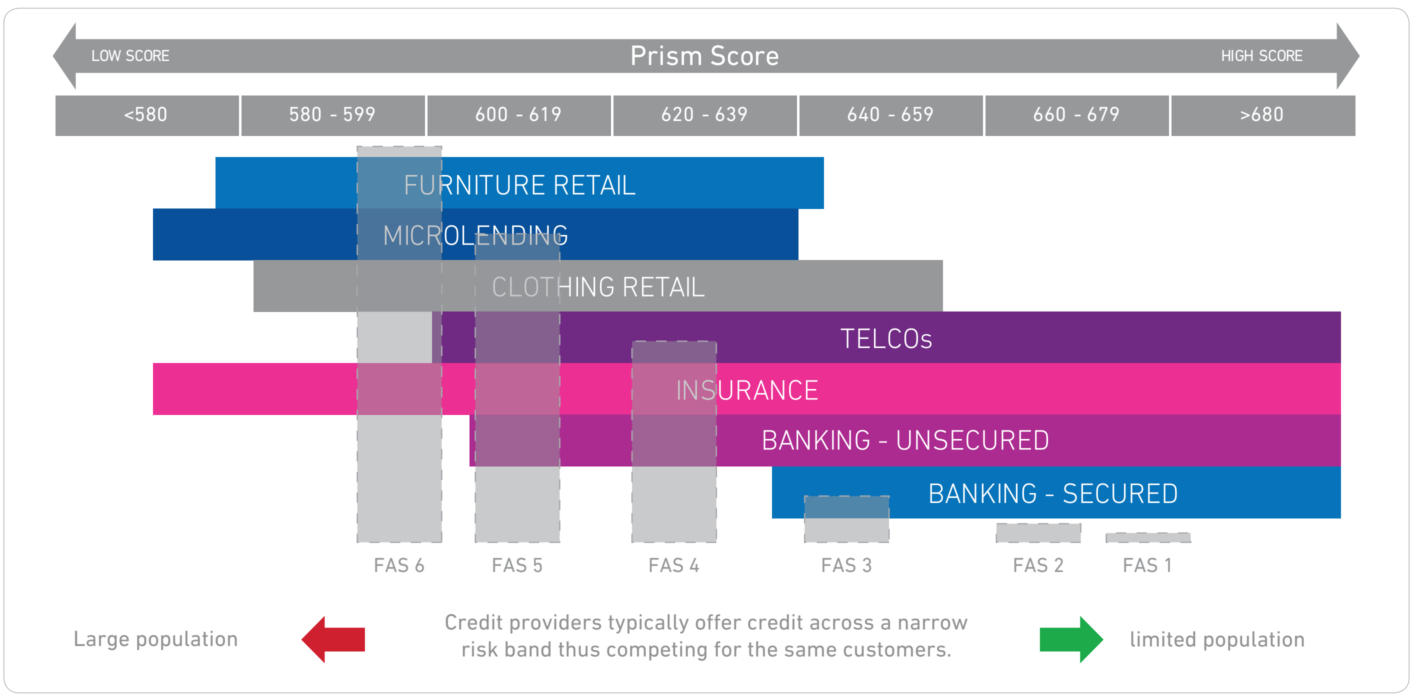
With FAS, it is possible to distinguish the financial affluence, behaviour and sophistication of all adults and households in South Africa.



Similar to risk segmentation, FAS naturally correlates with consumer product holdings with the majority of consumers seemingly distributed towards the 'credit needy' category, favouring retail and non–bank lending.

Credit providers are using both traditional credit data and alternative data sources to better understand consumers, resulting in credit providers aligning to consumer lifestyle based on 'moments' which culminates in credit offers that address consumer 'events' appropriately.





Conclusion

The COVID-19 crisis could force credit providers to materially change the way consumers are managed across the credit lifecycle.

What did a consumer's pre-COVID-19 credit journey look like and why is it important to ensure the fundamentals remain in place post-COVID-19?

8 out of every 10 South African consumers started their credit journey with either a retail, non-bank or entry-level bank personal loan.

Credit Agreement Type	Consumers	Distribution	
Retail Card	10 745 440	37.7%	UNSECURED
Micro Loan	6 631 751	23.3%	UNSECURED
Personal Loan	5 243 314	18.4%	UNSECURED
Credit Card	2 104 991	7.4%	UNSECURED
Telcos	2 094 410	7.4%	UNSECURED
Insurance	798 846	2.8%	
Home Finance	687 035	2.4%	SECURED
Vehicle Finance	183 279	0.6%	SECURED
	28 489 066		

Source: National Clothing Retail Federation of South Africa Consumer Indebtedness research paper conducted by Scoresharp, July 2018

On reviewing the 28,5 m consumers who opened 138,7 m accounts during a 5-year period (2014 – 2018) in South Africa, it was evident that their first credit agreement was:

- 4 out of 10 times a micro or personal loan (unsecured loan).
- 4 out of 10 times a retail card (in-store clothing card).

When tracking the subsequent credit activity after opening their first accounts, the results show the importance of retail credit in South Africa.

First Credit Agreement	Retail Card	Micro Loan	Personal Loan	Credit Card	Telcos	Insurance	Home Finance	Vehicle Finance	No Further Credit
Retail Card		40.9%	43.9%	31.2%	32.5%	20.7%	11.1%	13.1%	28.7%
Micro Loan	15.8%		15.2%	6.3%	5.9%	4.5%	1.2%	1.2%	72.5%
Personal Loan	36.5%	38.2%		12.1%	14.6%	9.5%	2.8%	3.9%	40.7%

Source: National Clothing Retail Federation of South Africa Consumer Indebtedness research paper conducted by Scoresharp, July 2018

Key Insights

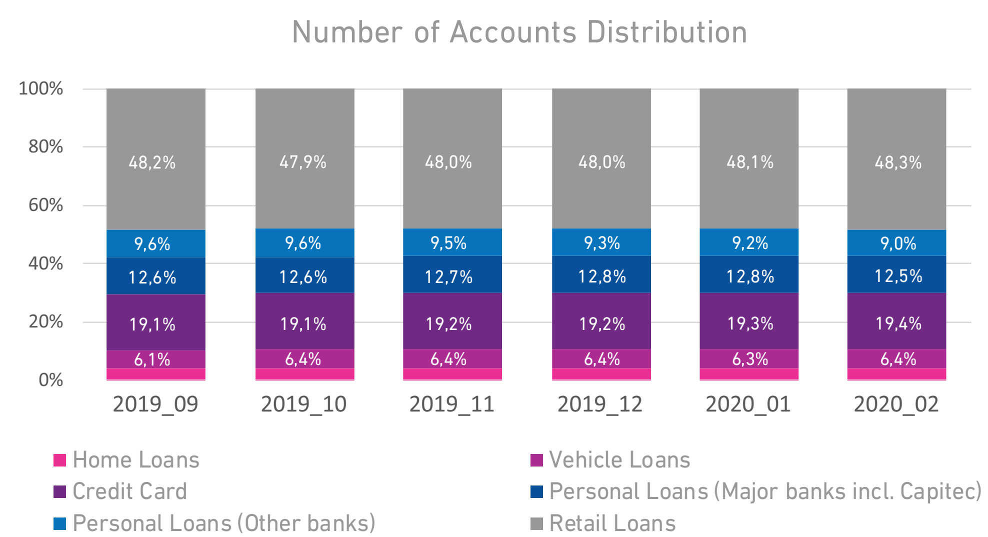
- 25% of retail card initiates progress to wealth-creating loans with secured credit products, including home finance and vehicle finance.
- More than 80% will qualify and open either a personal or microloan.
- More than 50% qualify and open telecommunications contracts and/or insurance products.

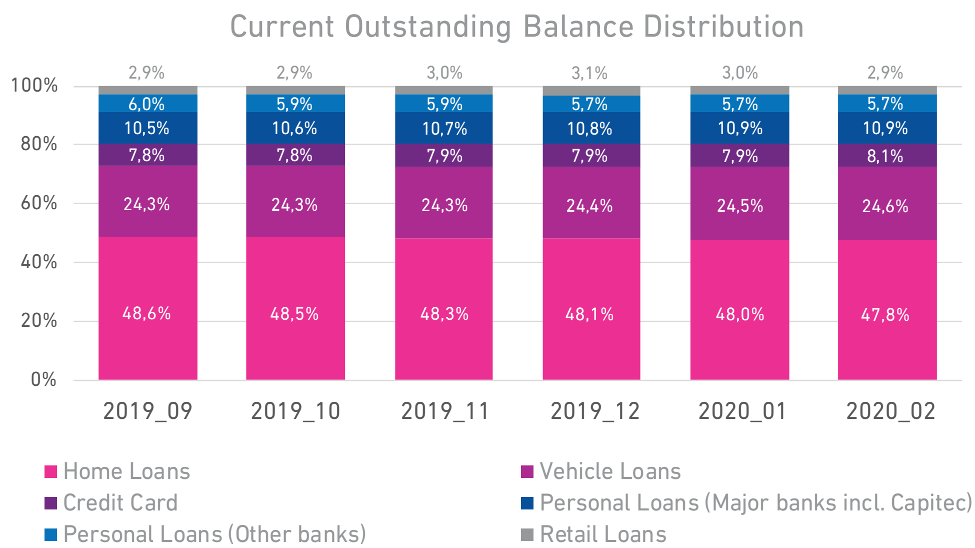
The results from the research also shows that retail credit is more accessible to the broader South African population.

First Account Opened	Female	Male	Black	White	Coloured	Indian/ Asian	<25	25-39	40+
Unsecured Loan	57%	43%	84%	10%	5%	6%	18%	42%	40%
Retail Card	61%	39%	73%	18%	6%	9%	38%	46%	16%
Incidental Credit	40%	60%	40%	49%	6%	11%	23%	40%	36%
Credit Card	39%	61%	29%	61%	4%	9%	24%	47%	29%
Secured Loan	48%	52%	47%	40%	7%	12%	8%	48%	45%
Census 2011	51%	49%	78%	9%	9%	12%	31%	37%	32%

This diagram summarises consumer demographics based on their first credit agreement over the 5-year period. In addition to opening doors to other credit products, retail credit has been proven to be more gender, predicted ethnicity and age-inclusive than any other form of credit.

The research is substantiated by the actual account volume distribution over the past 6 months.





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 migrates 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.

Conclusion

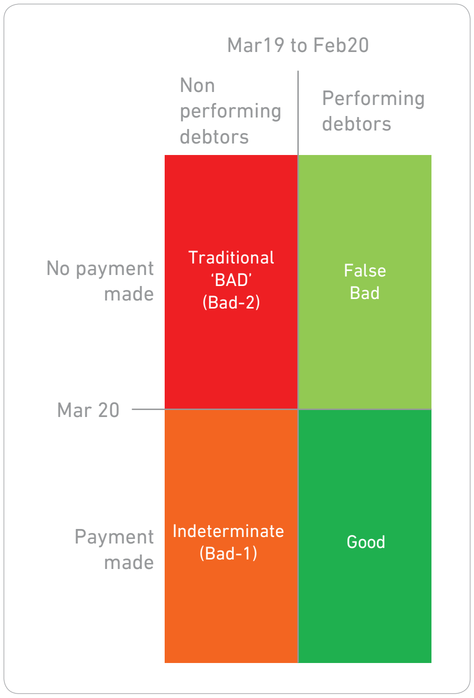
The immediate recovery and future growth of the South African credit economy will be even more dependent on a strong, vibrant retail industry.

Have we seen any early signs of a structural change in the post-COVID-19 credit industry?

When looking at end-March 2020 payment data, we observed a visible reduction in payments made to payments due ratios.

- Early performance data suggests that the COVID-19 lockdown in South African had a significant impact on pay-to-due ratios across all industries and product types.
- Whilst the COVID-19 crisis negatively impacted consumers across all walks of life, the performance deterioration is more pronounced in some subsegments.
- With some subsegments more impacted than others, a number of questions arise around the effectiveness of traditional risk management approaches when applied generically across portfolios without specific consideration for such more refined subsegments.
  - o Do behaviour scores, whether at a client or bureau level, which are developed based on principles of 'willingness to pay', work effectively on populations that are 'willing' but are no longer 'able'?
  - o Are traditional segmentation criteria, which typically segment consumers into categories based on tenure, level of current delinquency, size of financial exposure internally and at an overall market level and behavioural risk segmentation (typically a combination of internal and bureau risk measures), optimal in a more segmented market?
  - o Will traditional communication and payment channels be sufficient to address the challenges faced by consumers during the varying levels of lockdown?
  - o Will the general market perception of a more digitally enabled marketplace address current and, more importantly, future credit provider objectives in support of increased consumer engagement?

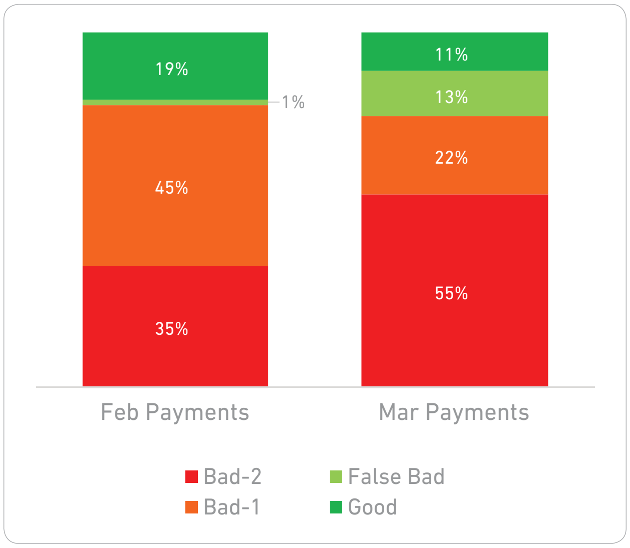
Experian conducted detailed analytical research to assess whether payment and performance data available at the end of March 2020 could shed some light on the expected challenges described previously.



Key Insights

- The primary objective of the analysis was to compare consumer behaviour over an extended period of time, looking for any changes pre- and post-the COVID-19 outbreak and subsequent lockdown.
- We compared pre- and post-consumer level payment behaviour over a 13-month window, taking seasonality into consideration.
- For the purpose of this analysis, we applied very strict payment criteria segmenting the population into 4 groups:
  1. Good: Missed no payment in the preceding 12 months and paid in the current month.
  2. Bad-1: Missed one/more payments in the preceding 12 months but made a payment in the current month.
  3. Bad-2: Missed one/more payments in the preceding 12 months and missed payment in the current month.
  4. False Bad: Missed no payments in the preceding 12 months but missed a payment in the current month.

Willingness to pay is core to traditional risk metrics, with future willingness based on past behaviour. However, the COVID-19 crisis and resulting lockdown implications have forced us to review this premise.



Key Insights

- At a total population level, we observed clear gravitation towards a worse state as consumers struggled to honour payments.
- Using traditional risk principles based on willingness to pay, we were still able to isolate the 'performing' and 'non-performing' risk populations, which, based on our very conservative payment criteria, can be defined as 'Good' and 'Bad-2'.
- However, what is very clear is that there was a significant increase in the first payment missed population, which we defined as 'False Bad' and a material decrease in the traditionally infrequent paying population defined as 'Bad-1'.

With the emergence of a new subpopulation that is 'willing' to pay but not 'able', does our traditional risk approach based on willingness still apply to this subpopulation? Our view is it does not and requires additional segmentation.

If we believe that our traditional risk approach is less effective on new subsegments, do we need to amend our traditional segmentation approach from a generic portfolio level to a more refined sub-segmented view?

At the core of a successful economic recovery lies the alignment of the respective needs of consumers and credit providers:

1. How do credit providers ensure the achievement of long-term shareholder returns whilst protecting and supporting their consumer base to support a short transition to the 'new normal'?
    - Credit providers are actively providing various support mechanisms during this time that are designed to help consumers weather the challenges with which they are faced. However, the challenges that remain are:
        - to whom should providers offer temporary forbearance solutions, and
        - to whom should providers present longer-term financial restructuring solutions due to prospects of longer-term financial hardship.
2. How do consumers ensure they behave responsibly during these challenging times by partnering with credit providers, thus supporting a speedy recovery of the market post-COVID-19?
    - Some consumers are pro-actively approaching credit providers and taking advantage of the support measures offered. However, the question remains, are consumers who are in most need of the support taking up the offers, thus ensuring their future ability to obtain credit in future?

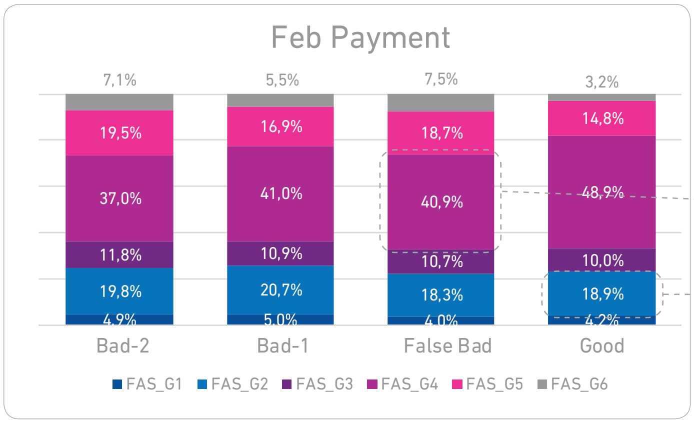
The most important mutually beneficial objective is to ensure the correct consumers, whether through personal application or proactive offers from credit providers, are offered the correct solutions that address individual needs.

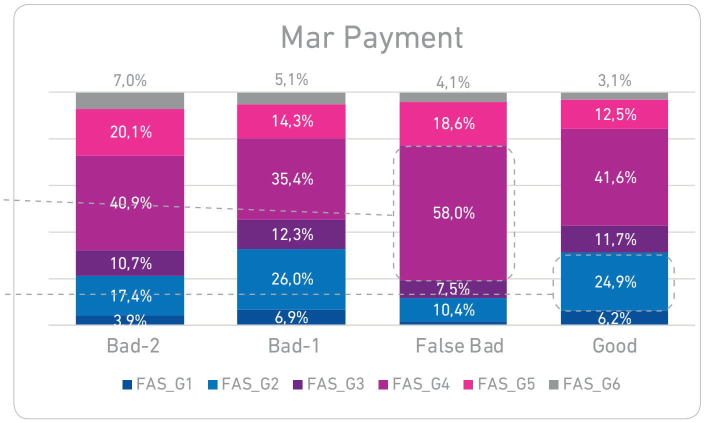
Conclusion

Evidence shows that the COVID-19 crisis is impacting specific subsegments more than others, therefore requiring a rethink of how credit providers define segmentation strategies.

When looking at the 'Good' and 'False Bad' populations through a FAS lens, the results showed significant growth in the FAS segments 2 and 4 populations when comparing the pre- and post-COVID-19 population distributions.

- The 'Good' population, whilst significantly smaller during COVID-19, showed an increase in the FAS 2 segment, which increased from 18.9% to 24.9% in March 2020. Are these all 'good' or are there another subsegment of 'false goods'?
- The 'False Bad' population, which grew significantly post COVID-19, increased from 40.9% to 58.0% in March 2020.

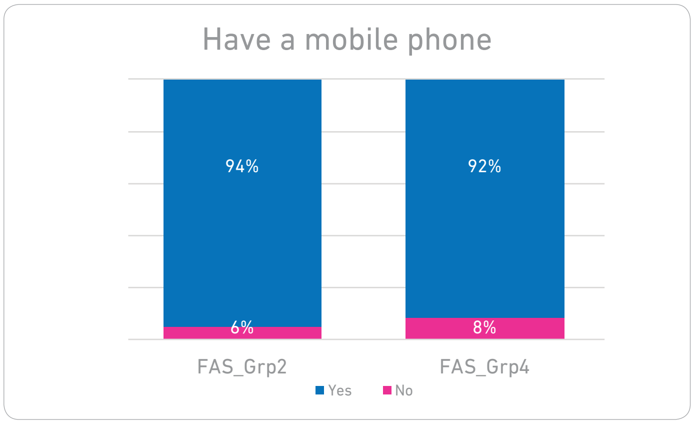


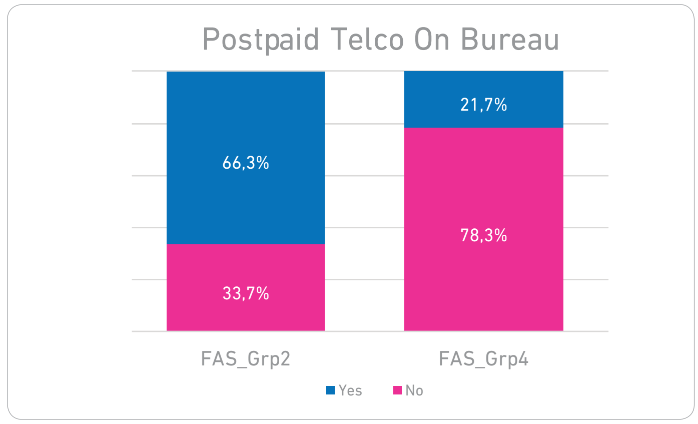


Treatment of these subpopulations varies significantly across the entire credit lifecycle based on their vast differences.

FAS GROUP 2 - Aspirational Achievers	**FAS GROUP 4 – Money-Conscious Majority**
1. Generally aged between 25 and 65 with an average age of 42. 2. High likelihood of being in grounded professional careers with stable personal lives. 3. While money isn't in excess, they are mostly able to meet their financial obligations. 4. Circa 43% have a home loan and vehicle finance for a mid-range car. 5. With an estimated annual income of ~R320 000 per annum, they comfortably get by. 6. Easy access to credit encourages these individuals to buy retail, especially online. 7. Understanding the value of their possessions, the majority have insurance. 8. They don't always have the cash to buy that which they desire, and therefore rely somewhat on revolving and retail accounts, as well as personal loans to achieve the lifestyles they aspire to live.	1. Generally aged between 40 and 75 with an average age of 51. 2. Struggle with monthly financial pressures, therefore generally unable to afford luxuries, needing to be conscious of how they spend their money. 3. Very few able to afford post-paid telco contracts, credit cards or insurance. 4. Have difficulty in getting by on their salaries of less than R100 000 per annum. 5. Focus their spend on necessities and basic needs funded through retail accounts (both clothing and furniture) and unsecured loans. 6. Their ability to maximise on credit use is stunted by their inability to afford the repayments and indirectly correlates with delinquency rates. 7. Circa 24% owning a house funded through a secured loan. 8. Those who can afford it generally own/drive entry-level vehicles.

Operational execution of more segmented risk and management strategies will similarly require the rethink of traditional communication mechanisms and content strategies with a more diversified payment network critical to future cash flow management, both during the more restricted lockdown window and in support of a more consumer-focused post-COVID-19 'new normal'.

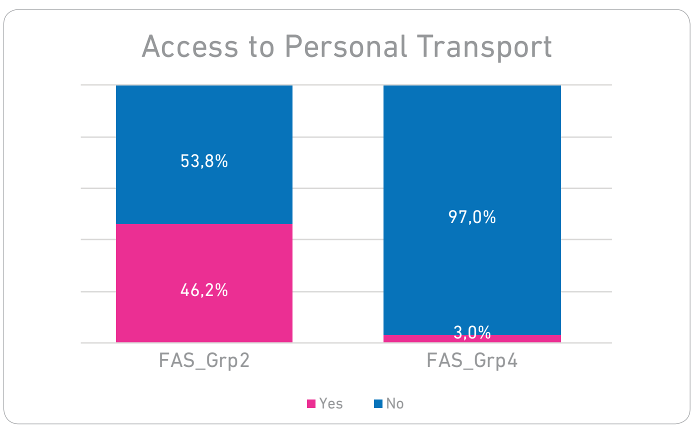


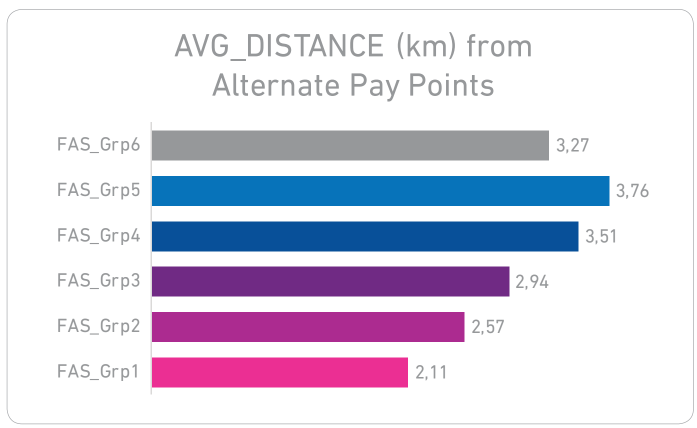


Data source: TGI

Whilst ownership of mobile devices looks very similar, the split between pre- and post-paid contract suggest that communication strategies when dealing with these consumers should vary:

- Communication strategies should be cognisant of the respective populations' access to data and the relative costs associated with pre- and post-paid airtime and data.
- Communication and solution content should be varied by the type of segment being engaged.

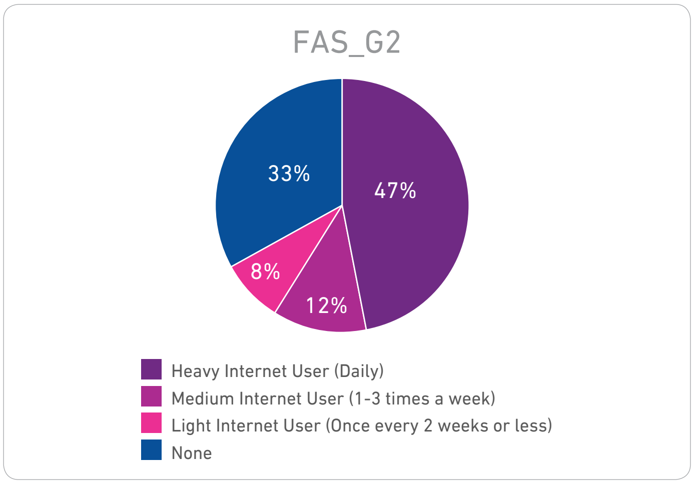




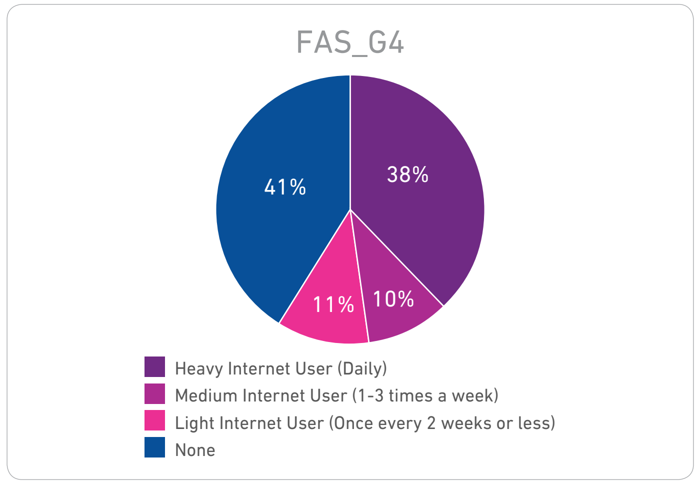
Data source: Ask Africa

- The availability of personal transport, post-paid telco contracts and high levels of digital engagement results in higher payment rates and thus a higher proportion of 'good' consumers in the FAS Group 2 segment.
- Conversely, the lack of personal transport, limited access to data and thus lower likelihood to digitally engage, credit providers need to consider alternate payment channels.
- A simple geolocation test shows that on average access to generic pay points at leading food retailers fall within a <4km radius and should thus be utilised to increase pay to due rates even during the stringent lockdown.

Similarly, eCommerce and digital enablement strategies should consider solution purpose and subsequent content based on targeted consumer segments.



Data source: TGI



Data source: TGI

- With ~60% of FAS Group 2 consumers being either heavy or medium internet users, leveraging digital channels will be both consumer-friendly and more effective.
- Conversely, whilst ~50% of FAS Group 4 consumers can be defined as heavy or medium internet users, their limited cash flow and higher associated costs of pre-paid data makes this channel less effective when communicating with these consumers.

Conclusion

Whilst the structure of the credit industry is expected to remain intact and stable, the way credit providers manage their portfolios across the credit lifecycle may require an overhaul.

What do the initial findings of the early performance suggest?

Early findings suggest that the South African credit industry will have to adapt to a developing new normal to manage credit portfolios effectively and remain relevant to consumers.

With the impact of the COVID-19 crisis experienced very differently across industries, the fundamentals of managing through this crisis remain the same, with the only difference being the overall makeup of one's portfolio, based on a more refined segmentation approach.

Credit Lifecycle Stage	Recommended approach using additional segmentation criteria
Credit Marketing	Whist the 'good' population has reduced, there are still consumers that have the ability to take on new credit products. Identifying them will, however, need to be more precise using available data in different ways.
Acquisitions	With 'good' consumers harder to come by and traditional risk approaches no longer as effective, it is imperative that additional segmentation criteria be used to accurately identify 'good' consumers in the new normal.
Facilities Management	Gaining a deeper, more segmented understanding of one's consumers through additional segmentation is imperative as the close management of facilities will increase good sales, limit losses on bad sales and help manage both impairments and capital coverage ratios optimally.
Over Limit Management	Ensuring only the right consumers get access to facilities in excess of existing facilities will require a deeper understanding of one's consumer base through more segmented strategies.
Collections	Effective collections have become a more dynamic process with very particular strategies, and operational tactics based on the segment consumers find themselves in, supported by an in-depth understanding of life stage and financial position to ensure effective tactics to maximise recoveries and protect one's consumer base.
IFRS9	Predicting future losses has become much harder as we deal with the unknown and traditional macroeconomic overlays not sufficient nor accurate enough to generate the required confidence in impairment adjustments. Gaining an in-depth understanding of one's consumers through more refined segmentation will allow management to more comfortably increase coverage through fact-based management overlays rather than subjectively stressing already inaccurate economic models.

The Experian Innovation and Analytics teams continue to research and refine segmentation criteria to support both clients and consumers across the credit lifecycle.

Credit Lifecycle Stage	Ongoing research to continuously enhance portfolio management strategies
Credit Marketing	Payment hierarchy for each defined segment across industry and product to identify 'false good' population that makes use of available credit facilities to service debt, isolating true 'good' population for direct marketing.
Acquisitions	Prepare industry customised and market segment relevant subpopulation definitions to ensure optimal distribution of consumers across each, including detailed payment hierarchy analysis for each defined segment and/or product to identify 'false good' population that makes use of available credit facilities to service debt, isolating true 'good' population for long term business beneficial acquisitions.
Facilities Management	Payment hierarchy for each defined segment across industry and product to identify 'false good' population that makes use of available credit facilities to service debt, thus supporting pro-active facility management strategies.
Over Limit Management	Identifying 'true good' subpopulations to ensure over-limit approvals allowed on correct consumers, thus managing future losses and capital allocation.
Collections	Segmenting non-preforming segments further, isolating previously inconsistent payers (pre-COVID-19 'bad-1' population) from increasing post-COVID-19 'bad-2 population to allow alternate operational strategies to protect and retain these consumers.
IFRS9	Determine whether pure cash flow models are more responsive and effective in modelling projected losses when compared to models built based on stage 1-3 principles. Further reviewing benefits of additional non-economic overlay models driven by portfolio construct relative to FAS segments, industry types and provincial debtor distributions that could provide management insights into educated, fact-based overlay principles.

Conclusion

- Traditional model development and re-calibration techniques will become less effective due to the emergence of new segments influenced by non-behavioural factors.
- Portfolio and product management strategies along with subsequent operational execution activities will require alignment to consumer segments and relative life stage to ensure that engagement and response levels are optimised.
- Daily monitoring of every component of the credit lifecycle will become more critical than ever to optimally manage expected future and actual cash flows allowing for immediate, proactive changes to processes and activities in support of optimal impairment management and overall business sustainability.

TGI data powered by Ask Afrika.

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