TransUnion

TransUnion Industry Insights Report

Quarterly Overview of Consumer Credit Trends Released by TransUnion Financial Services

SECOND QUARTER 2020

With Q2 2020 being the first quarter that encompasses the full effect of COVID-19 related lockdowns and social distancing measures, this report highlights its impact on the consumer credit market as consumers and lenders braced for uncertainty. With a fall in GDP* and associated rise in unemployment, consumers have had to prioritise their personal finances to cope with the dramatic effects of the pandemic.

As the crisis progressed, the number of consumers seeking credit—observed by the volume of enquiries—plunged during Q2 2020. This may have been driven by a combination of reduced access to branches and stores during the lockdown, and uncertainty around employment and the implications of the lockdown causing consumers to defer taking on new debt. The drop in enquiries is also symptomatic of the fall in consumer confidence, especially in the short-term, resulting from the difficult conditions arising from a global pandemic. This fall in consumer sentiment is also evidenced in the latest figures from the Bureau for Economic Research** which recorded a significant decline in consumer confidence in Q2 2020.

Originations across most credit categories declined, except for home loans. During the most recent period (Q1 2020 for originations due to reporting lag), credit cards saw the biggest decline year-on-year (YoY) (-12.2%), followed by vehicle finance (-4.8%) and bank personal loans (-3.3%). Conversely, home loans recorded the largest growth at 8.1%. The rate of change in originations only represents a short period of lockdown measures that came into force towards the end of Q1. To better understand consumer demand during the pandemic, the report observes Q2 enquiries as a measure of new applications. Enquiries for credit cards declined by more than half the volumes reported in the prior year. Conversely, the only category to see an increase in enquiries was home loans, primarily as pent-up demand caused by lockdown came through and interest rates fell improving affordability.

Total outstanding balances grew YoY as consumers looked to secure payment holidays to help manage household budgets. Whereas in the normal course of time, the majority of consumers would be making regular payments against outstanding debts, during Q2 2020 a significant number of South Africans applied and qualified for payment holidays. The latest TransUnion Financial Hardship Survey in South Africa*** shows that over three-quarters (77%) of South African consumers reported their household income being negatively impacted by the COVID-19 pandemic. Of these, around one-fifth (between 17% and 21% depending on month of survey) have received some form of financial accommodation such as a deferral, forbearance or in most cases a payment holiday from a lender. This has driven an increase in outstanding balances, with interest continuing to accrue as repayments have been put on hold. The increase in balances may also be due to some consumers having increased individual borrowing – an observation supported by the TransUnion Financial Hardship Survey which showed 17% of consumers increasing usage of available credit.

Against the backdrop of increased unemployment and stretched household finances caused by the impact of COVID-19, delinquencies rose across all of the major consumer credit categories YoY in Q2 2020. The increase was most pronounced for non-bank personal loans, up 440 basis points (bps) to a delinquency rate of 32.1%. Home loans saw a similar magnitude of increase, up 410 basis points to 7.8%. Having more than doubled in the last year, the delinquency rate on home loans is now higher than vehicle finance loans, which increased YoY by 190 bps to 7.4%.

Although many of the trends identified in the latest report are to be expected, it is important lenders don't become complacent. These are extraordinary times and lenders need to adopt new ways of thinking. Maintaining a deep understanding of portfolio risk as well as the potential impact of further shifts in the economy as consumers continue to adapt to a COVID-19 world, will allow lenders to develop strategies that can help them grow customer loyalty and build business resilience.

* Statistics South Africa (Stats SA) figures show the South African economy slumped by 51% in the second quarter of 2020 (8 September 2020) and is expected to contract 7.2% in the 2020 fiscal year (as per announcement in finance minister Tito Mbowenie's supplementary budget 24 June 2020)

** The FNB/BER Consumer Confidence Index (CCI) Q2 2020 showed a decline from an already depressed level of -9 in Q1 to -33 in Q2. Source: Bureau for Economic Research press release 21 July 2020

*** Survey conducted week of 30 August. Survey sample of 1,101 adults in South Africa

Credit Card Summary

Balance growth for credit cards slowed significantly compared to last year and previous quarters. Consumer demand for new credit cards waned while delinquency rates deteriorated mildly.

CREDIT CARD METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	7.2M	-1.8%	1.9%
Outstanding balance	R131B	-2.2%	2.0%
Total credit lines	R249B	2.6%	12.2%
Average balance (per account)	R18,292	-0.4%	-0.1%
Average credit line (per account)	R34,703	4.5%	10.0%
*Origination volumes (Q1 2020)	175,084	-12.4%	-12.2%
Average new account credit line	R28,347	0.8%	22.9%
Account-level delinquency rate (3+ MIA)	12.8%	100 bp	50 bp
Balance-level delinquency rate (3+ MIA)	15.5%	180 bp	260 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Although still growing, the annual rate of balance growth was less than the same time last year or the peak seen at the end of 2019 for credit cards. Credit card balances grew by only 2.0% YoY likely driven in part by the continued slow-down in originations which has been evident since Q3 2019. While the decline in originations for the latest quarter (Q1 2020 due to reporting lag) is significant at 12.2%, this does give an indication on what to expect next quarter. And while origination growth is a measure of both consumer demand and lender's willingness to advance credit (supply) to better understand consumer demand during the pandemic, it is important to observe enquiries as a measure of new applications. Enquiries for credit cards declined by more than half the volumes reported in the prior year (-62%).

Average credit lines continued to increase significantly in Q2 2020, by 10.0% YoY; as did average new account credit line (22.9% YoY). The increase in balances and credit lines is stimulated by two factors: 1) the need for consumers to increase credit usage as a means to finance day-to-day expenses as the pandemic continues to take its toll on personal finances and 2) the impact of payment financial accommodations such as deferrals and payment holidays which has contributed to the increase in balances, with interest continuing to accrue as repayments have been put on hold.

The YoY increase for account-level credit card delinquencies is the smallest compared to all other credit products, increasing by only 50bp. Considering the current deterioration in economic conditions and the dramatic extent of delinquency increases in other products, this increase is minor. It is likely that consumers are doing everything that they can to protect their continued access to this product type as credit cards provide a much needed source of liquidity to cash-strapped consumers.

Clothing Account Summary

The effects of lockdown restrictions during the quarter is evident for the clothing market as originations, enquiries and balances declined. The increase in delinquencies remain a cause for concern.

CLOTHING ACCOUNT METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	18.0M	0.6%	4.2%
Outstanding balance	R35.3B	-6.2%	-2.2%
Total credit lines	R99.8B	4.3%	6.3%
Average balance (per account)	R2,100	-6.8%	-6.1%
Average credit line (per account)	R5,540	3.7%	2.1%
*Origination volumes (Q1 2020)	530,758	-35.3%	-10.8%
Average new account credit line	R4,003	15.8%	17.3%
Account-level delinquency rate (3+ MIA)	30.8%	-10 bp	260 bp
Balance-level delinquency rate (3+ MIA)	36.1%	250 bp	320 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Balance growth declined in Q2 2020 at -2.2% YoY and was likely driven by declining origination growth. This is the fourth consecutive quarter that originations declined YoY by double digits in Q1 2020. More telling is the sharp decline in enquiry volumes observed in Q2 2020 at -35% YoY indicating a slowdown in demand from consumers. This is no surprise considering that for half the quarter (April to mid-May) COVID-19 lockdown restrictions prohibited the sale of clothing items.

At the same time, average new account credit limits increased for the second consecutive quarter since Q4 2018, up 17.3% YoY suggesting that clothing account lenders have shifted their origination risk mix. In Q1 2020, 60% of originations were to above prime borrowers, up 6 percentage points compared to the previous year at 54%.

The percentage of seriously delinquent accounts (3+ MIA) increased to 30.8% in Q2 2020 up 260 bp from 28.2% in Q2 2019. Balance-level delinquencies also increased over the last year, up by 320 bp to 36.1%, meaning that more than one-third of clothing account balances (~R12,7B) are three or more months in arrears. Clothing account lenders, whose primary target market is generally higher risk consumers when compared with other product types, price accordingly for the risk levels of consumers they acquire. That said, effective account management tools, robust collection strategies and pre-delinquency monitoring solutions are critical for clothing lenders to effectively control deteriorating delinquencies.

Auto Summary

The auto market continued to show signs of sustained strain as originations and enquiries declined and delinquencies continued to deteriorate. Lender portfolio management and effective risk reduction strategies from originations and throughout the account lifecycle are critical to mitigate this persistent deterioration in performance as delinquencies continue its dramatic acceleration.

AUTO METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	2.1M	-9.1%	-6.0%
Outstanding balance	R448B	0.8%	4.9%
Average balance (per account)	R208,775	9.2%	11.6%
*Origination volumes (Q1 2020)	133,351	-12.9%	-4.8%
Average new account loan amount	R297,421	-1.9%	2.5%
Account-level delinquency rate (3+ MIA)	7.4%	-10 bp	190 bp
Balance-level delinquency rate (3+ MIA)	7.2%	90 bp	210 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Auto origination volumes for Q1 2020 declined (-4.8% YoY) and this trend is expected to continue for the next few quarters as lockdown restrictions during Q2 2020 continue to take its toll on the industry. As vehicle prices continue to slow YoY for both new and used vehicles and have remained below inflation for the last two years, these assets have become more affordable. However, consumer demand has waned as is observed in the contraction in enquiry volumes (down 26% YoY in Q2 2020) as consumers look to unsecured loan types to meet their immediate liquidity needs.

In Q2 2020, total VAF balances grew steadily at 4.9% YoY. The driver of balance growth is not origination volumes but instead, slightly higher average new account loan amounts which increased by 2.5% YoY to R297,421 as well as payment holiday dynamics where interest accrues despite the halt in monthly instalments.

Auto serious-level delinquencies have been steadily deteriorating for the past three years, more than doubled over this time, and stood at 7.4% in Q2 2020. The structure of VAF deals themselves is having a significant impact on recent performance. With many vehicle loans featuring balloon payments at the end of the term, one of three things is happening: Consumers will fulfil their loan obligations and repay their debt in full, they will roll up their debt into another vehicle loan, or they will struggle to make the payment and default. This can put pressure on vehicle loan providers and requires careful management and a detailed understanding of their overall lending portfolio.

The rate of delinquency deterioration accelerated considerably for the latest quarter, up 190 bp compared to Q2 2019, a sustained and concerning trend that requires immediate attention from lenders.

Home Loan Summary

The mortgage market showed strong balance and origination growth, however, the overall trend in rising delinquencies is a concern and has become more pronounced in recent quarters.

HOME LOAN METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	1.9M	-1.1%	1.2%
Outstanding balance	R988B	0.2%	11.6%
Average balance (per account)	R529,072	1.4%	10.3%
*Origination volumes (Q1 2020)	47,363	-14.4%	8.1%
Average new account loan amount	R594,932	3.2%	4.3%
Account-level delinquency rate (3+ MIA)	7.8%	290 bp	410 bp
Balance-level delinquency rate (3+ MIA)	4.3%	80 bp	100 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Home loan originations as well as the average loan amount to new customers grew considerably YoY (8.1% and 4.3% respectively) marking the largest origination growth across all credit products. The rate of change in originations only represents a short period of lockdown measures that came into force towards the end of Q1. Similarly, mortgage was the only category to record a rise in enquiries, up 11%, as pent-up demand from a hard lockdown was released as measures eased. During lockdown, deeds offices were closed for several months, which added to the pent-up demand. With these now open since 1 June, when the country moved to less restrictive lockdown level 3, this constraint has eased.

Although average home prices increased at a slower rate than inflation, they still grew, which has led to a general increase in overall mortgage balances up 11.6% YoY, marking the fourth consecutive quarter of steady growth. Balance growth is largely attributed to an increase in average balance per account (up 10.3% YoY) as well as previously noted payment holiday interest accrual dynamics. An additional factor contributing to the rise in balances is the fact that, with interest rates at an all-time low, consumers with equity in their homes would prefer to tap into that surplus if they require additional liquidity as opposed to supplement their finances with an unsecured loan.

Account-level serious delinquency rates (3+ MIA) increased YoY by 410 bp to 7.8% in Q2 2020, marking the eighth consecutive quarter that home loan delinquencies have increased. Having more than doubled in the last year, the delinquency rate on mortgages is now higher than auto loans. This pronounced trend requires intervention, especially as home loan lenders increase their exposure by financing a greater portion of the total price. This is of particular concern given the fact that most payment holidays granted as a result of the COVID-19 pandemic have either come to an end or will be in the near future.

Personal Loan Summary

Personal Loan—Bank

Bank personal loan originations have declined while balances continued their robust levels of growth, primarily driven by an increase in average new account loan amounts the improving delinquency trend has reversed as economic conditions take its toll on consumers.

PERSONAL LOAN (BANK) METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	6.9M	-3.6%	-5.2%
Outstanding balance	R275B	1.5%	8.6%
Average balance (per account)	R40,063	5.2%	14.6%
*Origination volumes (Q1 2020)	1.2M	-14.3%	-3.3%
Average new account loan amount	R25,158	0%	6.9%
Account-level delinquency rate (3+ MIA)	22.2%	120 bp	70 bp
Balance-level delinquency rate (3+ MIA)	29.6%	140 bp	200 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Bank personal loans have shown a continued reversal in the accelerated originations growth trend that was prominent from the end of 2018 to Q3 2019 and declined (-3.3% YoY) in Q1 2020. The growth noted in previous quarters was believed to be driven by a shift on behalf of traditional banks to acquire more short-term, low-value personal loans in response to non-bank competition in this product offering, which was qualified by the prolonged decline in average originating amounts for new bank personal loans. This too has reversed since last quarter with the latest quarter noting an increase in average new loan amount of 14.6% YoY. As bank personal loan lenders broadened their offering in Q4 2018, this has now become the 'new normal' volumes comparable to the previous year.

In Q2 2020, enquiries for bank personal loans declined by almost half the volumes reported in the prior year (-47%) as consumer appetite for credit in general and for unsecured products specifically waned significantly.

The pace of balance growth has remained consistent over the last year with the latest quarter up 8.6% YoY. Payment holiday dynamics is a likely contributor to this growth as well as an increase in average new account loan amounts (up 6.9% YoY).

Serious delinquency rates deteriorated for bank personal loans YoY in Q2 2020 (up 70 bp to 22.2%) after four consecutive quarters of improvement. As consumers grapple with stretching their finances, it is likely that unsecured products such as personal loans and some retail accounts that do not have future utility will fall lower down the payment priority list compared to revolving products like credit cards that do.

Personal Loan—Non-bank

The non-bank personal loan market showed high growth in balances, as originations grew steadily. Delinquencies continued to deteriorate rapidly—a reflection of consumers under stress.

PERSONAL LOAN (NON-BANK) METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	5.0M	-10.4%	-19.4%
Outstanding balance	R77.8B	-2.0%	12.9%
Average balance (per account)	R15,504	9.3%	40.0%
*Origination volumes (Q1 2020)	2.9M	-13.6%	7.0%
Average new account loan amount	R5,334	-3.3%	-12.8%
Account-level delinquency rate (3+ MIA)	32.1%	580 bp	440 bp
Balance-level delinquency rate (3+ MIA)	37.3%	460 bp	-40 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Non-bank personal loans was one of the product categories that noted strong growth in originations for Q1 2020 (up 7.0% YoY) after home loans at 8.1% YoY. This is the third consecutive quarter of strong growth following a decline in originations growth in the prior three quarters. Fueled by the strongest growth in originations, non-bank personal loans also showed the highest growth in total outstanding balances, up 12.9% YoY in Q2 2020. However, this robust origination growth may be short-lived and is not expected to continue into the next quarter as enquiry volumes in Q2 2020 contracted considerably, by 39% YoY.

Balance growth has also been driven by a substantial increase in average balances per account (up 40.0% YoY) while new account loan amounts decreased by 12.8% YoY. The massive increase in average balances is largely as a result of the substantial drop in total accounts (down 19.4% YoY). The decrease in origination amount could be due to lenders adopting a more cautious approach to originations by granting smaller loans because of the persistent trend of deteriorating delinquencies.

Non-bank personal loan delinquencies have been deteriorating since 2016, up by 440 bp YoY to 32.1% in Q2 2020. Non-bank personal loans tend to be concentrated within higher-risk borrowers. As such, a larger increase in delinquencies is to be expected as financial hardship will have a bigger impact proportionally amongst financially stretched consumer groups.

Retail Revolving Summary

Consumer demand for retail revolving loans continued to wane as both enquiries and originations declined. Balance growth remained stable while delinquency rates deteriorated.

RETAIL REVOLVING METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	2.3M	1.8%	-0.4%
Outstanding balance	R13.6B	-2.4%	3.6%
Total credit lines	R30.0B	-4.3%	-0.2%
Average balance (per account)	R6,014	-4.1%	4.0%
Average credit line (per account)	R13,274	-6.1%	0.2%
*Origination volumes (Q1 2020)	144,874	-5.1%	-7.0%
Average new account credit line	R12,822	-15.8%	-0.8%
Account-level delinquency rate (3+ MIA)	16.8%	40 bp	100 bp
Balance-level delinquency rate (3+ MIA)	19.5%	340 bp	380 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Outstanding balances increased by 3.6% driven by larger average account balances, (up 4.0% YoY) and payment holiday dynamics. Origination growth has been on a declining trajectory since Q1 2019 with Q2 2020 marking the fifth consecutive quarter of negative origination growth of 7.0% YoY and could be indicative of retail revolving lenders' caution toward new-to-book consumers.

At the same time, enquiries, a measure for consumer demand, plummeted in Q2 2020 by contracting by 74% YoY. As with the clothing market, due to lockdown restrictions imposed for half of the quarter, the vast majority of retail revolving stores remained closed because of the prohibition of the sale of their products.

Account-level serious delinquencies (3+ MIA) increased by 100 bp to 16.8% YoY. More telling is the 380 bp jump in balance-level serious delinquencies to 19.5% compared to last year. With retail revolving products being primarily aimed at borrowers with a lower risk profile, it is clear that even these consumers have been financially impacted by the effects of the pandemic.

Retail Instalment Summary

After rebounding from sustained negative growth, the retail instalment sector has reversed as demand and originations declined, balances remain flat and delinquency rates deteriorate.

RETAIL INSTALMENT METRICS	Q2 2020	QoQ change	YoY change
Number of accounts	1.5M	-5.8%	-2.3%
Outstanding balance	R11.0B	-3.8%	1.6%
Average balance (per account)	R7,456	2.2%	4.0%
*Origination volumes (Q1 2020)	156,860	-34.3%	-4.1%
Average new account credit line	R10,849	-4.5%	-0.4%
Account-level delinquency rate (3+ MIA)	36.7%	830 bp	570 bp
Balance-level delinquency rate (3+ MIA)	45.9%	1,000 bp	720 bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

The positive momentum from the previous few quarters has been reversed. Following a period declining account and origination growth, all metrics for the last three quarters remained positive and provided sustained evidence that the retail instalment market had rebounded. The latest data indicate a decline in account volumes (-2.3% YoY) and originations (-4.1% YoY) and flat balance growth (1.6% YoY). This industry includes institutions that sell furniture and equipment—goods that could be seen as luxury items in a tough economic climate. Coupled with the impact of lockdown restrictions during the quarter, consumer demand plunged by 62% YoY in Q2 2020.

Seriously delinquent accounts (3+ MIA) also deteriorated severely by 570 bp YoY to 36.7% as retail instalment borrowers buckle under the pressures associated with a weakened economic climate.

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