



# **COVID-19 and the impact on the Microfinance Community**

Webinar

JULY, 2020



# COVID-19 and the impact on the Microfinance Community



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# COVID-19 and the impact on the Microfinance Community

## Agenda

In today's session we will cover the key findings from the Microfinance study we have conducted:

- Introduction
- Microfinance market sentiment
- Data view of the market
- Treatment strategies

Lee Naik: Chief Executive Officer  
Davina Myburgh: Product Strategy  
Hans Zachar: VP: Emerging Markets



# Speakers' details



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## Davina Myburgh

**Product Strategy: Microfinance,  
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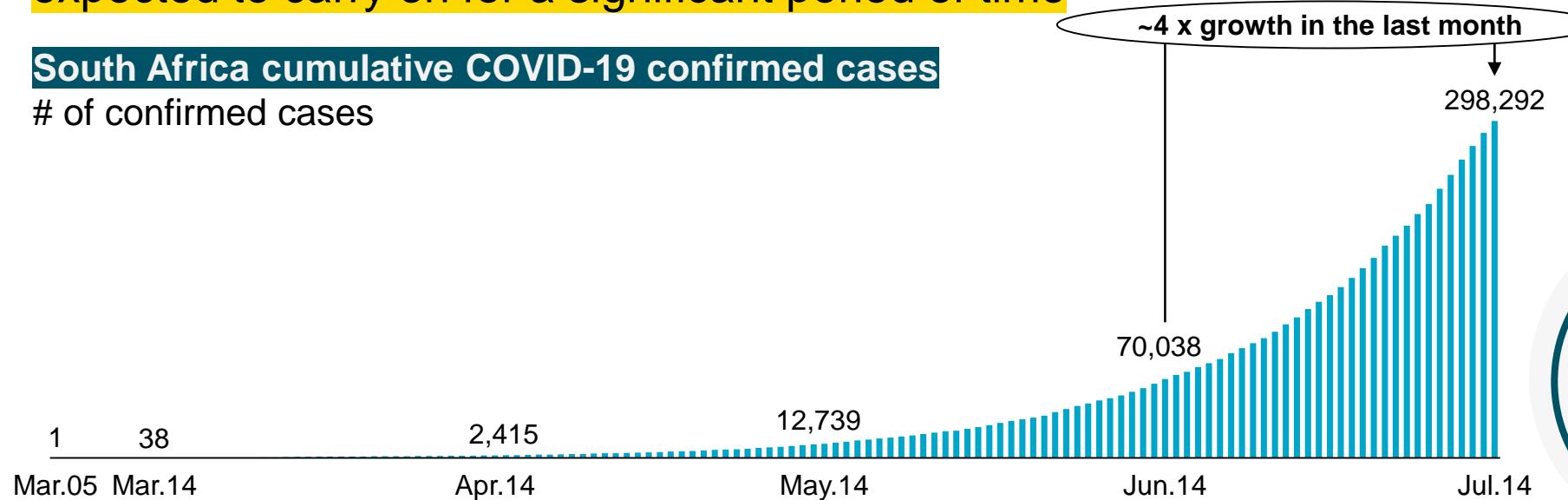
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# COVID-19 infection rate

SA took swift action to flatten the curve, however, the impact of COVID-19 is expected to carry on for a significant period of time

## South Africa cumulative COVID-19 confirmed cases

# of confirmed cases



**March 5**  
First case confirmed in SA by Minister of Health Zweli Mkhize

**March 27**  
Moody's Investor Services cuts South Africa's investment grade to Ba1

**April 3**  
Fitch downgraded SA's credit rating to BB with negative outlook

**April 6**  
SARB announced 2-4% reduction in SA's GDP & 370k job losses for 2020

**April 20**  
Crude oil price crashes from \$18 a barrel to -\$38

**May 20**  
SARB further reduces Repo rate by 0.5% from 4.25% to 3.75%

**March 23**  
President Cyril Ramaphosa announced 21-day lockdown

**March 29 & 30**  
Banks announced direct relief via payment holidays for customer, business and corporates clients (rules vary)

**April 4**  
ZAR breached R19.00/\$ mark following downgrade by rating agencies

**April 14**  
SARB unexpectedly cuts Repo rate by 1.0% from 5.25% to 4.25%

**May 1**  
Level 4 regulations with phased economy entry begins

**June 1**  
Lockdown level 3 commences

~4 x growth in the last month

**Enquiry Volumes**  
April down by 53% from March, but ticking up – May up by 57% from April – June up 14% from May and only 16% less than March

**Payment Holiday Volumes**  
Pre-Covid: ~152K pm  
April – up to 520K  
May – up to 2.1M  
June >2.1M

# Scenarios

Our data driven analysis indicates three possible scenarios that will influence the Banking, Retail, Telco & Insurance industry

- We followed a **data driven approach by baselining the trajectory of the Banking, Retail, Telco & Insurance industries** to a pre-COVID-19 world with a **view of how macroeconomic and new business activity would influence these industries**
- This led us to **three scenarios**:



**Rocky** is an underdog story that links to SA being in a tough spot but bouncing back from this crisis by Q3 2020



**Lemonade** is about coming to terms with the impacts of COVID-19 and businesses managing it as part of their BAU strategies with softness felt throughout 2020



**I am Legend** refers to a worst-case scenario likely worse than ever experienced where the repercussions will be significant and long-lasting

# Analysis

To analyse the impact of COVID-19, we developed scenarios based on historical trends, macro indicators & projections of new business activity

Hypothesis	Base-case (Pre-COVID 19)	Rocky	Lemonade	I am Legend
Macroeconomic Variables	<ul style="list-style-type: none"> <li>GDP: 1%</li> <li>Unemployment rates: ~29.1% (6.7M people)</li> <li>Repo rate stays at 5.25%</li> <li>CPI: 4.5%</li> <li>Disposable income: 28%</li> </ul>	<ul style="list-style-type: none"> <li>GDP: 0.4%</li> <li>Unemployment rates: ~30.9% (7.1M unemployed)</li> <li>Repo rate reduced 4.50%</li> <li>CPI: 3.7%</li> <li>Disposable income: 26%</li> </ul>	<ul style="list-style-type: none"> <li>GDP: -2.4%</li> <li>Unemployment rates: ~34.1% (7.8M unemployed)</li> <li>Repo rate cut to 3.75%</li> <li>CPI: 4.3%</li> <li>Disposable income: 24%</li> </ul>	<ul style="list-style-type: none"> <li>GDP: -8.2%</li> <li>Unemployment rates: ~38.1% (8.7M unemployed)</li> <li>Repo rate slashed to 3.25%</li> <li>CPI: 5.2%</li> <li>Disposable income: 18%</li> </ul>

# SMME overview

**Nine in ten (90%) small businesses in South Africa are struggling or temporarily closed as a result of the impact of the COVID-19 pandemic**

- 9% report that they are **operating as normal** and less than 1% of businesses are thriving
- Around **one in three small businesses** report that, at the current rate of business, the company will continue to be operational for **less than 3 months**
- Businesses that **primarily sell to/support other businesses** are in a better spot than those doing business with primarily consumers
- One in two small businesses are **extremely concerned about their ability** to meet the current payment obligations of their businesses
- The impact of the pandemic on small businesses has required **changes to usual operations** as businesses pivot to adapt to the ‘new normal’
- Small businesses that are operating as normal are **innovating** their way through the impact by investing in Business IT/Infrastructure, WFH technology & Marketing

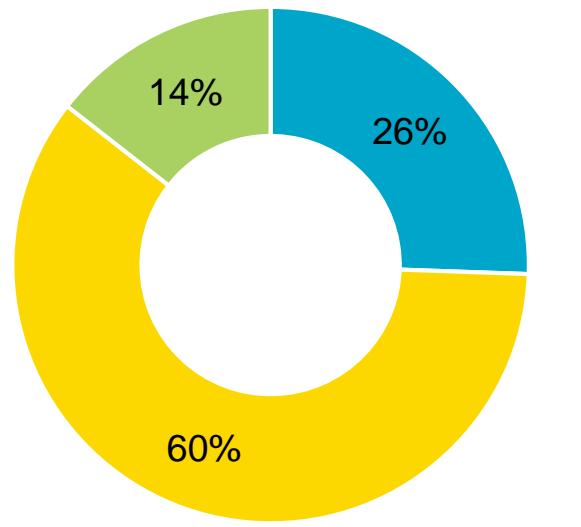


# **Microfinance Study Highlights – market sentiment**

# Business impact

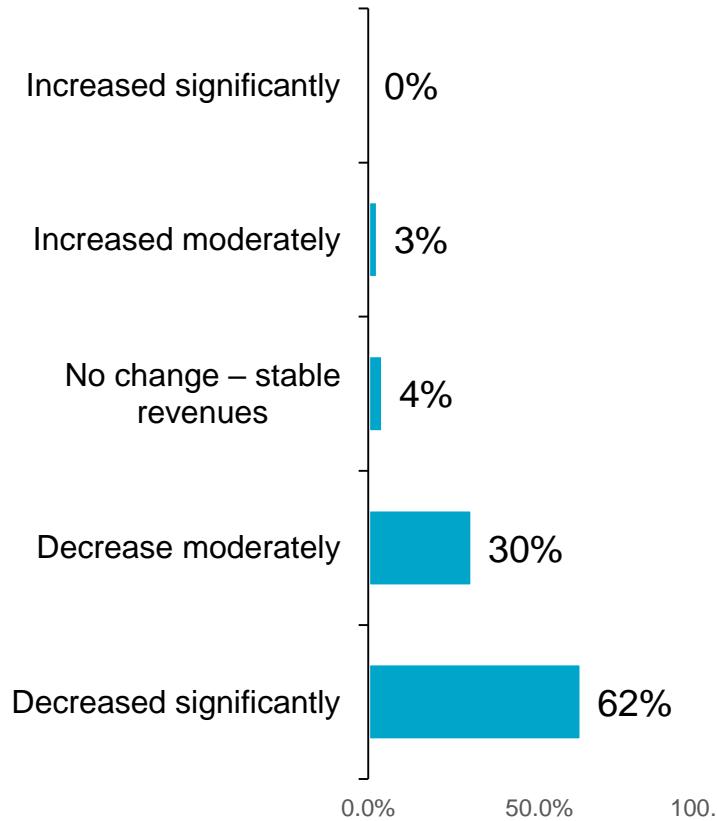
Business are feeling the burden of COVID-19 regulations with 9 out of 10 reporting that they are struggling or temporarily closed

**Impact during COVID-19**

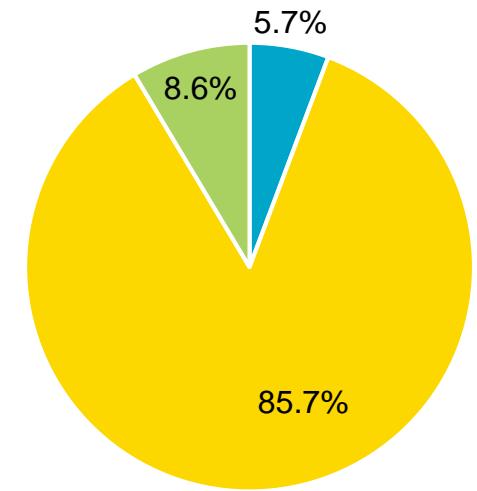


- Struggling / Temporarily closed
- Operating under sever constraints
- Operating as normal

**Changes in business revenue**



**Primary customers**

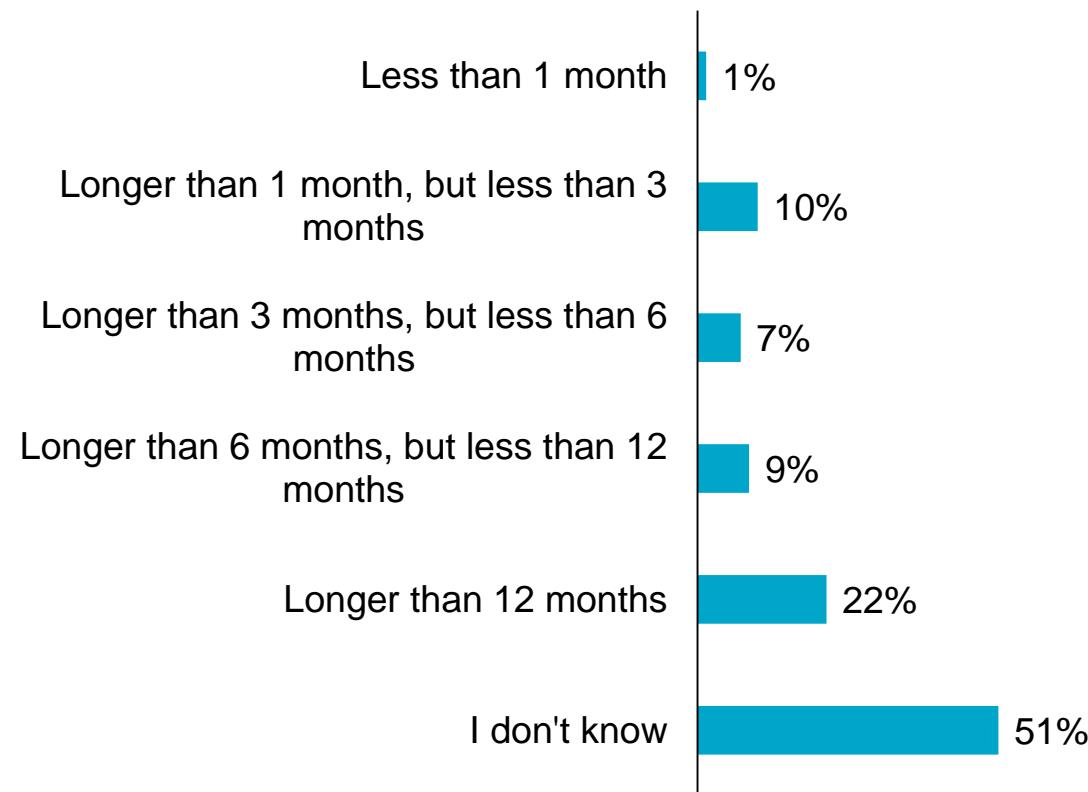


- Primarily other businesses
- Primarily consumers
- Both businesses and consumers

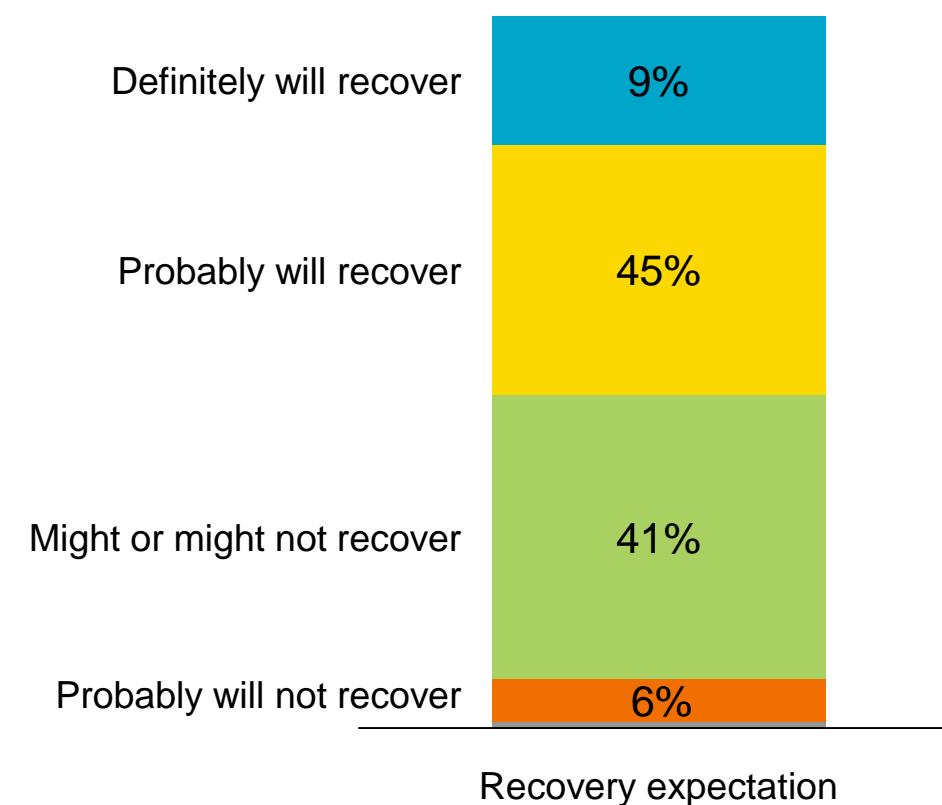
# Business recovery

Businesses remain optimistic about their ability to recover with 54% indicating likely recovery from the impact of the pandemic

**At the current rate of business, how long will your business continue to be operational?**



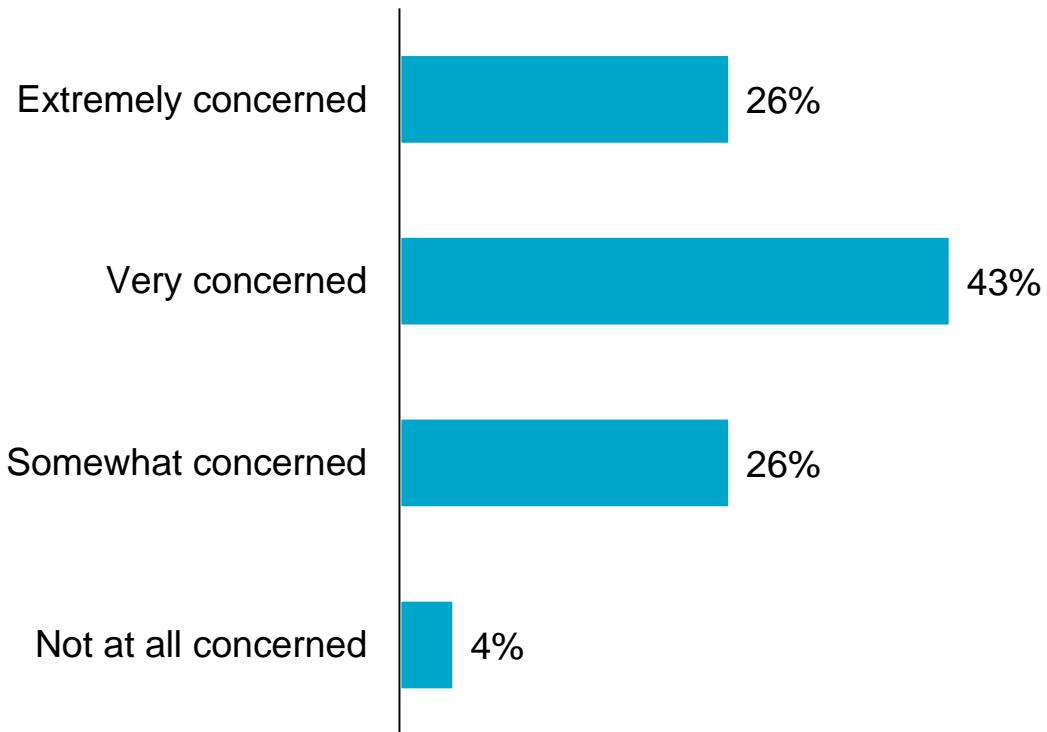
**How likely is it that your business will recover from the impact of COVID-19 pandemic?**



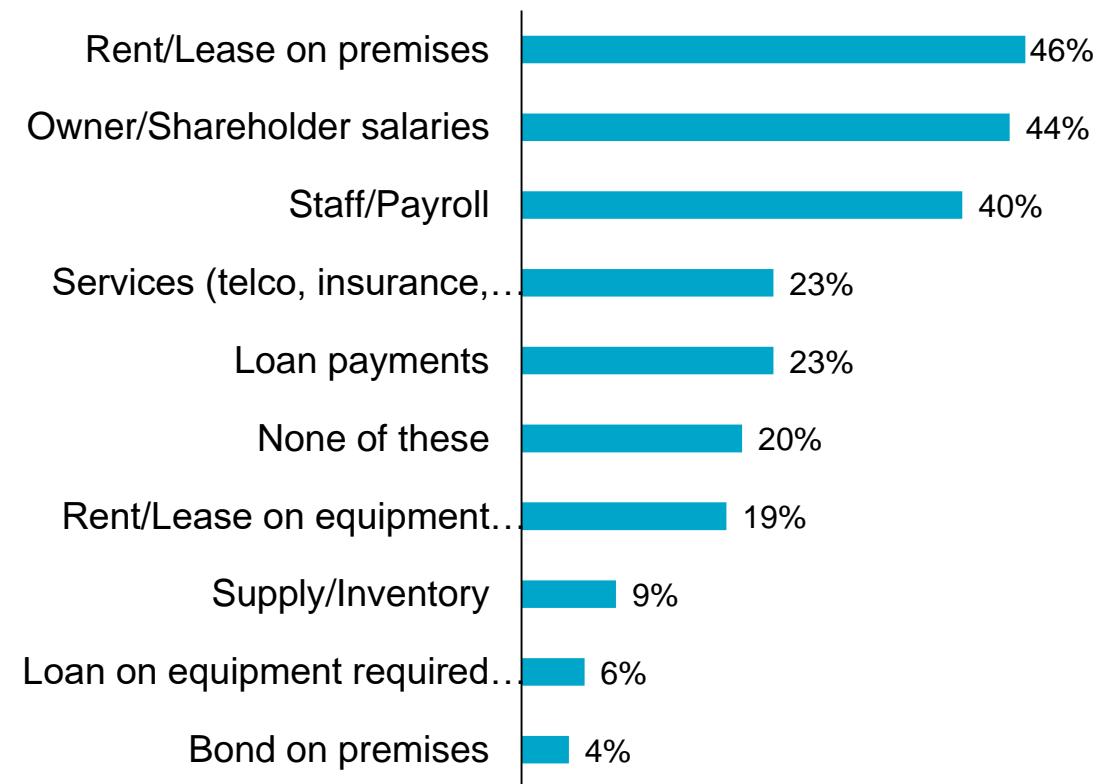
# Business concerns

One in two Microfinance providers are extremely concerned about their ability to meet payment obligations

How concerned are you about your ability to meet the current payment obligations of your business?



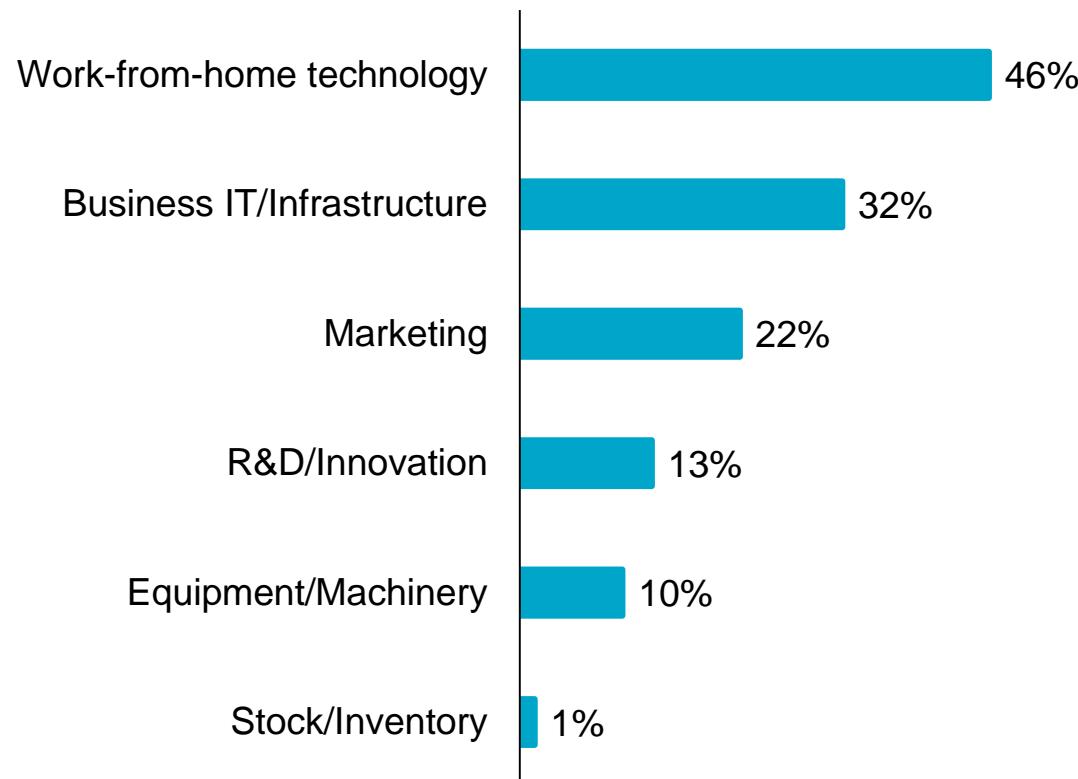
Which payment obligations will you be unable to pay in full over the next two months?



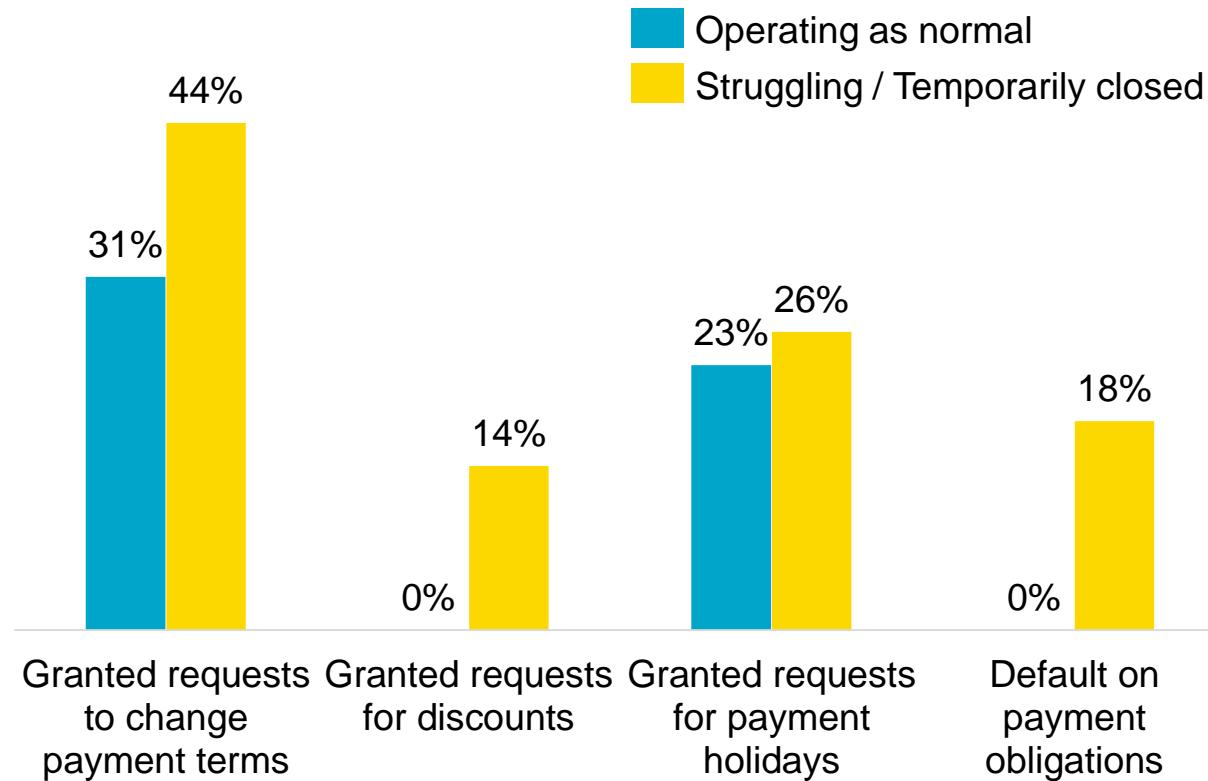
# Changes experienced

Their ways of operating has changed as they adjust to the 'new normal' and accommodate financially distressed customers

What changes have you made to your business during the COVID-19 pandemic?



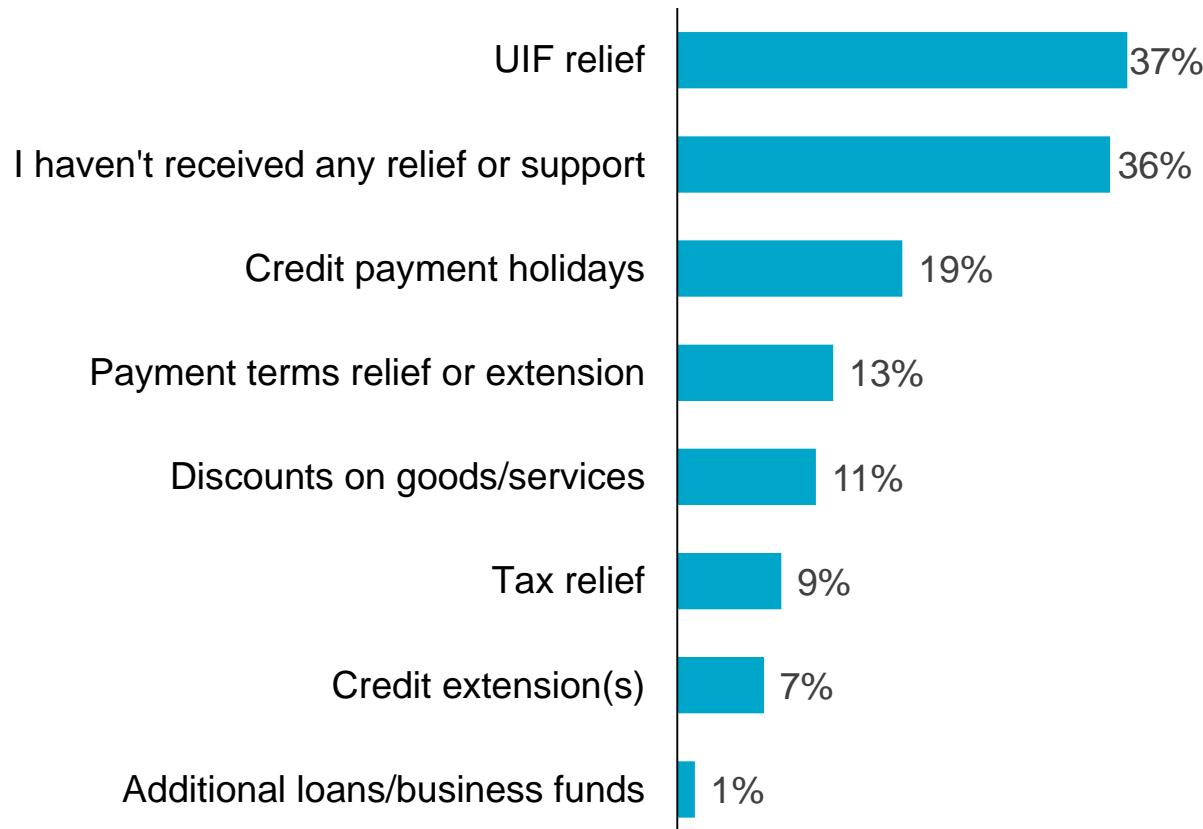
What requests have you granted in terms of arrangements for your customers?



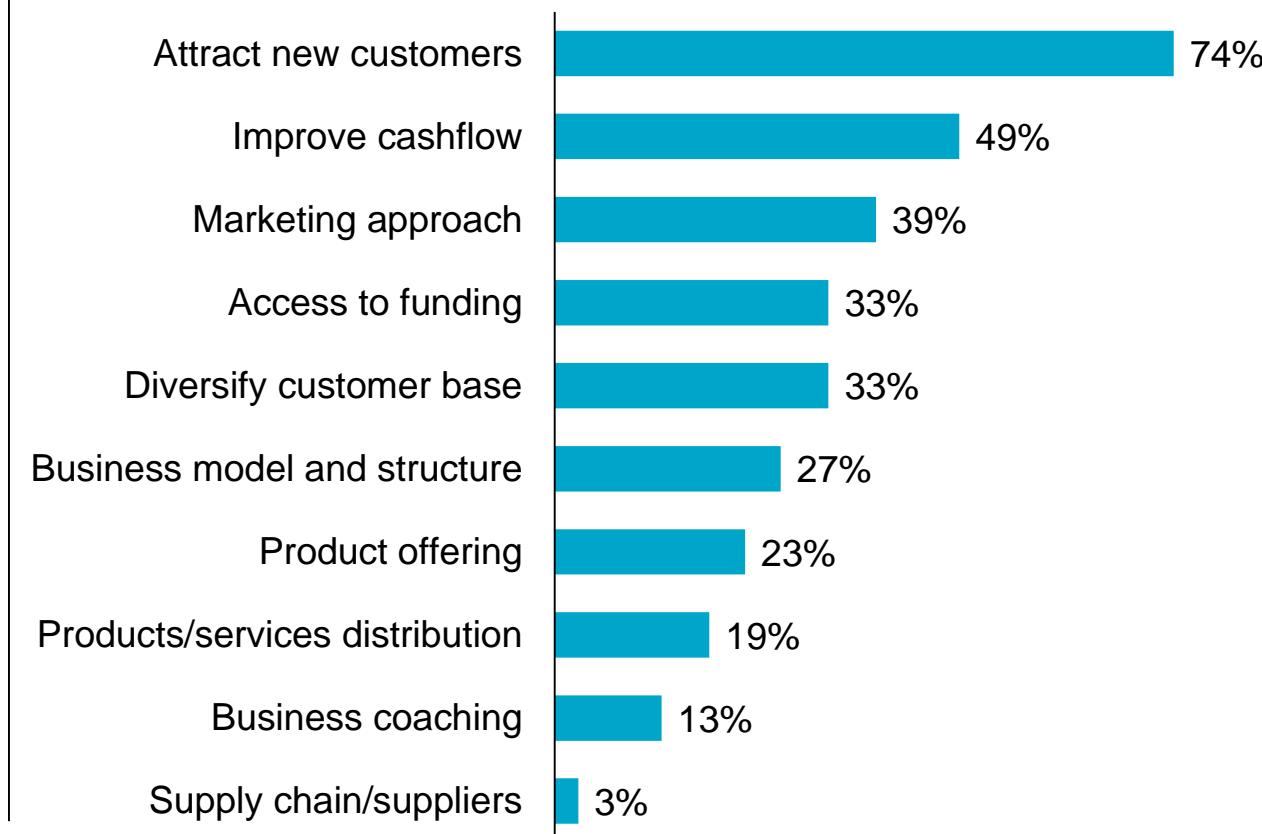
# Support for future

Microfinance providers self-acknowledge their need for assistance with improved cash flow and new customers noted as critical for future growth

## What relief or support have you received?

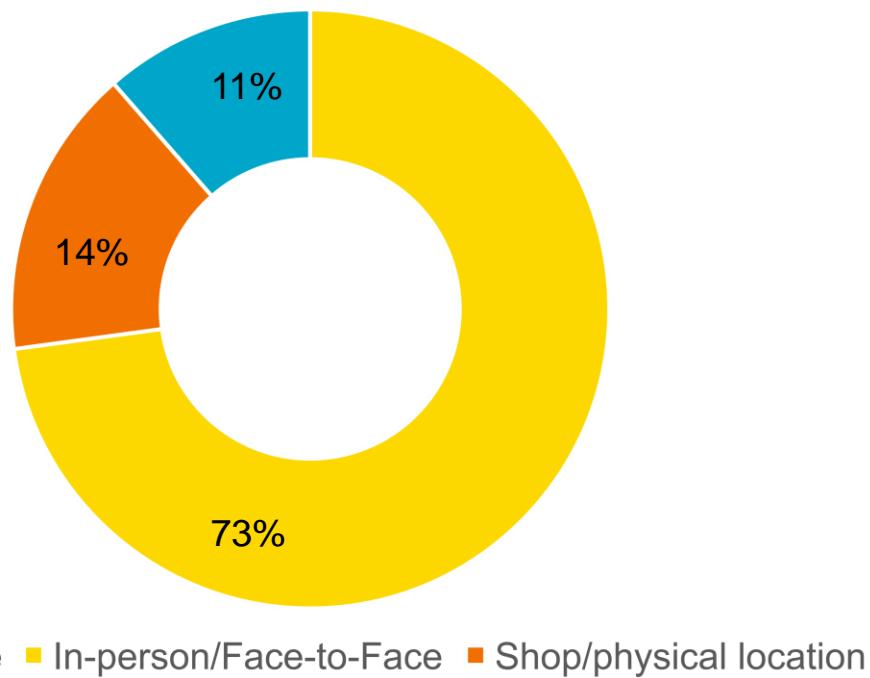


## As you look forward, what do you need help with to thrive and grow your business?

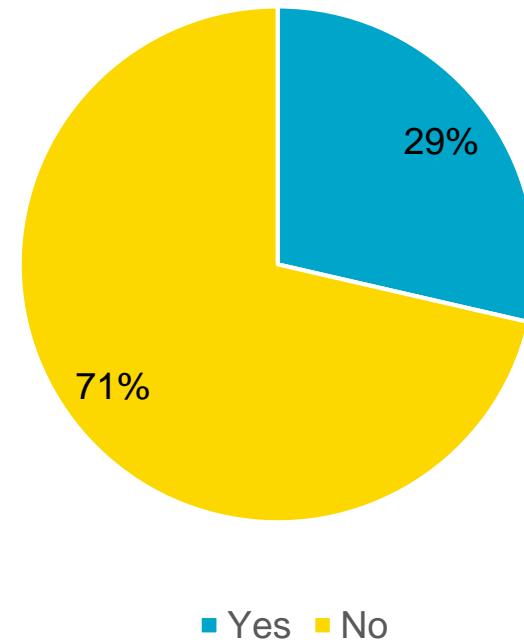


# Primary sales channel

What is your primary sales channel / mode of operation?



Do you conduct online sales for your business?



# Consumer sentiment

Most consumers are feeling the financial burden of reduced economic activity and increased social distancing

80% of Consumers being negatively impacted



39% of Consumers have had their work hours reduced



Consumers feel they will be R6,770 short on their bills



**Almost 1 in 5 (18%) don't know how they are going to pay their bills**



91% of Consumers are concerned about paying their current bills



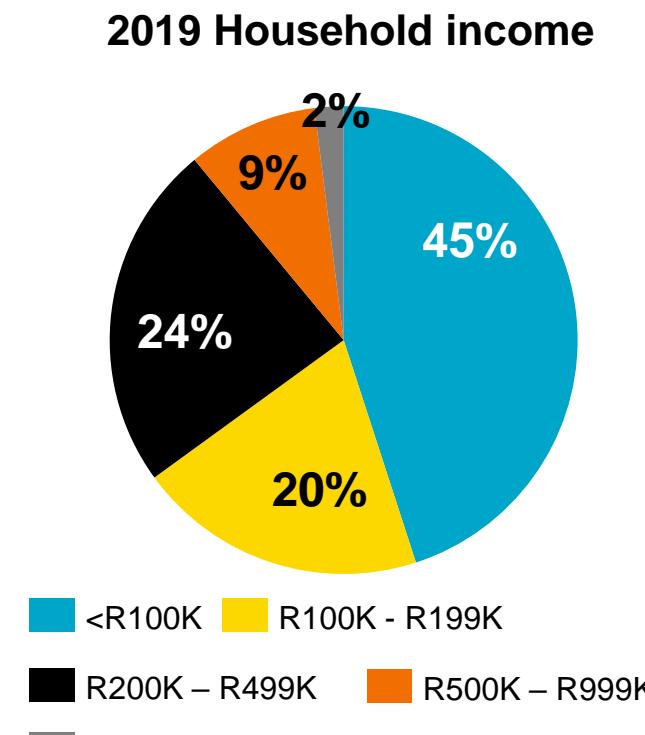
17% of Consumers have lost their jobs



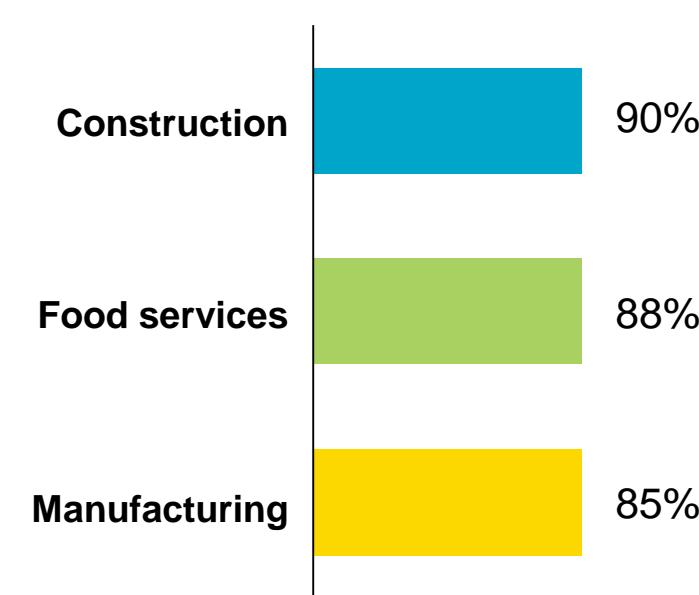
34% of Consumers expect to not be able to service their obligations within the next 4 weeks

# Impact effects

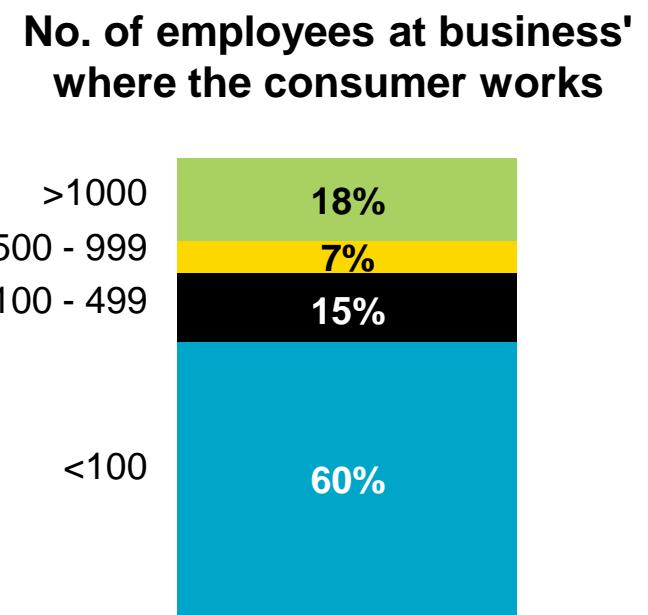
Although the financial impact of COVID-19 is widespread, the effects are particularly felt by the most vulnerable consumers



COVID-19 has a greater impact in lower-income consumers



Consumers in the most vulnerable sectors of the economy are feeling the greatest impact on their income



Consumers employed in small businesses are the most impacted by COVID-19

# Summary of sentiment

Business and consumer sentiment point to very specific and large spread areas of stress being experienced in the market

- 85% of businesses have been **negatively impacted**
- 40% report they will have **issues in meeting payroll obligations** in the next two months which could result in return trade conditions facing risk
- 64% have **received** some form of **relief packages** during lockdown
- 74% have stated that they need **to improve cashflow and find new customer segments**
- 75% of businesses have been able to **accommodate their own customer relief packages**
- The **consumer market is facing similar stress** with lower ability to spend through the crisis that will carry through with lower consumer consumption in the market



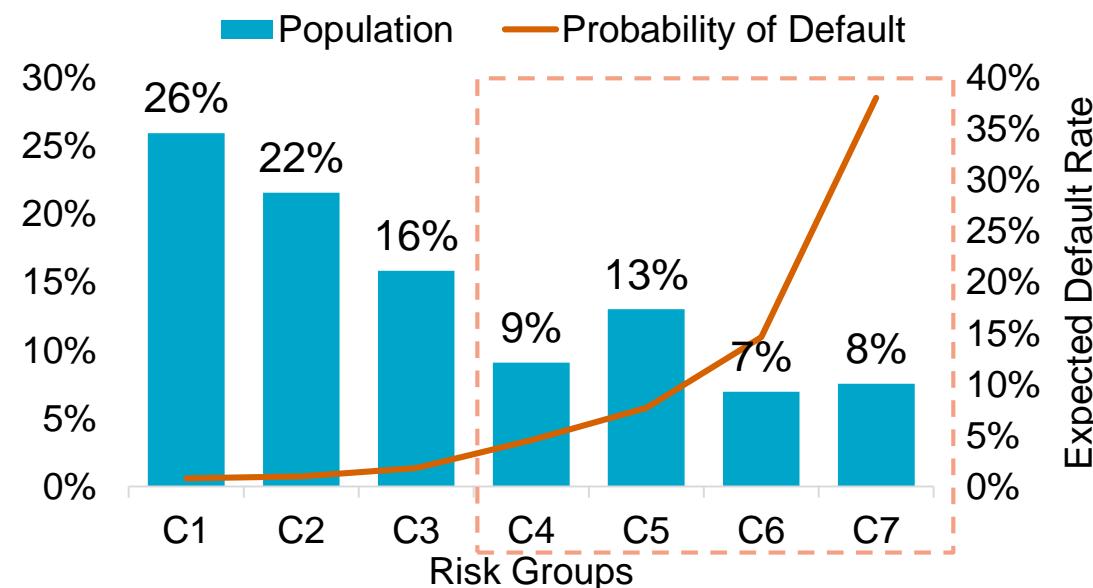
**TransUnion Point of View**

# SMME owner risk profile

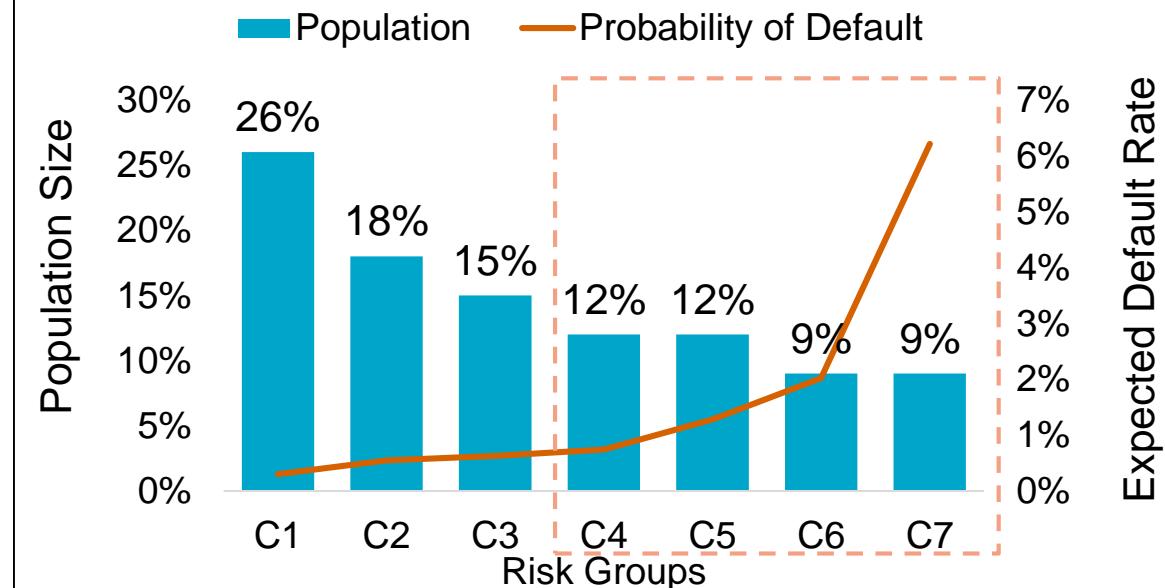
SME distress forces owners into savings that on average provides a 3-month buffer before impacting their personal debt

Considering that these businesses are essentially consumers that trade and borrow through the business, the correlated default risk of these businesses will filter down into consumer financial distress

**Self-Employed Risk Distribution**



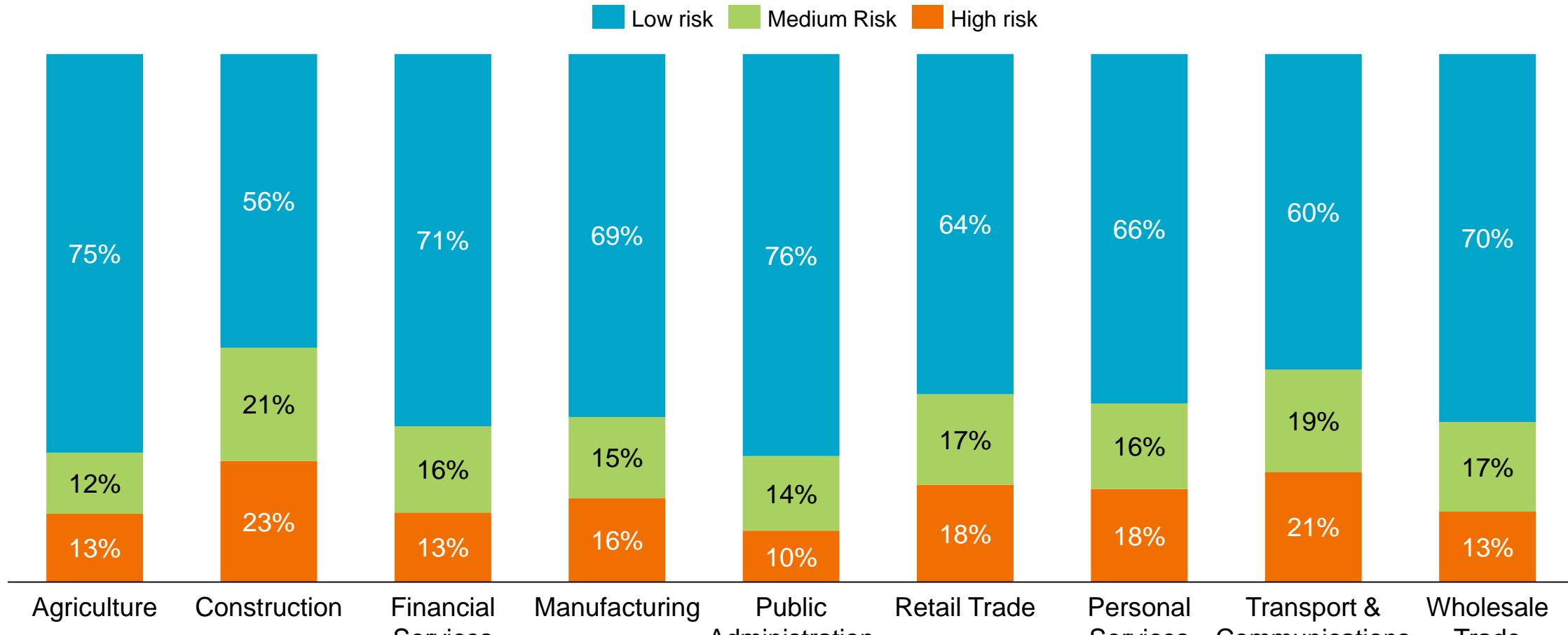
**SME Risk Distribution**



# Industry risk distribution

Industry sectors have been impacted differently with regards to risk concentration

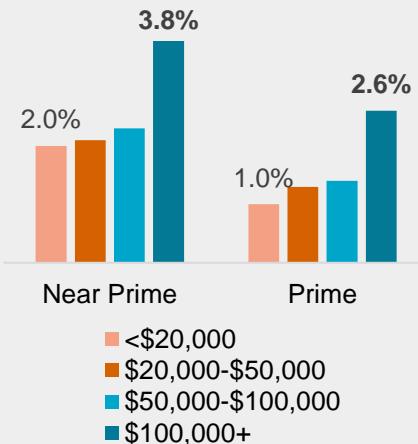
## Risk Distribution of businesses by industries



# Previous global downturn events have provided tools to assist in consumer risk monitoring

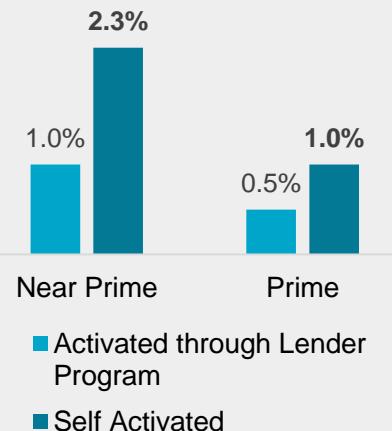
## Debt Runners

Regardless of **income** segments, consumers that **increase debt levels** showed **higher risk** of default



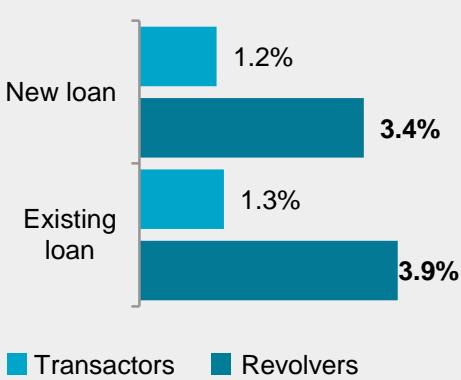
## Sleepwalkers

Consumers that **self-activate dormant accounts** in downturns are **higher risk**



## Revolver Trap

The use of a **revolving credit facility** clearly differentiates risk segments as an indicator of a consumer's **means** to **settle financial obligations**



## Settlement Snub

Consumers that **consistently pay a higher amount above minimum monthly installments** are significantly **lower levels of default risk**



Above charts based on information obtained during 2008/2009

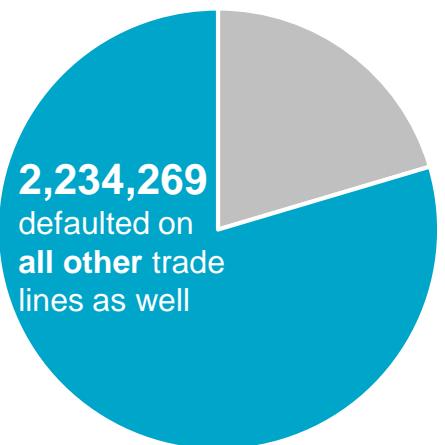
# Personal loan defaults

Consumers that default on a personal loan generally move into distress across their entire wallet with limited residual credit

Consumers that moved into default from Dec 2019 till Mar 2020



**Personal Loans**



Credit Cards



**96.3%** of consumers could not maintain a portfolio **including a Credit Card** in satisfactory standing post the default

Retail



**95.3%** of consumers could not maintain a portfolio **including a Retail account** in satisfactory standing post the default

Short-term insurance



**93.5%** of consumers could not maintain a portfolio with **insurance premiums** post the default

Telco

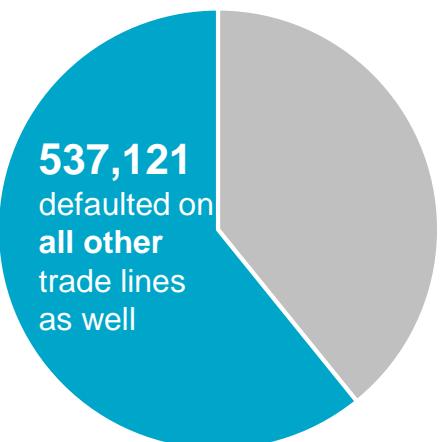


**93.8%** of consumers with a portfolio containing a **telco account** **could not keep subscriptions current**

# Credit card defaults

Consumers that default on credit cards carry distress into retail accounts but maintain a higher portion of other trades

Consumers that moved into default from Dec 2019 till Mar 2020



**88.7%** of consumers could not maintain a portfolio **including a Personal Loan** in satisfactory standing post the default



**93.8%** of consumers could not maintain a portfolio **including a Retail account** in satisfactory standing post the default



**87.8%** of consumers could not maintain a portfolio with **insurance premiums** post the default

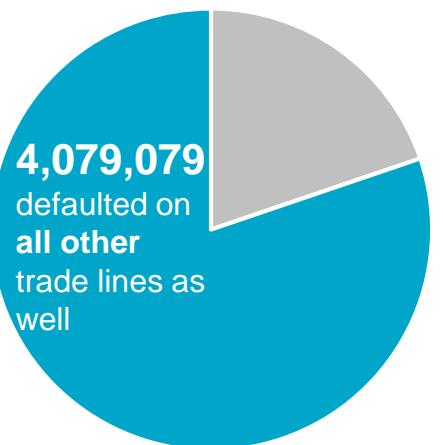


**86.2%** of consumers with a portfolio containing a **telco account** could not keep **subscriptions current**

# Retail account defaults

Retail account defaulters carry a high proportion of stress across wallet but maintain a high portion of Personal Loan lines

Consumers that moved into default from Dec 2019 till Mar 2020



**95.4%** of consumers could not maintain a portfolio **including a Credit Card** in satisfactory standing post the default



**88.8%** of consumers could not maintain a portfolio **including a Personal Loan** in satisfactory standing post the default



**95.8%** of consumers could not maintain a portfolio with **insurance premiums** post the default



**94.6%** of consumers with a portfolio containing a **telco account** could not keep **subscriptions current**

# Summary of consumer market data

Underlying data fairly correlates with the risk, distress and sensitivity evident on existing obligations with consumers and businesses

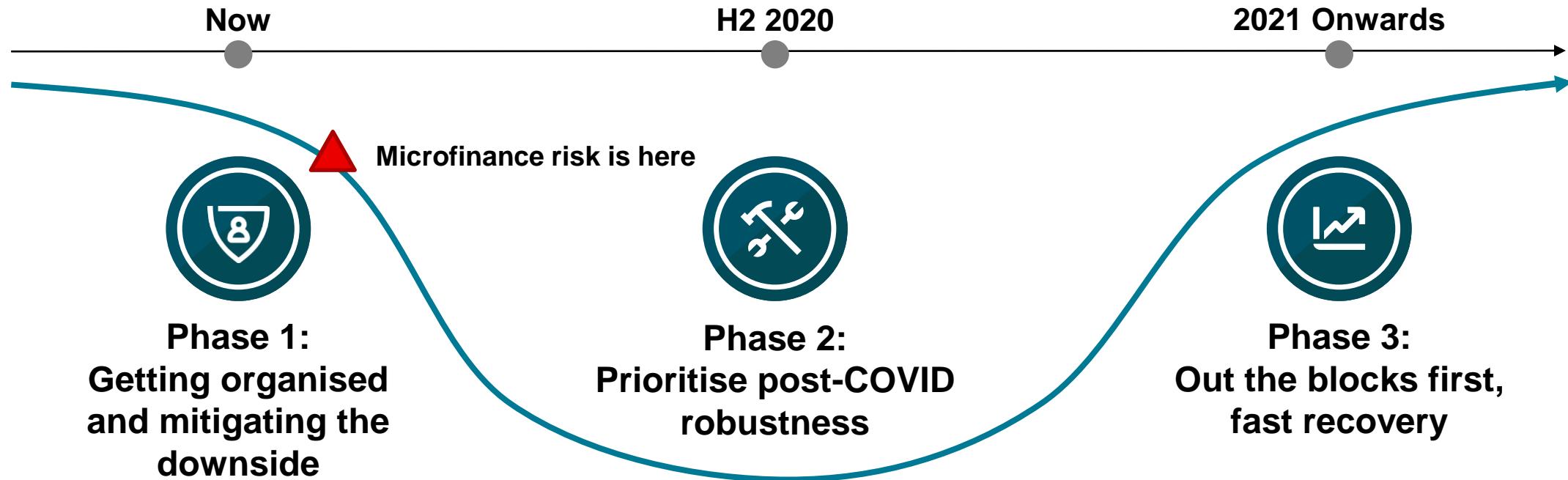
- Understanding that directors and senior management in businesses are consumers first, we **see considerable risk to the businesses** they run depending on **circumstances around their personal financial health**, specifically on smaller businesses
- These **consumers hold highly sensitive personal credit wallets** which are highly sensitive to distress on any credit line
- Current **risk distributions** across unsecured portfolios already carry a **high amount of expected default risk**
- Consumers that hold these unsecured products are **highly leveraged** across the credit market
- When consumers fail to satisfy financial commitments on these unsecured portfolios the **majority of their wallet commitments follow into default** across credit, insurance and telco accounts
- In these conditions it is vital to ensure a **comprehensive view** of your customer



# Treatment strategies

# Phased response model

Businesses should be thinking of their response to the COVID-19 pandemic in three phases



# Phased response model

Businesses should be thinking of their response to the COVID-19 pandemic in three phases

## Monitor monitor monitor:

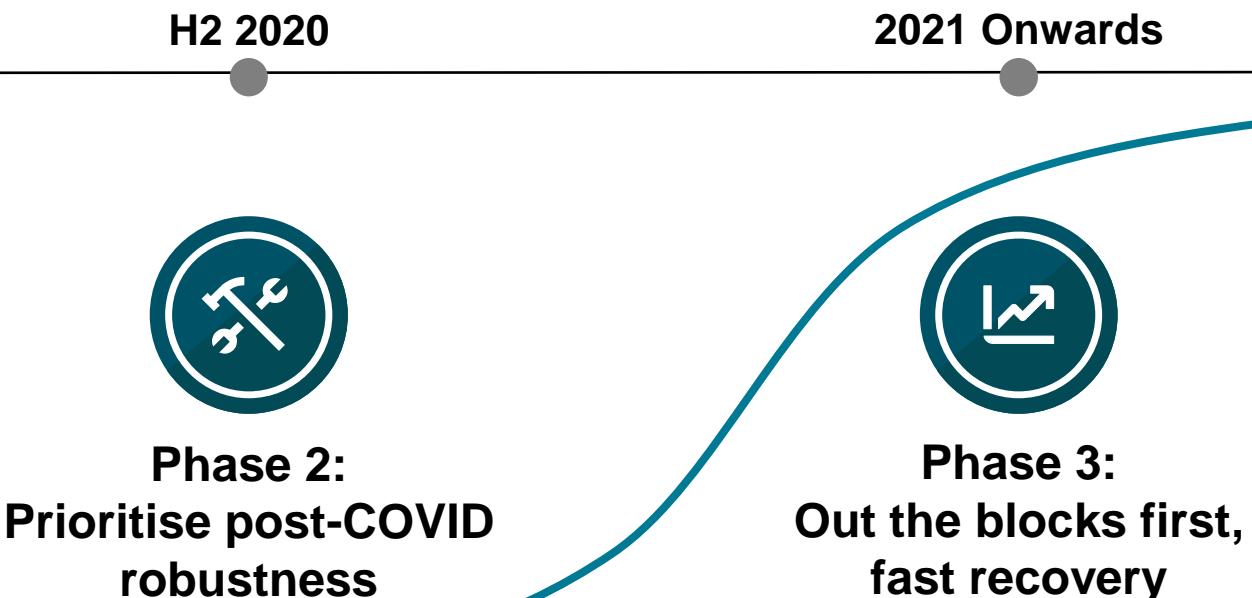
- Implement extensive monitoring on your base for changes in behavior e.g. Income reduction, Payment Holidays
- Partner with external entities to understand overall market and close gaps in your existing information e.g. Payment Holiday data

## Educate your customers:

- Keep customers informed about the current circumstances to improve financial health and loyalty e.g. impact on Credit Report, Payment Holidays, Credit Life Insurance, Payment Arrangements, Debt Counselling

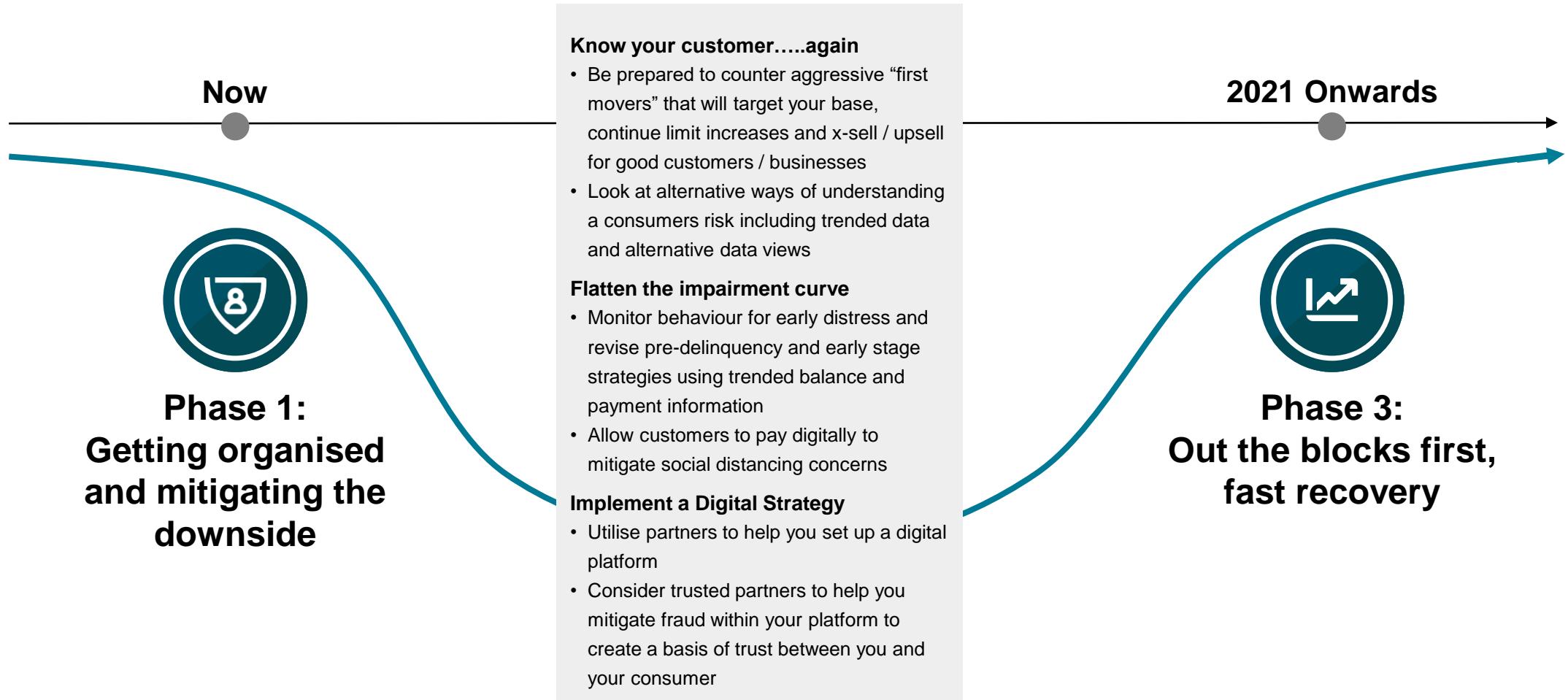
## Consider your digital strategy:

- Investigate your client base and if you can see opportunities to improve your relationship with them if you included a digital platform within your strategy.



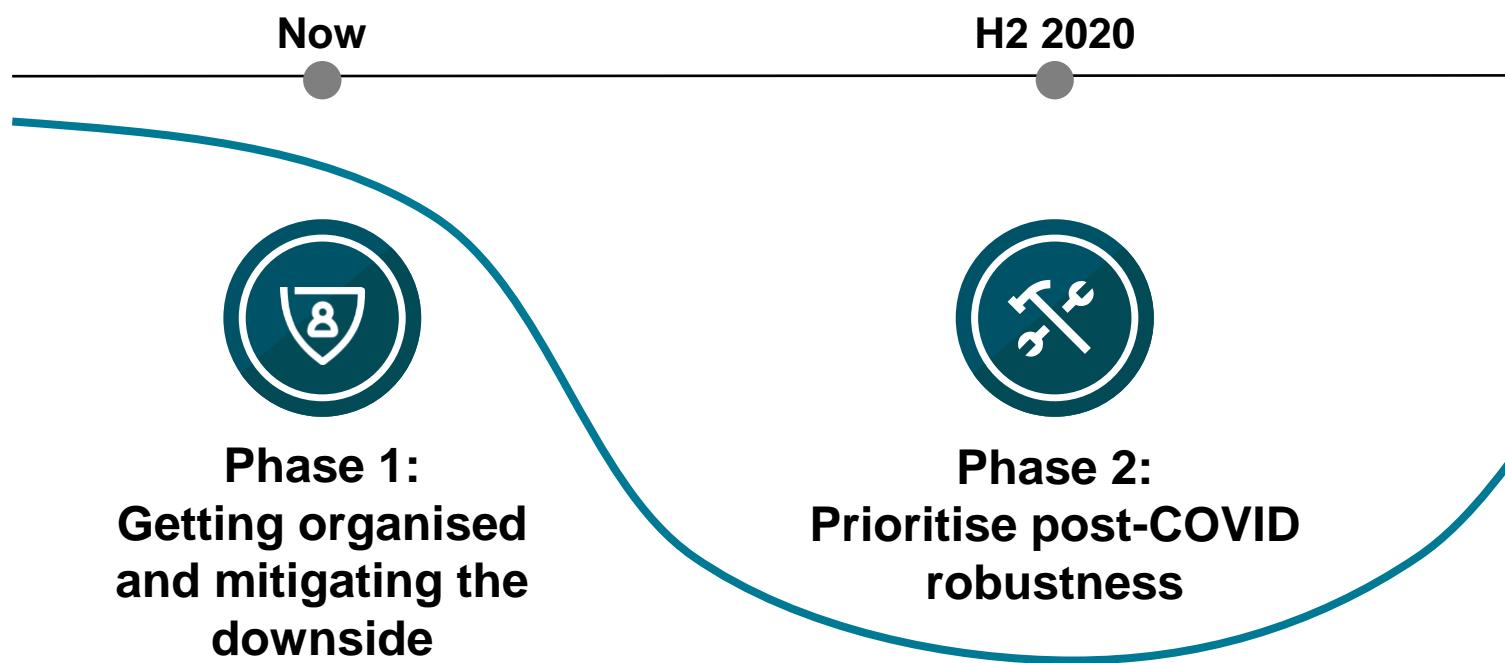
# Phased response model

Businesses should be thinking of their response to the COVID-19 pandemic in three phases



# Phased response model

Businesses should be thinking of their response to the COVID-19 pandemic in three phases



#### Get a bigger crystal ball

- Existing forecasting processes are largely dependent on internal data, important to start leveraging external sources to get an outside view of your portfolio
- Consider trended and alternative data to further understand your consumers at onboarding and account management phases

#### Pick your battles...

- Complete a pre-assessment utilising additional external data sources to determine payment potential, payment propensities etc. to better focus your collections efforts
- Be sensitive to collections on consumers directly impacted by the virus as this could negatively impact brand

# Protect and grow

Understanding your customers will help you implement targeted strategies to protect and grow your business



- The COVID-19 crisis has had and will have a **significant impact on consumer finances** and its effects are anticipated to be far reaching and all-encompassing – the consumer **landscape will forever be changed**
- As a business, **your relevance** to the consumer **can't be taken for granted**
- You have a role to play in **restoring consumer financial health** and **enabling** them to **contribute the economy**
- Work-From-Home and Return-To-Office strategies will force a **digital-first buying and engagement pattern** from consumers. Consequently, your businesses Go-To-Market strategies have to change
- Businesses need to create a '**friction right**' **experience throughout customer lifecycle** to ensure they are **protecting against fraud**, whilst providing a **seamless, digital customer experience**



# QUESTIONS?

