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FINANCIAL CRUNCH

Consumers struggle to repay debt

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SOUTH African consumers are financially stressed and defaulting on their debt repayments due to retrenchments and the situation is likely to worsen before it improves despite anticipated economic growth next year.

Economists and debt counsellors yesterday said many consumers were struggling to repay their debts as credit providers now aggressively pursue collections following the payment holidays extended during the hard Covid-19 lockdown.

According to the TransUnion credit bureau's third quarter South Africa Industry Insights Report, consumer debt delinquencies (accounts three or more payments behind) increased across all major consumer credit categories. However, consumer demand for new credit fell, while lenders continued to adjust their risk appetite and took a cautious approach to funding new credit.

According to the reported data, the serious delinquency rate for clothing accounts was 34.3%; 32.8% for non-bank personal loans; 22.4% for bank personal loans; 12.2% for credit cards; 7.8% for home loans and 7.2% for vehicle finance.

TransUnion's Financial Hardship Survey in South Africa also showed that almost four in five (79%) consumers reported that their household income was negatively affected by the lockdown. The survey also showed that concerns about their ability to pay bills and loans remained high at 85%, with 29% expecting to run into a shortfall within one month.

TransUnion SA director for research and consulting, Carmen Williams, said: "With the prolonged nature of the pandemic, it's clear that the economic impact has been significant and sustained. Consumer confidence and lender risk appetites have been severely impacted, and the latest results show the changing dynamics of both the demand and supply of credit.

"Consumers tend to work through a range of options before defaulting on a loan – using savings, other formal borrowing facilities, or even borrowing from friends and family, before they will miss a payment," Williams said.

Debt Rescue chief executive Neil Roets said consumers were facing a torrid financial crisis.

Roets said many consumers had waited before applying for debt counselling in the hope that creditors or government would bail them out. However, in August, the firm had seen an increase in the number of people applying for counselling.

"Next year is going to be worse because we are going to see a lot of businesses closing down. A lot of businesses survived the past few months because of payment holidays and landlords giving them a payment holiday for rent."

DebtBusters chief operations officer Benay Sager said the number of consumers under financial distress would peak early in the year as consumers faced the financial reality of holiday spending.

"Reasons for this include the consequences of the economic impact of Covid-19, such as one or more income earners in a household losing their income or having it reduced. Many companies simply cannot pay 13th cheques or year-end bonuses, which means consumers will have no cushion..."