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Debt levels in SA could finally see the growth of the rental goods economy

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"Every time you borrow money, you're robbing your future self." - Nathan W. Morris, personal finance expert.

Too many consumers are more than happy with the buy-now-and-deal-with-the-consequences-later approach. But that's exactly why so many South Africans are living beyond their means, reliant on overdrafts and credit, and struggling to make repayments on hire purchase agreements, store cards and other high-interest loans.

In the TransUnion Q1 2020 South Africa Industry Insights Report, “outstanding balances continued to grow across all major consumer lending categories”. In fact, total outstanding credit card debt increased by 8.4% year-on-year (YOY), and that of non-bank personal loans by 17.2% year-on-year.

In addition to the regular quarterly report, TransUnion also researched the predicted impact of the Covid-19 pandemic on the consumer credit market. On the back of already challenging economic conditions prior to lockdown, they noted that the pandemic could be expected to impact significantly “on the nation’s personal finances in the months, and even years, to come”.

“In the current economy, there is no denying that consumers are taking great strain. Adding to debt now will only make things harder in the long term. But that doesn’t change the fact that expenses do come up, whether planned or not,” says Teljoy sales and marketing manager Aimee Miller, adding the buying of expensive items outright on high-interest credit options is a solution, which is risky in the current context.

Aimee Miller, Teljoy sales and marketing manager

The Old Mutual Savings & Investment Monitor Covid-19 special report 2020 confirms TransUnion’s sentiment that the worst is yet to come, taking account of the already ailing economy, mounting financial stresses and the spiraling unemployment rate. According to Stats SA, South Africa’s official unemployment rate stood at 30.1% in June. Post-Covid, that is expected to rise as high as 50%.

The Old Mutual Savings and Investment report also noted: “Not only are absolute income levels under pressure as many take salary cuts, but demands on share of wallet are increasing as never before. A third of consumers find that they are having to support more people financially than they did before the pandemic.”

Miller says that even consumers who are still earning are anxious that their current income may not be secure: “They may also find themselves supporting friends or family members who have already lost income. There is little leeway for spending, so many turn to credit when costs arise.”

When household furniture, electronics or appliances, for example, decide to give up for good, it is generally unexpected, she points out, adding that these replacements are typically then paid for by adding the full purchase to a credit card, or through a costly hire-purchase instalment plan.

Miller questions why this is the case when it's common practice to purchase homes, vehicles or even cellphones on a contract, paying these off over time until they're owned outright.

She says that rent-to-own, a consumer model in which Teljoy specialises, offers exactly that alternative. A range of household items can be purchased on a month-to-month contract with the option to take ownership after the predetermined rental period. This offers flexibility, she adds, and can be upgraded, downgraded or cancelled at any time. Maintenance and risk cover also protects consumers should items need to be repaired or replaced.

The rental goods economy has already taken off in wealthier countries such as the United States, where market research company Lab 42 has noted that there has been a significant shift towards renting items such as furniture, clothing, technology, jewellery, tools and more. The number one consumer choice for rental is furniture, for reasons such as temporary housing, expensive upfront costs, hosting events in the home or even just to test it out. With the rise in demand, the study notes that more companies are incorporating rental options into their business offerings.

"In the current circumstances, rent-to-own offers a more affordable and safe alternative, without a long-term commitment at a time when the future is uncertain," Miller says.

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