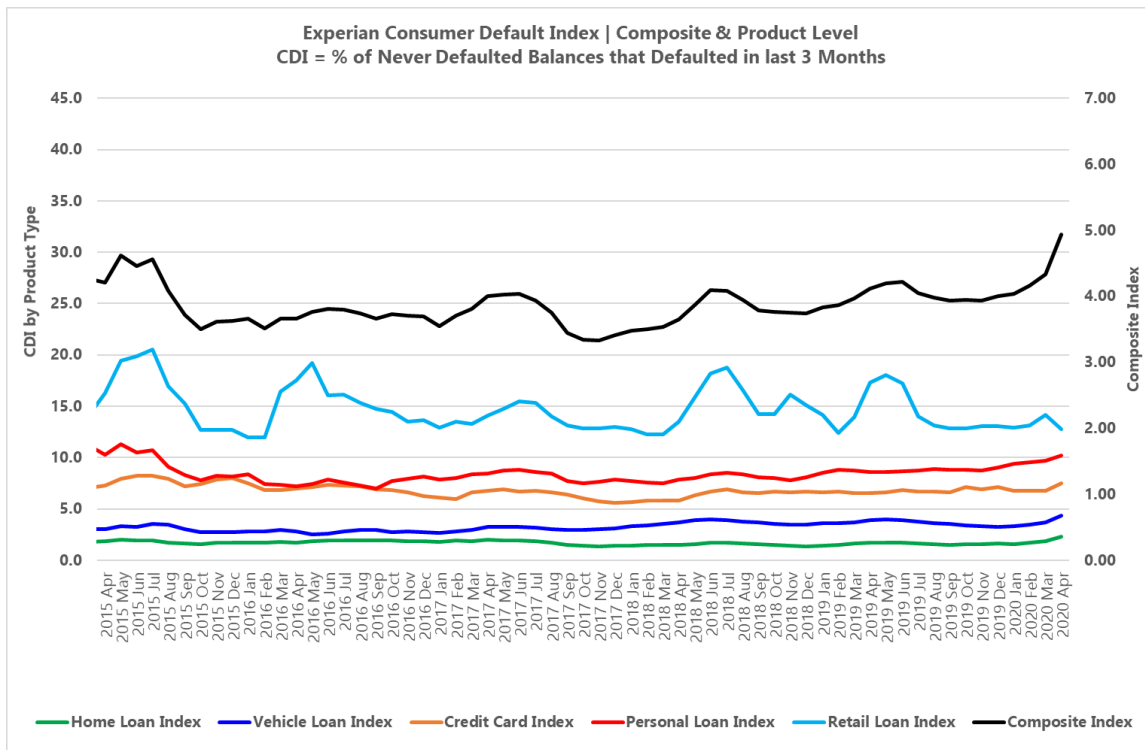


Consumer debt in South Africa increases to R1.5 Trillion

- COVID-19 pandemic has resulted in the Experian Consumer Default Index reaching its highest level in five years
 - R20.73bn defaulted for first time over the period Jan 2020 to Apr 2020



Johannesburg, 23 June 2020 – Experian South Africa has released its Consumer Default Index (CDI) for Q1, which saw the overall index reach 4.94% in April 2020, tracking significantly higher Y-o-Y from 4.11% in April 2019, amounting to R1.5 Trillion in outstanding consumer debt.

“The continued impact of a worsening general economic environment in South Africa along with the early impact of the COVID-19 pandemic has resulted in the Consumer Default Index reaching its highest level over the past five years at a composite level. Additional macro forces such as increasing unemployment and the lack of economic growth have had a significant impact on consumer’s ability to repay debt,” said Jaco van Jaarsveldt, Chief Decision Analytics Officer at Experian Africa.

The primary driver of the significant increase in the CDI was the rise in first time defaults across secured lending products, with the Home loans index increasing from 1.68% to 2.32% and the Vehicle loans index from 3.88% to 4.34% from April 2019 to April 2020.

	CDI Apr'20	CDI Apr'19	Average Outstanding Feb'20-Apr'20	New Default Balances Feb'20-Apr'20
Composite Index	4.94	4.11	R 1.68 Trillion	R 20.73 Billion
Home Loan Index	2.32	1.68	R 760.25 Billion	R 4.4 Billion
Vehicle Loan Index	4.34	3.88	R 439.5 Billion	R 4.77 Billion
Credit Card Index	7.47	6.56	R 141.11 Billion	R 2.63 Billion
Personal Loan Index	10.19	8.61	R 288.19 Billion	R 7.34 Billion
Retail Loan Index	12.75	17.29	R 49.77 Billion	R 1.59 Billion
HomeLoan + VehicleLoan + CreditCard	3.52	2.78	R 1.34 Trillion	R 11.8 Billion
RetailLoan + PersonalLoan	10.57	9.80	R 337.95 Billion	R 8.93 Billion



Similarly, Credit cards and Personal loans saw an increase from 6.56% to 7.47% and 8.61% to 10.19% Y-on-Y respectively.

The only index that continued to show a reduction in the rate of first-time defaulters was the Retail loans index, which improved significantly from 17.29% in April 2019 to 12.75% in April 2020. A large portion of consumers that have access to retail accounts had already experienced financial distress prior to the COVID-19 outbreak, and thus the reduced rate of first time defaulters is not an indication of an improving financial situation for these consumers but rather one of entering financial hardship albeit at a slower rate.

The South Africans most affected

“When looking at the detailed impact of the significant deterioration in the composite CDI at the Experian Financial Affluence Segment* (FAS) level, it is not surprising that the segments with the highest exposure to secured lending and other banking products are increasingly more affected than those whom experienced financial hardship before the COVID-19 pandemic”, adds van Jaarsveldt.

FAS Group	CDI	CDI	Average Outstanding	New Default Balances
	Apr'20	Apr'19	Feb-20 - Apr'20	Feb'20 - Apr'20
Group 1: Luxury Living	3.58	2.47	R 590.2 Billion	R 5.3 Billion
Group 2: Aspirational Achievers	4.37	3.41	R 697.7 Billion	R 7.6 Billion
Group 3: Stable Spenders	7.55	8.00	R 158.1 Billion	R 3. Billion
Group 4: Money-Conscious Majority	6.81	6.28	R 183.9 Billion	R 3.1 Billion
Group 5: Laboured Living	14.63	16.46	R 29.9 Billion	R 1.1 Billion
Group 6: Yearning Youth	16.82	21.78	R 11.8 Billion	R .5 Billion

FAS Groups 1 and 2 exhibited the most significant deterioration between April 2019 and April 2020, primarily due to the high levels of exposure to secured debt.

- **FAS Group 1 - Luxury Living***, only makes up 2.5% of the South African credit active population and is best described as consumers with an average opening home loan balance in excess of R1.2m (54% owning at least 1 home) and an average opening vehicle loan balance greater than R450k. This group is highly exposed to secured credit resulting in a CDI deterioration from 2.47 in April 2019 to 3.58 in April 2020.
- **FAS Group 2 - Aspirational Achievers***, whom make up 9.3% of the credit active population, can be described as consumers with an average opening home loan balance of ~R550k (43% owning at least 1 home) and an average opening vehicle loan balance greater than R250k. This group is similarly exposed to secured credit resulting in a CDI deterioration from 3.41 in April 2019 to 4.37 in April 2020.

FAS Group 4, the **Money Conscious Majority***, which makes up the majority of the South African credit active population (40%), saw a similar deterioration in their CDI from 6.28 in April 2019 to 6.81 in April 2020. Whilst exposure to secured credit facilities is lower in this group (less than 23% own a property with an average opening vehicle loan balance of ~R160k), exposure to unsecured facilities like personal loans and retail credit is high.

“When looking at this group in isolation, it was established that a large portion of this population missed payments at the end of March '20 and again April '20. This is concerning due to the



magnitude of this population and their dependency on unsecured credit facilities to cover month-to-month living expenses,” says van Jaarsveldt.

When considering the dual impact of the distressed economic environment and the Covid-19 pandemic at a more granular level, two specific consumer segments seem to be the most impacted, namely:

Secured Singles - young and unmarried but successful individuals that are driven by prestige and seek to further their personal and professional accomplishments - saw the most significant deterioration in their CDI, moving from 3.87% in April 2019 to 6.20% in April 2020. This segment comprises mostly of millennials with an average age of 32. Secured Singles maximize the credit available to them with 93% having retail and revolving accounts, 93% having credit cards and 85% having vehicle and asset finance accounts. To support their lifestyle, many in this segment over-extend themselves and a third have issues with regular payments.

The second segment is **Lifestyle Lending** - established individuals that are eager to spend but are still somewhat reliant on credit to support their lifestyles. This segment exhibited financial distress with their CDI deteriorating from 3.29% in April 2019 to 5.07% in April 2020. Comprising of mature individuals with an average age of 42 years, these individuals are motivated by the need for recognition and status which can be seen in the types of unsecured credit they hold – 90% have clothing accounts, 96% retail accounts and 97% revolving accounts. They are most active with lenders that allow them to achieve a certain lifestyle, often reaching the maximum limits on their accounts.

“It is evident from the latest CDI results that segments of the South African credit active population that were previously less impacted by the distressed economic environment, are no longer immune to financial struggles. The COVID-19 pandemic with the knock-on impact of various industries been locked down, seems to have impacted consumers across all financial statuses.

It waits to be seen whether the supportive mechanism introduced by credit providers such as payment holidays will merely provide distressed consumers temporary relief with an increase in financial hardship in the coming months. This unknown is equally concerning for both consumers and credit providers as the impact could be quite taxing. By using powerful insights, data and tools, credit providers can actively monitor their portfolios, anticipate future changes, differentiate risks and adapt accordingly,” concludes van Jaarsveldt.

*****ENDS*****

Notes to the editor:

The Experian Consumer Default Index (CDI) is designed to measure rolling default behaviour of South African consumers with Home Loan, Vehicle Loan, Personal Loan, Credit Card and Retail Loan accounts.

On a monthly basis, lenders typically classify their consumer accounts into one of several predetermined payment categories to reflect the level of arrears. When a lender deems the statement balance of a consumer account to be uncollectible due to being in arrears 90 or more days or statuses such as repossession, foreclosure, charge-off or write-off, the consumer account is said to be in default.

The index tracks the marginal default rate as it measures the sum of first-time (accounts that have never) defaulted balances as a percentage of the total sum of balances outstanding.

Published on a monthly basis with a 2-month lag, the indices include a balance-weighted composite index as well as the 5-product specific sub-indices.



Each of the indices are also determined at FAS segmentation level to provide further insight into the dynamics faced by specific consumer segments that are experiencing different stress due to macro forces such as unemployment, interest rate changes and economic growth.

*Experian's Financial Affluence Segmentation (FAS) is a consumer lifestyle segmentation system that classifies the South African population and enumeration areas into 6 primary groups each with variable exposure to secured and unsecured lending products. The 6 primary segments are described as follow:

- FAS Group 1: Luxury Living (2.5% of credit active population) - Affluent individuals representing the upper crust of South African society with the financial freedom to afford expensive homes and cars
- FAS Group 2: Aspirational Achievers (9.3% of credit active population) - Young and middle-aged professionals with the resources to afford a high level of living while furthering their careers, buying property and establishing families
- FAS Group 3: Stable Spenders (7.2% of credit active population) - Young adults with that rely on financial products to assist in making ends meet or to afford specific necessities such as clothing and school fees, or seasonal luxuries
- FAS Group 4: Money Conscious Majority (40.0% of credit active population) - Older citizens that are conscious of where and how they spend their money; often seeking our financial products to cover basic needs or for unforeseen expenses
- FAS Group 5: Labored Living (24.6% of credit active population) - Financially limited as salaries are below national tax thresholds, they spend their money on basic living necessities such as food and shelter
- FAS Group 6: Yearning Youth (16.4% of credit active population) - Very young citizens that are new to the workforce; this mix of labourers and possibly working students earn low salaries and are limited to spending on non-essential goods

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