news release

Loan defaults down for young South Africans, but access still a hurdle - Experian Report

Johannesburg, 14 June 2024— As South Africa commemorates Youth Day, the spotlight falls on the financial health of young consumers and their ability to leverage credit as a tool for empowerment. Experian's Consumer Default Index (CDIx) for Q1 2024 reveals a complex picture for young South Africans, highlighting the need for both increased access to responsible credit and enhanced financial literacy. The Index measures the rolling default behaviour of South African consumers with Home Loan, Vehicle Loan, Personal Loan, Credit Card, and Retail Loan accounts.

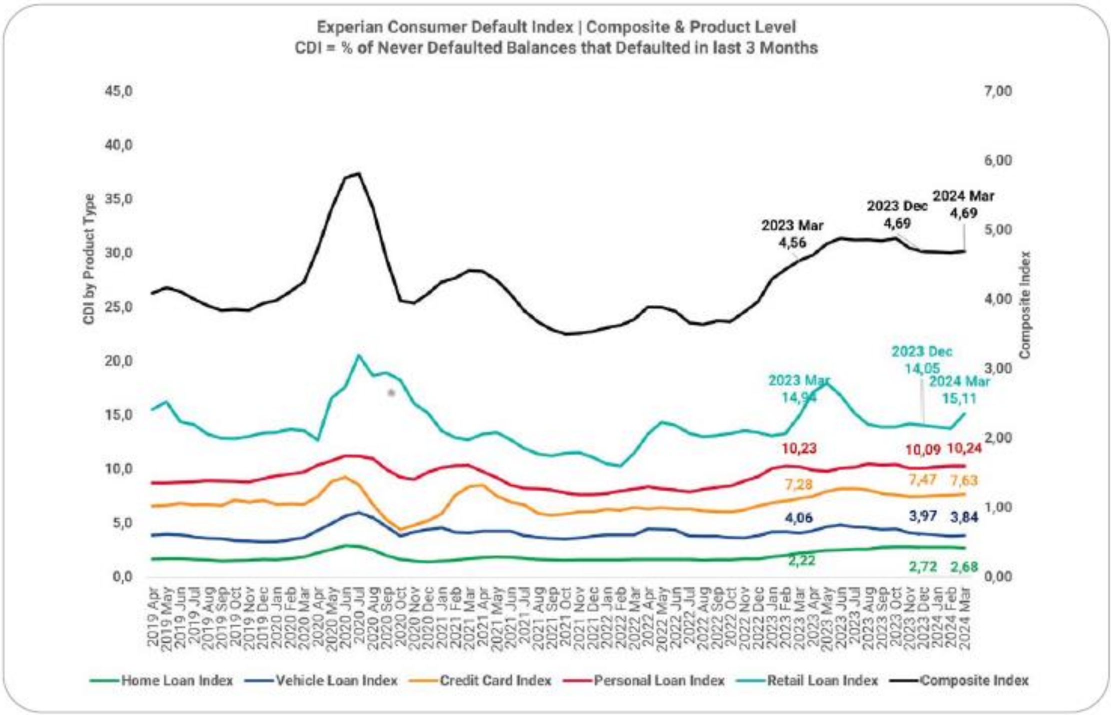
The CDI for the youngest consumer group – the Yearning Youth - as measured by Experian's Financial Affluence Segmentation* (FAS), dropped significantly from 21.9 in March 2023 to 16.8 in March 2024. However, this positive trend doesn't necessarily mean their finances have drastically improved. It's rather a case of them finding it harder to access new loans than before the pandemic, as the supply of credit in this category has not returned to pre-pandemic levels.

"This consumer segment, representing 16.4% of credit-active South Africans, is traditionally highly exposed to unsecured credit, with over 80% of the Yearning Youth being active in the retail credit market. We have, however, seen a slowdown in credit extension to these young and credit inexperienced consumers so that while fewer defaults are good, limited access to credit can hinder their financial progress. This highlights the need for increased financial literacy and responsible credit options for young South Africans," **says Jaco van Jaarsveldt, Experian's Head of Commercial Strategy and Innovation**.

COMPOSITE CDI	CDI Mar'23	CDI Mar'24	Average Outstanding Balance Jan'24-Mar'24	Total New Default Balances Jan'24-Mar'24	CDI Relative % Change
Group 1: Luxury Living	2.62	3.47	R 1060.08 Billion	R 9.2 Billion	33%
Group 2: Aspirational Achievers	4.65	4.76	R 820.89 Billion	R 9.76 Billion	2%
Group 3: Stable Spenders	9.89	7.77	R 131.34 Billion	R 2.55 Billion	-21%
Group 4: Money-Conscious Majority	8.19	7.11	R 177.28 Billion	R 3.15 Billion	-13%
Group 5: Laboured Living	17.46	14.81	R 27.48 Billion	R 1.02 Billion	-15%
Group 6: Yearning Youth	21.90	16.78	R 9.07 Billion	R .38 Billion	-23%

Considering all consumer segments, the Composite CDI has remained relatively stable from December 2023 to March 2024. However, when this year's data is compared to last year's, the CDI continued to show deterioration, moving from 4.56 to 4.69.

"In simpler terms, more people are struggling to repay their loans compared to last year. However, considering the index has remained flat quarter-on-quarter, this indicates that although consumers still find it challenging to honour debt commitments, the situation is not worsening at the same speed observed in 2023," **adds van Jaarsveldt**.



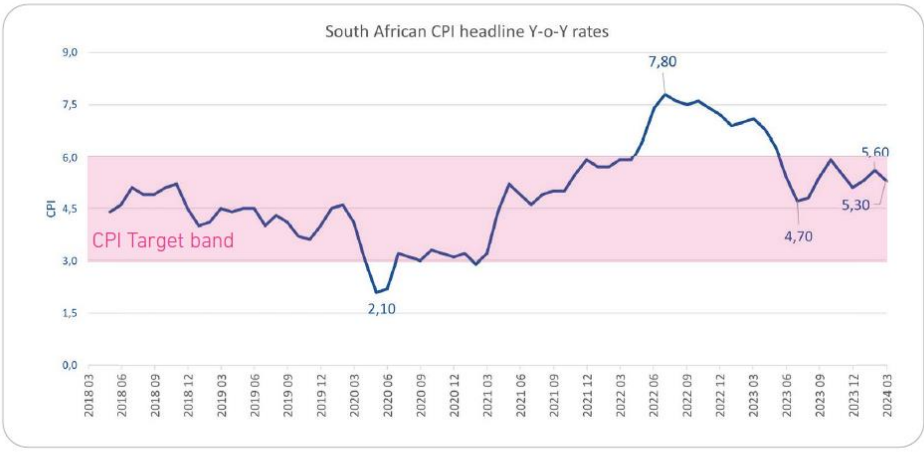
At a product level, Home Loans saw the largest deterioration in CDI, with a 21% deterioration Y-o-Y up from 2.22 to 2.68. Although still significant, the rate of deterioration is slowing down, considering that in Q4 2023, we saw an annual deterioration rate of 60%. With Home Loans accounting for the majority share of the total market exposure, the deterioration in Home Loans was the main driver of the deterioration seen in the composite CDI.

Credit Cards was the other (albeit less significant) driver of the deterioration in composite CDI, moving from 7.28 to 7.63 Y-o-Y, a 5% deterioration. This suggests that mid-to-high affluence consumers—who typically qualify for these high-end credit products—continue to find it difficult to repay debt and are, in fact, becoming more dependent on their credit cards to cover monthly expenses.

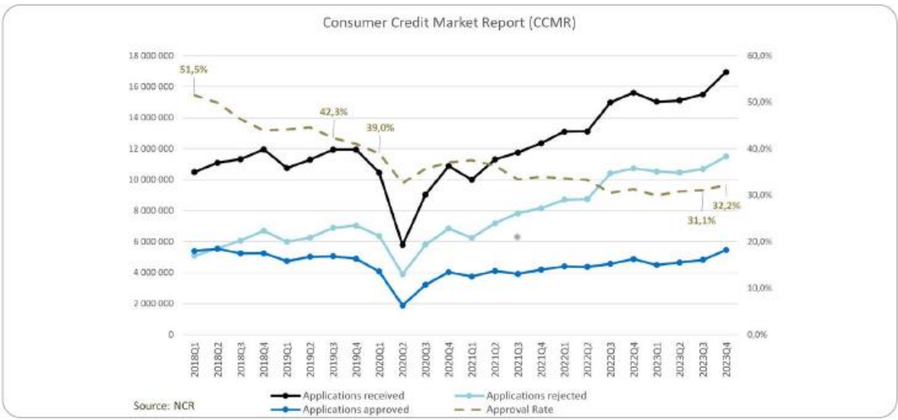
Index	CDI Mar'24	CDI Mar '23	Average Outstanding Jan'24-Mar'24	New Default Balances Jan'24-Mar'24	Relative Impr/Deter
Composite Index	4,69	4,56	R 2 226 599 665 067	R 26 125 988 555	3%
Home Loan Index	2,68	2,22	R 1 171 052 754 693	R 7 877 181 817	21%
Vehicle Loan Index	3,84	4,06	R 505 053 860 036	R 4 844 008 757	-6%
Credit Card Index	7,63	7,28	R 175 477 405 452	R 3 348 758 529	5%
Personal Loan Index	10,24	10,23	R 328 894 748 742	R 8 420 454 530	0%
Retail Loan Index	15,11	14,94	R 43 305 185 635	R 1 635 584 922	1%
Home Loan + Vehicle Loan + Credit Card	3,47	3,21	R 1 854 399 730 689	R 16 069 949 103	8%
Retail Loan + Personal Loan	10,81	10,73	R 372 199 934 377	R 10 056 039 452	1%

Despite the Consumer Price Inflation (CPI) remaining within the South African Reserve Bank's target band of 3%—6%, the cost of living continues to increase, putting pressure on consumers.

"The rapid rate at which interest rates have increased and have now been at a sustained high level for the last 12 months has put immense strain on credit-active consumers, particularly those exposed to secured credit," **explains van Jaarsveldt**.



The report also highlights a strong market appetite for consumer credit, with application levels reaching record highs in Q4 2023. However, approval levels remain low at 32.2%, suggesting that more than two-thirds of applications are rejected – partly due to consumers' inability to afford additional credit commitments.



Experian's *Up* app provides a valuable solution, offering a user-friendly platform for managing financial wellness. Through gamified education, budgeting tools, and credit score tracking, the platform empowers consumers to make informed decisions and build a solid foundation for their financial future.

"By understanding their credit reports and scores, young South Africans can take proactive steps to improve their creditworthiness, access responsible credit options, and ultimately unlock their full financial potential. *Up* provides the knowledge and tools to navigate the credit landscape with confidence, turning financial data into a powerful tool for empowerment." **concludes van Jaarsveldt**.

Access *Up,* powered by Experian, for FREE from www.up.experian.co.za

[696 words]

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Notes to the editor:

The Experian Consumer Default Index (CDIx) 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.

The CDIx is published quarterly with a two-month lag, the indices include a balance-weighted composite index, as well as the five product-specific sub-indices. Two grouped indices are also provided:

1. Home Loans, Vehicle Loans and Credit Cards (these products typically are held by the traditionally banked market segments), and
2. Personal Loans and Retail Loans (these products are usually used as entry products into the credit market).

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

[1] **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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We operate across a range of markets, from financial services to healthcare, automotive, agrifinance, insurance, and many more industry segments.

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