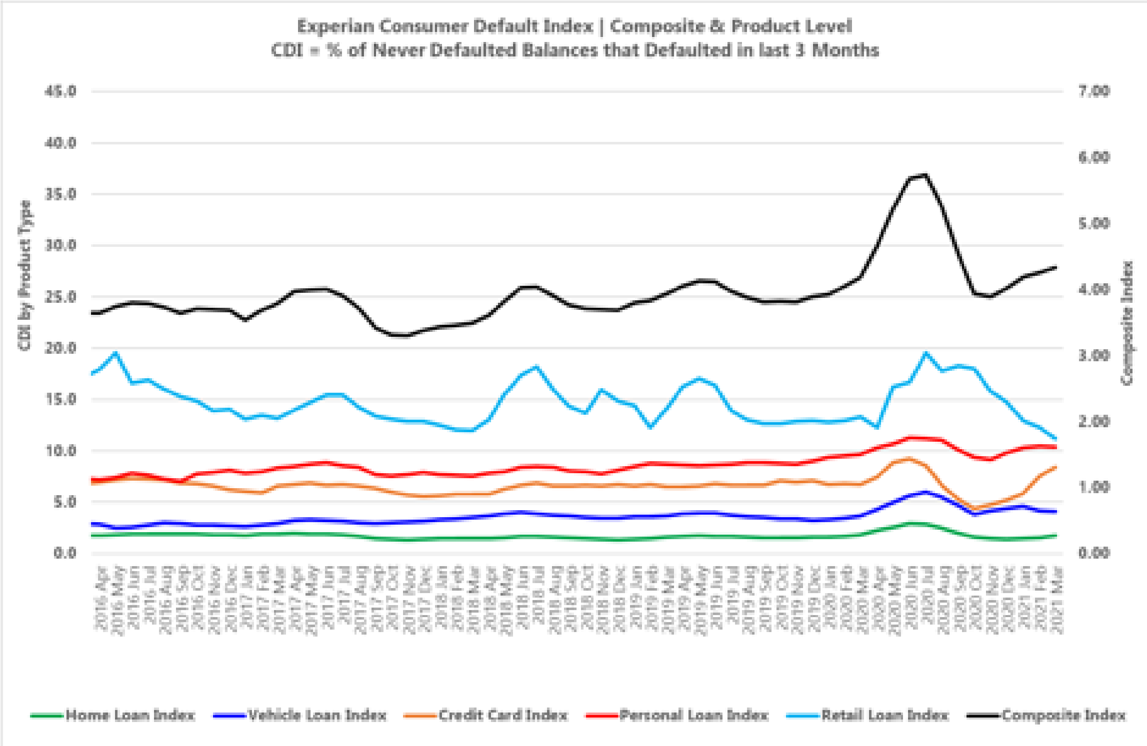
news release

Consumer debt surges to R1.9 trillion in South Africa

- *R20.40 billion in value defaulted for first time over the period January 2021 to March 2021*
- *South Africa's Youth battling to get access to credit*



Johannesburg, 15 June 2021 – The rate people defaulted on their loans for the first time increased in the first quarter of the year, according to Experian South Africa's Consumer Default Index (CDI).

The index deteriorated from 4.02 in December last year to a reading of 4.33 in March 2021, as people struggled to keep up with their payments related to the increased economic activity following the easing of strict lockdowns towards the latter part of 2020. .

Jaco van Jaarsveldt, Chief Decision Analytics Officer at Experian Africa, said: "This deterioration is primarily due to the increase in business volumes during the latter parts of 2020 when strict lockdown rules were relaxed at the end of the 2nd Covid wave – particularly for credit cards and personal loans over the Black Friday and Festive season period in 2020. The combination of the economy opening up and the extended Black Friday 'month' have resulted in an increase in the incidence and value of first-time defaults among SA consumers."

	CDI Mar'21	CDI Mar'20	Average Outstanding Jan'21-Mar'21	New Default Balances Jan'21-Mar'21
Composite Index	4.33	4.19	1 882 735 703 503	20 399 691 457
Home Loan Index	1.73	1.86	948 429 860 637	4 104 611 214
Vehicle Loan Index	4.10	3.67	467 758 744 651	4 792 704 405
Credit Card Index	8.39	6.74	142 572 498 119	2 989 514 454
Personal Loan Index	10.42	9.67	286 031 110 044	7 450 775 091
Retail Loan Index	11.20	13.32	37 943 490 052	1 062 086 293
HomeLoan + VehicleLoan + CreditCard	3.05	2.85	1 558 761 103 407	11 886 830 073
RetailLoan + PersonalLoan	10.51	10.15	323 974 600 096	8 512 861 384

According to Van Jaarsveldt: “The decline resulted from the collective worsening for all products comprising the CDI, except home and retail roans. Home loans showed a slight improvement from 1.86 in March 2020 to 1.73 in March 2021 as consumers continue to focus on and invest in their homes as it has increasingly become a hybrid place of work. Retail loans continue to show an improvement from 13.22 in March 2020 to 11.20 in March 2021 due to tighter lending criteria imposed prior to Covid, exaggerated by very constrained trading conditions during the various periods of lockdown.”

In spite of these improvements, the CDI recorded a Y-o-Y deterioration, due to the deterioration in vehicle loans (3.67 in March 2020 up to 4.1 in March 2021), credit card (6.74 in March 2020 up to 8.39 in March 2021) and personal loans (9.67 in March 2020 up to 10.42 in March 2021).

What is evident is that the deterioration correlates with consumer needs – vehicles have become less of a priority since the onset of Covid as commuting to work was no longer essential. Similarly, consumers are increasingly accessing personal loans and using available revolving credit card facilities to cover daily living expenses during these trying times, which started well before the Covid pandemic struck and was and still is underpinned by an economy that, whilst recovering faster than anticipated, is still marred by structural issues that require addressing before any long term sustainable growth can be realised.

Financial Affluent Segments most affected

COMPOSITE CDI	CDI Mar'20	CDI Mar'21	Average Outstanding Balance Jan'21-Mar'21	Total New Default Balances Jan'21-Mar'21	CDI % Change
Group 1: Luxury Living	2.65	3.42	R 613.82 Billion	R 5.24 Billion	29%
Group 2: Aspirational Achievers	3.55	3.80	R 825.11 Billion	R 7.85 Billion	7%
Group 3: Stable Spenders	7.23	6.06	R 191.55 Billion	R 2.9 Billion	-16%
Group 4: Money-Conscious Majority	6.44	6.08	R 202.92 Billion	R 3.08 Billion	-6%
Group 5: Laboured Living	13.93	11.53	R 29.19 Billion	R .84 Billion	-17%
Group 6: Yearning Youth	18.17	13.76	R 10.72 Billion	R .37 Billion	-24%

As has been the case over the past three quarters, Financial Affluence Segmentation (FAS)[1] Groups 1 and 2 continue to exhibit the most significant deterioration (CDI % change).

Van Jaarsveldt explains: “We continue to see the most affluent FAS Groups being the most negatively affected due to their high exposure to secured credit. There was a notable impact on *Luxury Living* group. With an average opening home loan balance in excess of R1.2m (54% owning one home and 25% owning multiple properties) and an average opening vehicle loan balance greater than R450k, this group is highly exposed to secured credit resulting in a CDI deterioration from 2.65 in March 2020 to 3.42 in March 2021. The *Aspirational Achievers* group similarly exposed to secured credit resulted in a CDI deterioration from 3.55 in March 2020 to 3.80 in March 2021."

The *Money Conscious Majority*, which makes up the majority of the South African credit-active population (~40%), saw an improvement in CDI from 6.44 in March 2020 to 6.08 in March 2021. While exposure to secured credit is low in this group (25% own a property, and the average opening vehicle loan balances is ~R160k), exposure to unsecured facilities like personal loans and retail credit is high, with these consumers holding ~ 30% of the market in both these products. The drastic improvement in retail CDI has a been the driver for the nett improvement in FAS 4 CDI.

How does South Africa's Youth fare?

With June being youth month, it is important for us to look at how the South African youth are managing their credit. Young South Africans (20-29 years of age) constitute roughly 27% of the adult population[2]. These consumers, who generally fall in the less affluent Experian Financial Affluence Segments, only makes up 3.1 million or 10.7% of the 29 million credit active population.

What is however more concerning is that, due to limited access to secured lending products, this segment only contributes 6.3% of the R1.9 Trillion of consumer debt. As a result of the overexposure to unsecured banking and retail products, the youth segment has shown a significant improvement in CDI over the last year, dropping in first time default rate from 6.20 in March 2020 to 4.65 in March 2021.

This, however, does not signify improved credit health for the youth. As these young consumers typically find themselves struggling to find sustained employment and with limited access to credit, with unsecured loans and retail credit products typically their only sources of credit, their access to these facilities have been severely impacted by tightening in credit lending criteria by retailers and the Covid pandemic.

	CDI Mar'21	CDI Mar'20	Average Market Exposure Jan 2021 - Mar 2021	
COMPOSITE CDI: Youth	**4.65**	**6.20**	**R**	**115 102 783 077**
12. Stand-alone Singles	**2.47**	**5.12**	**R**	**86 329 179 240**
13. Plugged-in Purchasers	**2.46**	**5.92**	**R**	**18 052 361 377**
29. Inexperienced Earners	**10.06**	**17.68**	**R**	**7 642 575 988**
30. Eager Youth	**10.21**	**17.58**	**R**	**3 078 666 471**

For the few that have the ability to access credit, it is further evident that, by nature of their preferred needs and immediate wants, their credit consumption has a strong affinity to vehicle asset finance (14%) and retail loans (9%). On the other end, the exposure of SA youth is the smallest (in relative terms) when it comes to home loans, where they hold only 3% market exposure.

Caution is required by both businesses and consumers alike

Van Jaarsveldt concludes: “Both credit providers and consumers alike should carefully consider any lending or borrowing activity and take a longer-term view of their activities and finances. For businesses, focussing on short term profits by driving volume in the incorrect lending categories could result in the risk of increased impairments as the impact of the structural challenges faced by the South African economy and the persisting impact of Covid takes its toll over the longer term. For consumers supplementing monthly cash flows through unsecured personal loans and credit card facilities could result in a lasting debt spiral as re-payment demands increase.”

As for the youth, the age-old advice of ensuring you invest in wealth generative assets holds firm. Van Jaarsveldt said: “While we’ve all been lured by that nice new car or trendy outfit, the current economic environment presents many opportunities for those fortunate enough to have some extra money to invest in wealth creating assets such as property, with interest rates at very low levels. For those less fortunate, always think twice before taking on credit to fund purchases that are not needed and rather save towards future credit facilities that supports a wealth creating journey.”

*****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.

The CDI 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

[2] **STATISTICS SA**: Mid-year population estimates (2020). Adult population excludes individuals younger than 20 years.

Contact:

Taryn Stanojevic
Experian South Africa
+27 11 799 3434
Taryn.Stanojevic@experian.com

Michelle Samraj
BCW Africa
+27 11 480 8526
michelle.samraj@bcw-global.com

About Experian

Experian is the world's leading global information services company. During life's big moments — from buying a home or a car to sending a child to college to growing a business by connecting with new customers — we empower consumers and our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organizations to prevent identity fraud and crime.

We have 17,800 people operating across 44 countries, and every day we're investing in new technologies, talented people, and innovation to help all our clients maximize every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index.

Learn more at www.experianplc.com or visit our global content hub at our global news blog for the latest news and insights from the Group.