news release

Rate of first-time consumer credit defaults improves in Q4

- *Consumer debt stands at R1.81 trillion*
- *Overall improvement due to relaxation of lockdown levels and relatively low new business volumes for credit products*

Johannesburg, 24 March 2021 – Insights from Experian South Africa show the rate that people defaulted on their loans fell at the end of last year, primarily due to a combination of the impact of payment holidays and lenders tightening their criteria.

Experian's Consumer Default Index (CDI) for quarter 4 (Q4) 2020 showed an improvement, down from 4.68% in September 2020 to 4.07% in December 2020.

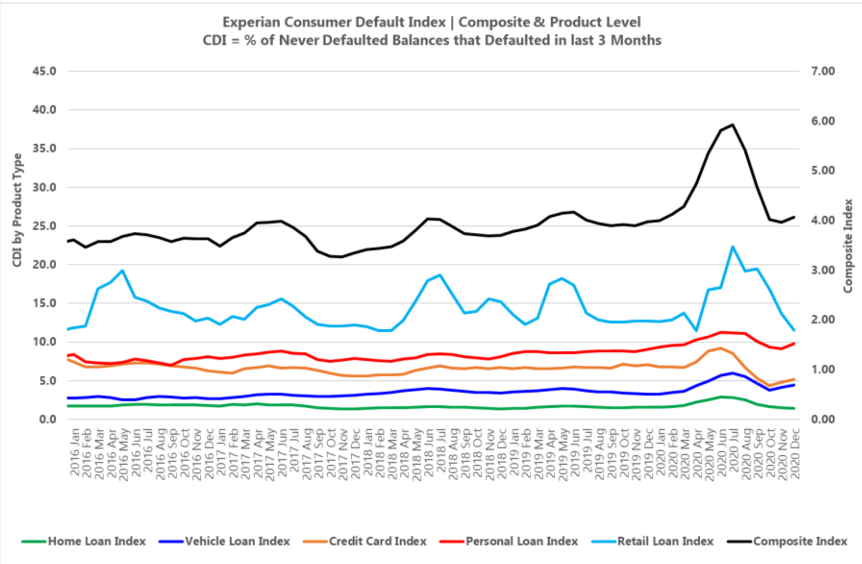
The number of first-time defaults was driven down by lenders introducing payment holidays, especially on never before delinquent accounts. A significant reduction in the volume of new accounts opened since the onset of the Covid-19 pandemic has also had an impact, with most lenders tightening their lending criteria and new credit exposure.

Jaco van Jaarsveldt, Chief Decision Analytics Officer at Experian Africa, said: "Despite the improvement in Q4, it should be noted that this is not as a result of an overall improvement in the financial performance of the average South African consumer. Levels of distress are expected to increase across all segments of the market as the effects of Covid-19 and a continuously deteriorating economy weigh on performance.

"People should continue to manage their finances carefully to ensure that they can endure the uncertainty ahead, while lenders will need to use insights from data to make the best decisions on their customers."

From a year-on-year perspective, the CDI was still tracking higher at 4.07 in Dec 2020 than the 3.97 observed in December 2019.

The year-on-year deterioration can largely be attributed to the significant worsening in the vehicle loans (deteriorating from 3.26 in December 2019 to 4.42 in December 2020) and personal loans (deteriorating from 9.04 to 9.81) lending category.



	CDI Dec'20	CDI Dec'19	Average Outstanding Oct'20-Dec'20	New Default Balances Oct'20-Dec'20
Composite Index	4.07	3.97	1 803 417 727 675	18 356 228 486
Home Loan Index	1.42	1.61	866 445 270 856	3 073 234 760
Vehicle Loan Index	4.42	3.26	463 678 703 303	5 118 906 705
Credit Card Index	5.20	7.09	140 955 940 499	1 830 890 238
Personal Loan Index	9.81	9.04	290 366 418 432	7 121 562 720
Retail Loan Index	11.55	12.76	41 971 394 584	1 211 634 063
HomeLoan + VehicleLoan + CreditCard	2.73	2.64	1 471 079 914 659	10 023 031 703
RetailLoan + PersonalLoan	10.03	9.55	332 337 813 016	8 333 196 783

Payment holidays granted for home and vehicle loans were mostly effective between April and July 2020, after which most matured. Although the vehicle loans CDI deteriorated in Q4, the home loans CDI improved slightly from 1.61 in Dec 2019 to 1.42 in December 2020. This suggests people are prioritising paying their home loans before other commitments.

When looking at unsecured lending products, the personal loans index presented the biggest distress (deteriorating from 9.04 in December 2019 to 9.81 in December 2020) as the effect of the Covid-19 pandemic continues to place pressure on many people who predominantly use personal loans for monthly expenses.

We observed the opposite trend when looking at credit cards and retail store accounts. The positive performance of credit cards can be attributed to consumers prioritising paying their credit card debt as it most likely is their primary source of funds for daily expenses.

Retail store accounts, on the other hand, have shown steady improvement since before the Covid-19 pandemic struck. Lenders identified that people were already in distress due to the tough economic environment, subsequently tightening their credit granting criteria. The tightening of lending criteria, coupled with the Covid-19 lockdown, resulted in no lending thus a continued steady improvement in the performance of the retail segment.

The impact on the macro-FAS level

COMPOSITE CDI	CDI Dec'19	CDI Dec'20	Average Outstanding Balance Oct'20-Dec'20	Total New Default Balances Oct'20-Dec'20
Group 1: Luxury Living	2.40	2.72	R 599.07 Billion	R 4.08 Billion
Group 2: Aspirational Achievers	3.39	3.67	R 751.04 Billion	R 6.89 Billion
Group 3: Stable Spenders	7.35	5.98	R 175.93 Billion	R 2.63 Billion
Group 4: Money-Conscious Majority	5.71	6.05	R 220.62 Billion	R 3.34 Billion
Group 5: Laboured Living	11.48	9.95	R 37.6 Billion	R .93 Billion
Group 6: Yearning Youth	18.42	14.44	R 10.78 Billion	R .39 Billion

It is evident that segments of the South African credit-active population who 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 being locked down, has impacted consumers across all financial statuses.

According to van Jaarsveldt, macro Financial Affluence Segmentation (FAS) Groups 1 and 2, with the highest exposure to secured lending, exhibited the most significant deterioration between Dec 2019 and Dec 2020.

Van Jaarsveldt said: "It's clear to see that there is a significant impact on the *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 2.40 in December 2019 to 2.72 in December 2020. In particular, this deterioration is largely influenced by their high exposure to vehicle loans, specifically, where the *Luxury Living* group accounts for more than 30% of the market. In contrast, this group is exposed to less than 15% of the personal loans market.

"Similarly the *Aspirational Achievers* group, with an average opening home loan balance of around R550k (51% owning at least one home) and an average opening Vehicle Loan balance greater than R250k, is also exposed to secured credit resulting in a CDI deterioration from 3.39 in December 2019 to 3.67 in December 2020. Aspirational Achievers account for 45% of the Vehicle Loan market and 35% of the Personal Loans market, which makes them highly exposed in both the product types that showed deterioration in Dec 2020."

The *Money Conscious Majority* group, which makes up most of the South African credit-active population (around 40%), also saw a significant deterioration in their CDI from 5.71 in December 2019 to 6.05 in December 2020. While exposure to secured credit facilities is low in this group (25% own a property, and the average opening vehicle loan balances is around R160k), exposure to unsecured facilities like personal loans and retail credit is very high, with these consumers making up approximately 30% of the market in both these products. The deterioration in the personal loans CDI had a particularly negative effect on these consumers.

Interestingly, the *Stable Spenders* group, saw a meaningful improvement in CDI, down from 7.35 in December 2019 to 5.98 in December 2020. Considering that these consumers typically earn below-average incomes and are often highly exposed to retail credit, it seems *Stable Spenders* in particular are less likely to take up new loan products, which is helping them to better meet their existing debt commitments.

*****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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