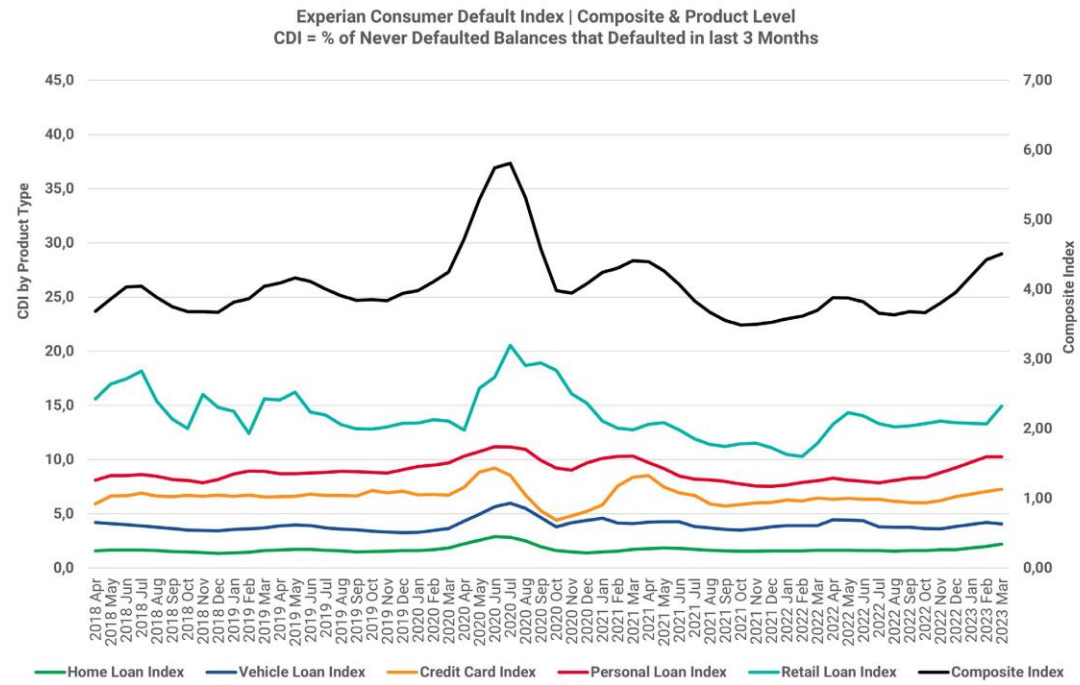
news release

Most and Least Affluent South Africans Hit the Hardest as Challenging Economy weighs down on consumers – Experian Report

Latest Experian CDIx report reveals significant deterioration across all banking products, with Home Loans the worst off



Johannesburg, 20 June 2023: The latest Experian Consumer Default Index (CDI), showed a return to the former trend of long-term deterioration, expedited by the rapid increase in living expenses experienced by South African consumers and exacerbated by the significantly intensified load shedding applied by Eskom during 2023 Q1.

The index tracks the marginal default rate as it measures the sum of first-time defaulted balances within the Home Loan, Vehicle Loan, Personal Loan, Credit Card and Retail Loan portfolios. These are accounts that have never previously defaulted, as a percentage of the total sum of balances outstanding.

The CDI exhibited a Q-o-Q deterioration from 3.93 in December 2022 to 4.51 in January 2023.

"A significant deterioration for the latest reporting period was already pre-empted in 2022 Q4 when we saw an earlier-than-usual deterioration in CDI, considering the typical annual cycle of the CDI. It would seem that the CDI has not only fully returned to the long-term deteriorating trend observed pre-COVID, but that the deterioration is happening at a faster pace," says **Jaco van Jaarsveldt, Head of Commercial Strategy and Innovation at Experian Africa**.

Y-o-Y, Composite CDI deteriorated from 3.70 to 4.51 – a relative deterioration of no less than 22%. Furthermore, all the product-specific CDI metrics also deteriorated Y-o-Y. Most notable of these was the Home Loans portfolio deteriorating from 1.62 to 2.19 (35%). The Retail portfolio was not far behind in relative terms, showing a 30% deterioration (from 11.51 to 14.94).

	Index	CDI Mar'23	CDI Mar '22	Average Outstanding Jan'23-Mar'23	New Default Balances Jan'23-Mar'23	Relative
	Composite	4,51	3,70	R 2 109 107 857 990	R 23 769 883 965	22%
	Home Loan	2,19	1,62	R 1 094 014 335 132	R 5 999 737 442	35%
	Vehicle Loan	4,06	3,92	R 483 640 676 953	R 4 910 998 349	4%
	Credit Card	7,28	6,46	R 166 328 985 591	R 3 025 753 080	13%
	Personal Loan	10,25	8,06	R 324 645 125 775	R 8 321 245 859	27%
	Retail Loan	14,94	11,51	R 40 478 734 538	R 1 512 149 235	30%
	Home Loan + Veicle Loan + Credit Card	3,20	2,70	R 1 743 983 997 676	R 13 936 488 871	18%
	Retail Loan + Personal Loan	10,77	8,44	R 365 123 860 313	R 9 833 395 094	28%

Consumer default performance by Financial Affluent Segments (FAS)

2023 Q1 showed that rapid deterioration in CDI terms was observed on the two extreme ends of the consumer landscape - the most affluent and the least affluent consumers. Indeed, the biggest relative deterioration was seen for FAS Group 1 (Luxury Living).

Although these consumers are typically of the highest affluence (and generally represent the lowest credit risk), their CDI has been under severe pressure – particularly since the pandemic. “We also note that these consumers typically not only continued to qualify for new or more credit throughout the pandemic but have also become increasingly dependent on credit to fund their standard of living,” adds van Jaarsveldt.

On the other hand, the mid-affluence FAS Groups 3 (Stable Spender) and 4 (Money conscious), consumers of typically mid-range affluence, generally showed minor Y-o-Y change in Composite CDI.

Less affluent FAS Group 5 showed the second-most significant deterioration in Composite CDI – worsening by 36% Y-o-Y. These consumers have been taking up more unsecured credit since 2021 Q4 and are quickly returning to the high levels of CDI that were seen pre-pandemic.

	Composite CDI	CDI Mar' 22	CDI Mar' 23	Average Oustanding Jan' 23 - Mar' 23	New Default Balances Jan' 23 - Mar' 23	CDI % Change
	Group 1: Luxury Living	2,01	2,97	R 937,55 Billion	R 6,97 Billion	48%
	Group 2: Aspirational Achievers	3,74	4,51	R 814,05 Billion	R 9,17 Billion	20%
	Group 3: Stable Spenders	8,31	8,38	R 131,01 Billion	R 2,74 Billion	1%
	Group 4: Money-Conscious Majority	6,61	7,10	R 179,98 Billion	R 3,2 Billion	8%
	Group 5: Laboured Living	12,43	16,87	R 26,8 Billion	R 1,13 Billion	36%
	Group 6: Yearning Youth	16,39	19,50	R 9,03 Billion	R ,44 Billion	19%

Debt Review

The total number of Debt Review applications has seen a marked increase over the last 2 years. From a FAS perspective, the relative increase in representation of high affluence consumers is quite striking – specifically with regard to FAS Group 2 (Aspirational Achievers). Consider that these are typically younger consumers, who are less likely to successfully navigate their financial way through the interest rate upcycles they are experiencing for the first time.

Cost of living remains on an upward trend

Market appetite for credit increased even further, as consumers look to credit to bridge the gap in covering living expenses. Not only does the Consumer Price Inflation, driven by fuel cost increases and food price hikes, remain at very high levels and outside the SARB's target band, but the cost of living, which remains on an upward trend, has likely decreased consumers' affordability and impacted on their ability to meet debt obligations.

"All South Africans need to establish strong financial practices to get through the challenging economic environment we are facing. It is vital that consumers stay on top of their credit health, carefully monitor how they use credit and maintain accurate household budgets," concludes van Jaarsveldt.

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682 words

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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

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