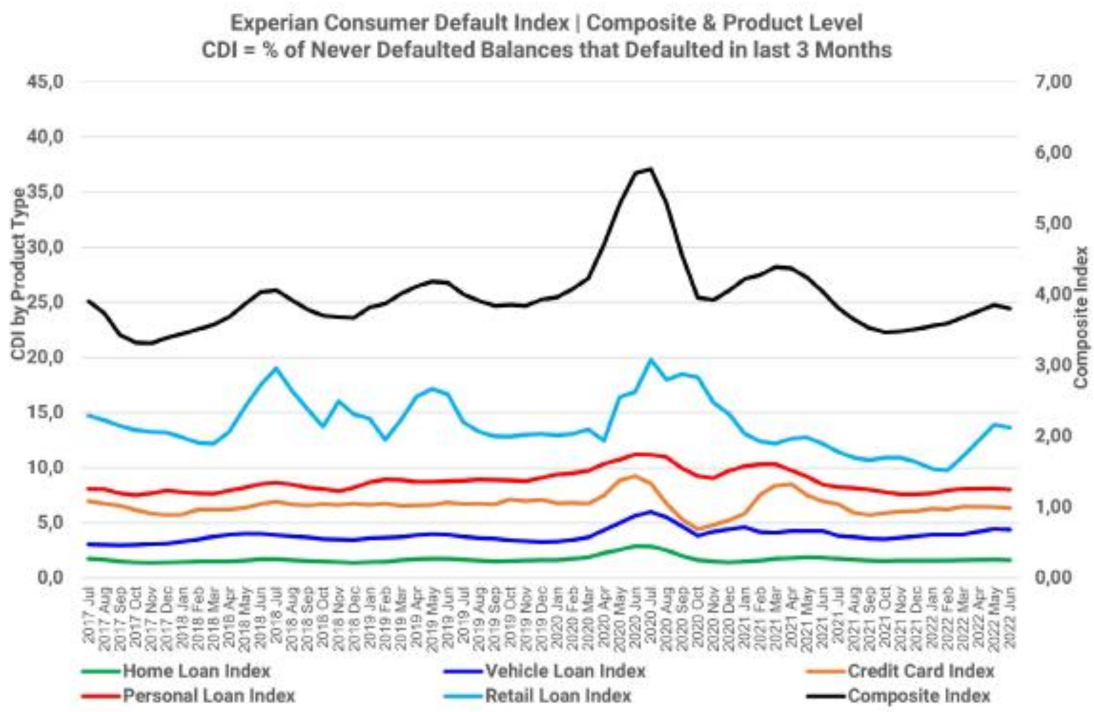
news release

First-time consumer credit defaults rise in Q2, but continue to show improvement Y-o-Y

- *R19,28 billion in value defaulted for first time over the period April 2022 to June 2022*



Johannesburg, 11 October 2022 – The rate people defaulted on their loans for the first time increased in the second quarter of 2022, according to Experian South Africa's Consumer Default Index (CDI).

The CDI increased quarter-on-quarter, moving from 3.68 in 2022 Q1 to 3.80 in 2022 Q2. Year-on-year, however, an improvement was observed, moving from 4.05 in 2021 Q2 down to 3.80 in 2022 Q2, constituting a relative improvement of 6%.

Jaco van Jaarsveldt, Head of Commercial Strategy and Innovation at Experian Africa, said: "This quarterly observation is aligned to the typical seasonality we see for the CDI, where the index increases from March to May due to credit lending increasing during the Black Friday and Festive season spending spree in the preceding year. However, what remains to be seen is the relative negative contribution the current global financial situation has had, with cost of living increases not experienced in decades, negatively impacting on consumers," states van Jaarsveldt.

	CDI Jun'22	CDI Jun'21	Average Outstanding Apr'22-Jun'22		New Default Balances Apr'22-Jun'22	
Composite Index	**3.80**	**4.05**	**R**	**2,031,064,187,645**	**R**	**19,280,368,681**
Home Loan Index	**1.62**	**1.82**	**R**	**1,063,668,229,363**	**R**	**4,295,818,154**
Vehicle Loan Index	**4.36**	**4.27**	**R**	**461,614,634,032**	**R**	**5,032,826,725**
Credit Card Index	6.32	6.95	R	156,338,582,043	R	2,469,525,014
Personal Loan Index	**8.00**	**8.49**	**R**	**314,474,527,054**	**R**	**6,290,985,339**
Retail Loan Index	**13.63**	**12.17**	**R**	**34,968,215,153**	**R**	**1,191,213,449**
Home Loan + Vehicle Loan + Credit Card	**2.81**	**2.98**	**R**	**1,681,621,445,438**	**R**	**11,798,169,893**
Retail Loan + Personal Loan	8.56	8.88	**R**	**349,442,742,207**	**R**	**7,482,198,788**

"The year-on-year improvement was, however, not observed across all products. Retail Loans saw a significant deterioration in CDI year-on-year – mainly as a result of the highest post-COVID new business volumes observed during 2021 Q4. What is concerning is that this deterioration occurred in a market where new Retail accounts opened remain 30% below pre-COVID levels, yet at these lower new account levels, more consumers are showing increasing signs of distress. For Vehicle Loans, whilst the deterioration was more modest, moving from 4.27 to 4.36 year-on-year, the same early signs of distress in the secured market segment is evident – indicating that no consumers are immune to the broad economic and cost of living distresses experienced in the market. Whilst there were overall improvement in CDI for the Credit Card, Personal Loans and Home loans segments, these are not expected to continue into the next quarters as more and more consumers feel the pinch of the current financial environment, especially the significantly higher interest rates," adds van Jaarsveldt.

Financial Affluent Segments (FAS) most affected

Q2 continued to show affluent consumers under more financial strain, relatively speaking, than their less affluent counterparts. FAS Group 1, *Luxury Living*, showed a year-on-year deterioration in CDI, whilst year-on-year improvements were observed for Groups 2, 3, and 4.

Interestingly, FAS Groups 5, *Laboured Living,* and 6, *Yearning Youth,* showed significant deterioration in CDI, after the improving trend that followed in the two years after the initial COVID hard lockdown conditions. This is for the most part related to the meaningful increase in new business volumes that was seen for retail over the 2021 Festive season, with consumers in these segments feeling the immediate effect of higher food and transport prices as the consumer inflation rate continues along its increasing trajectory.

Composite CDI	CDI Jun' 21	CDI Jun' 22	Average Oustanding Apr' 22 - Jun' 22	New Default Balances Apr' 22 - Jun' 22	CDI % Change
Group 1: Luxury Living	2.38	2.52	R 843.7 Billion	R 5.32 Billion	6%
Group 2: Aspirational Achievers	3.93	3.69	R 826.77 Billion	R 7.63 Billion	-6%
Group 3: Stable Spenders	8.30	7.16	R 134.78 Billion	R 2.41 Billion	-14%
Group 4: Money-Concious Majority	6.95	5.76	R 179.48 Billion	R 2.59 Billion	-17%
Group 5: Laboured Living	12.29	13.54	R 25.62 Billion	R .87 Billion	10%
Group 6: Yearning Youth	15.02	15.35	R 9.66 Billion	R .37 Billion	2%

The credit consumer within the greater context of the South African economy

The cost of living has increased considerably in the aftermath of Covid lockdown restrictions. Consumers have seen a steep increase in consumer price inflation, prolonged increasing trend in fuel prices, an interest rate upcycle with significantly shorter periods between increases and the highest unemployment rate globally.

For the credit industry, South Africa's increasing unemployment rate is particularly concerning – not only from a credit qualification perspective but also from a continued affordability perspective, when looking at existing credit consumers.

"The South African market demand for credit since COVID has not only recovered to pre-COVID conditions but has actually been exceeding it since 2021 Q4. This aligns with what we have seen from a macroeconomic perspective, where consumers are under increasing pressure just to make ends meet. However, as lenders continue to enforce more conservative lending criteria, supply of credit remains well below pre-COVID levels, especially in the unsecured lending market, which is a trend that has continued even after the pandemic," concludes van Jaarsveldt.

In this tough economic climate, we continue to advise consumers to manage their budgets carefully and use credit responsibly. In order to maintain a good credit profile, consumers need to ensure that they are paying their full instalments on time, not missing any payments and can afford the credit they take out for the full term. Consumers are also encouraged to check their personal credit report regularly in order to ensure that it is up to date and reflects their credit history accurately.

You can get a free credit report from Experian – go to My Credit Check.

752 words

*****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).

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

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