23 March 2022

Experian Africa

Insights into the Redefined Credit Economy – March 2022

Data insights and the latest trends of how the South African credit economy has been redefined in a time of disruption.

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Introduction

There's no doubt that the COVID-19 pandemic caused a significant amount of disruption to global and local economies. Varying lockdown levels have also impacted these economies as well as the businesses and consumers that operate within them.

The extent of the pandemic's economic impact continues to be largely unknown. However, through tracking and analysis of the emerging patterns in the credit and related industries, we see early indicators of what is to come over the next few months.

We are committed to continually sharing insights and trends as they emerge, keeping you informed to support your strategies.

All emerging trends are tracked monthly with a focus on how they impact overall market activity, changes in consumer behaviour and the impact on overall performance at a total market and business vertical level.

The March 2022 report focuses on the Q4 2021 Consumer Default Index (CDI) and collections:

CDI: Update on first-time default rates

- Composite CDI
- CDI by product
- Youth market share and CDI

Collections

- Overall arrears status deterioration
- New business comparison per product
- Collections comparison per product

Download the latest CDI Report **here**

Consumer Default Index

South African consumers are showing slight improvements Q-o-Q

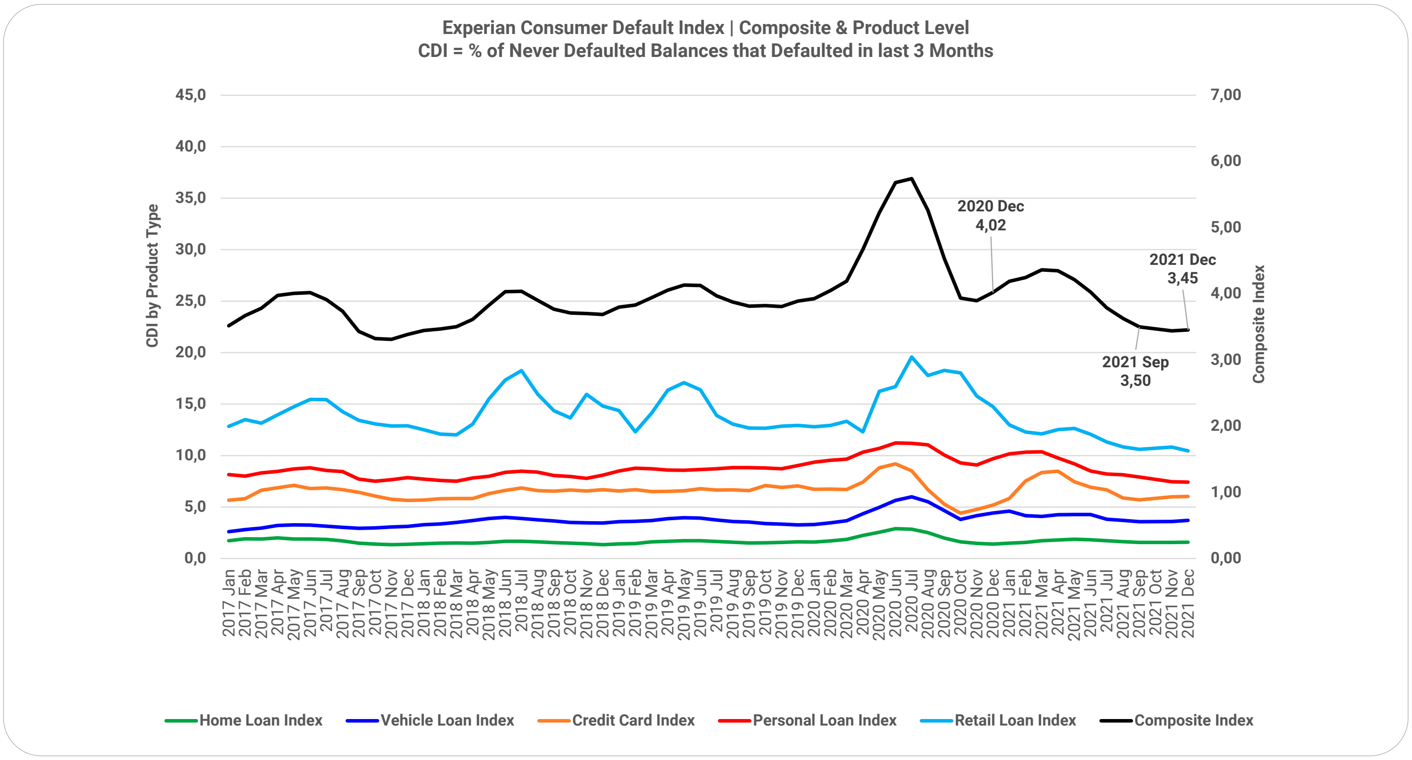
The CDI tracks the **marginal default rate** as it measures the sum of **first-time defaulted** balances, i.e., accounts that have never previously defaulted, as a percentage of the total sum of balances outstanding.

Moving from 3.50 in Sep 2021 to 3.45 in Dec 2021, the **Composite CDI saw a slight improvement** Q-o-Q. The Composite CDI saw a more significant improvement Y-o-Y, moving from 4.02 in Dec 2020.

This Y-o-Y improvement is less drastic than what we have seen over the last year and is expected to continue to be less drastic as the comparative base moves further away from the extreme circumstances associated with the COVID lockdowns.

Two key drivers of the improved CDI are:

1. The fact that many lenders have been stricter in their credit extension – particularly in the Personal and Retail Loans portfolios – due to **increased risk aversion**, and
2. The **increased affordability** associated with qualifying consumers due to limited spend on travel and entertainment.



CDI by Product

Retail and Personal Loans continue to show significant improvement in CDI. A substantial deterioration was observed for Credit Cards.

	Index	CDI Dec '21	CDI Dec'20	Average Outstanding Oct'21-Dec'21	New Default Balances Oct'21-Dec'21	Relative Impr/Deter	Weight in COMPOSITE CDI
	Composite	3,45	4,02	R1 938 915 562 414	R16 742 420 477	-14%	100%
	Home Loan	1,58	1,41	R1 016 673 237 648	R4 012 244 158	12%	52%
	Vehicle Loan	3,71	4,41	R443 295 911 520	R4 108 481 576	-16%	23%
	Credit Card	6,04	5,20	R152 261 992 477	R2 299 350 282	16%	8%
	Personal Loan	7,42	9,70	R292 371 489 138	R5 425 516 935	-23%	15%
	Retail Loan	10,45	14,76	R34 312 931 631	R896 827 526	-29%	2%
	Home Loan + Veicle Loan + Credit Card	2,59	2,66	R1 612 231 141 645	R10 420 076 016	-3%	83%
	Retail Loan + Personal Loan	7,74	10,29	R326 684 420 769	R6 322 344 461	-25%	17%

The **relative improvement in the Composite CDI Y-o-Y was 14%** and was predominantly driven by Vehicle and Personal Loan improvement.

Deterioration in CDI was observed for Home Loans and Credit cards, but this was counter-balanced by significant Y-o-Y improvement in CDI in Vehicle Loans, Personal Loans and Retail Loans.

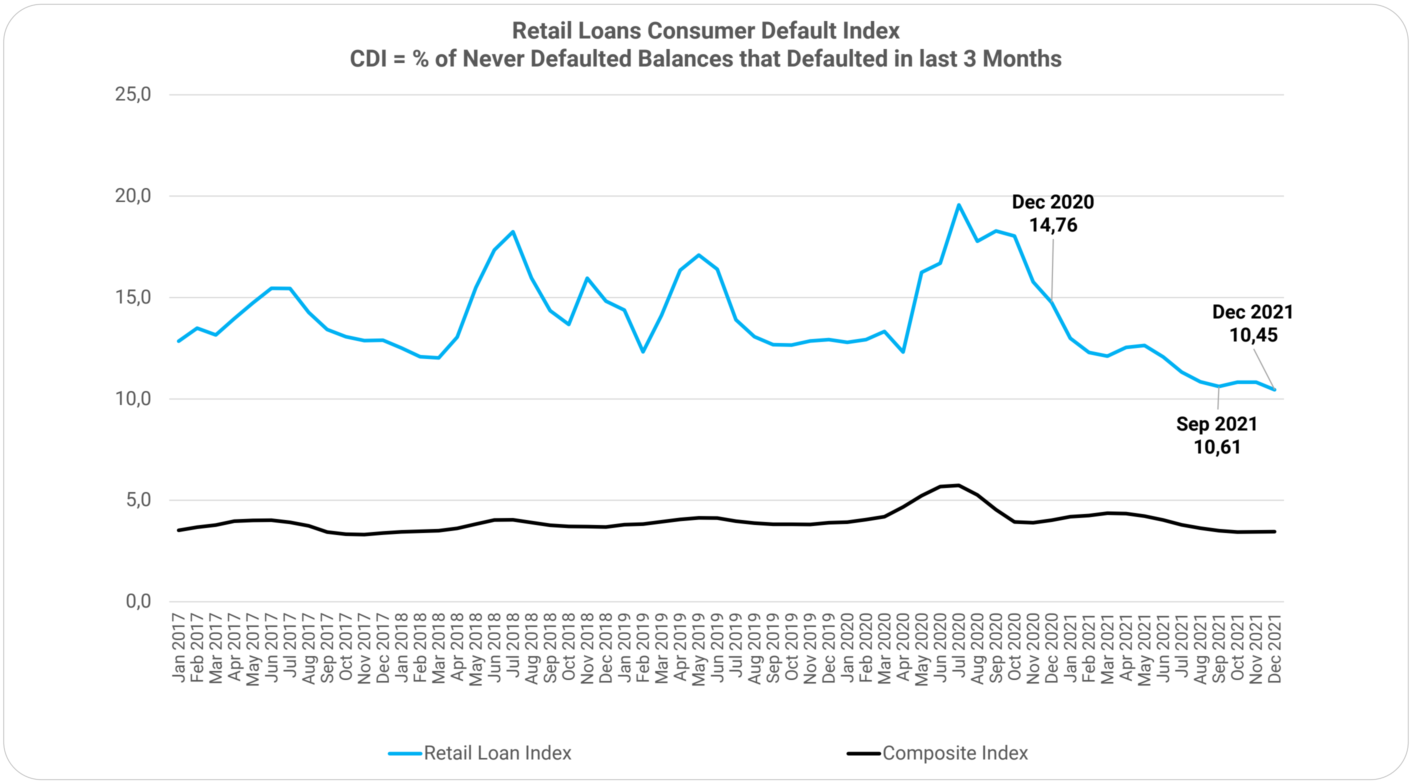
Most significant, in relative terms, was **the improvement observed for Retail Loans**, moving from 14.76 in December 2020 to 10.45 in December 2021. This constituted a relative improvement of 29%. This improvement does not signify an improvement in consumers' ability to repay their Retail Loans; instead, it is the result of a significant **reduction in new business** written for Retail Loans of late. Note that Retail Loans only contribute 2% to the Composite CDI.

Retail Loans CDI

There was significant improvement in December 2021 but moving towards the mid-affluent FAS Groups of Stable Spenders and the Money-conscious Majority.

The **Y-o-Y improvement** in Retail Loans CDI was observed across all consumer affluence groups but was most significant for FAS Groups 3 and 4. This is different from what we have been reporting in the past year and is an indication of the consumer base represented in the previous year, moving over to the **mid-affluence groups**.

Take note that the most affluent consumer group, Luxury Living, only showed **a very modest relative improvement** of 2%. This is because this consumer group, for the most part, continued to qualify for Retail Loans and exhibited behaviour similar to that which was observed the previous year, in relative terms.



	RL	CDI Dec' 20	CDI Dec' 21	Average Oustanding Oct' 21 - Dec' 21	New Default Balances Oct' 21 - Dec' 21	CDI Relative % Change
	Group 1: Luxury Living	6,80	6,68	R 42,82 Billion	R 3,14 Billion	-2%
	Group 2: Aspirational Achievers	10,27	7,50	R 55,09 Billion	R ,85 Billion	-27%
	Group 3: Stable Spenders	15,89	10,42	R 14,61 Billion	R 1,27 Billion	-34%
	Group 4: Money-Concious Majority	14,19	9,04	R 20,79 Billion	R ,48 Billion	-36%
	Group 5: Laboured Living	20,54	14,73	R 2,29 Billion	R ,44 Billion	-28%
	Group 6: Yearning Youth	27,49	21,59	R ,9 Billion	R ,07 Billion	-21%

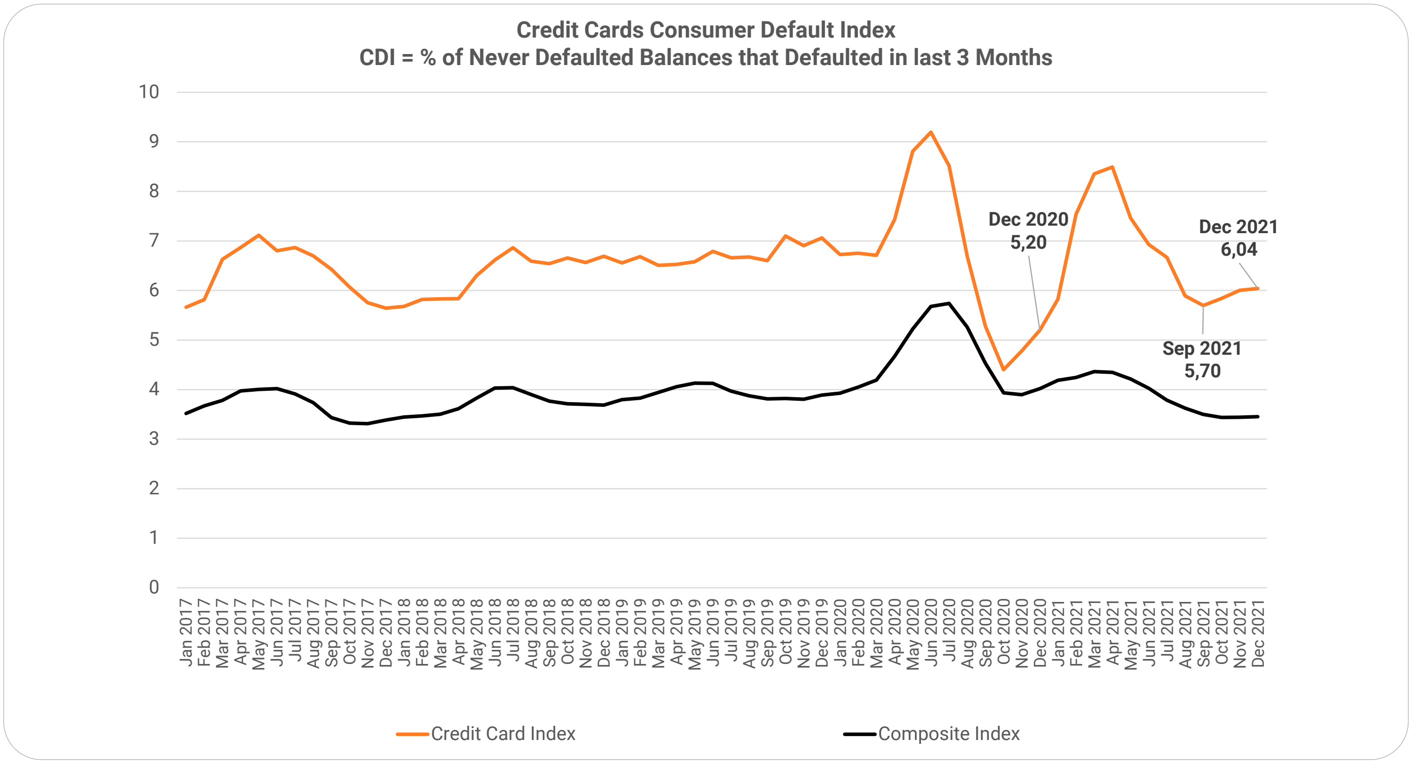
Credit Card CDI

Significant deterioration in December 2021 – both Q-o-Q and Y-o-Y

The significant **Y-o-Y deterioration** in Credit Card CDI, from 5.20 in December 2020 to 6.04 in December 2021, was predominantly due to the deterioration observed for higher affluent consumer groups, specifically Group 1: Luxury Living and Group 2: Aspirational achievers.

This is because the **more affluent consumer groups** typically have significantly higher exposure in this product group and tend to utilise this product to bridge whatever financing shortages they might have experienced over the festive period.

FAS Groups 1 and 2 hold ±74% of the total exposure in the Credit Card market and have typically qualified for new products and utilised existing facilities toward the end of 2021.

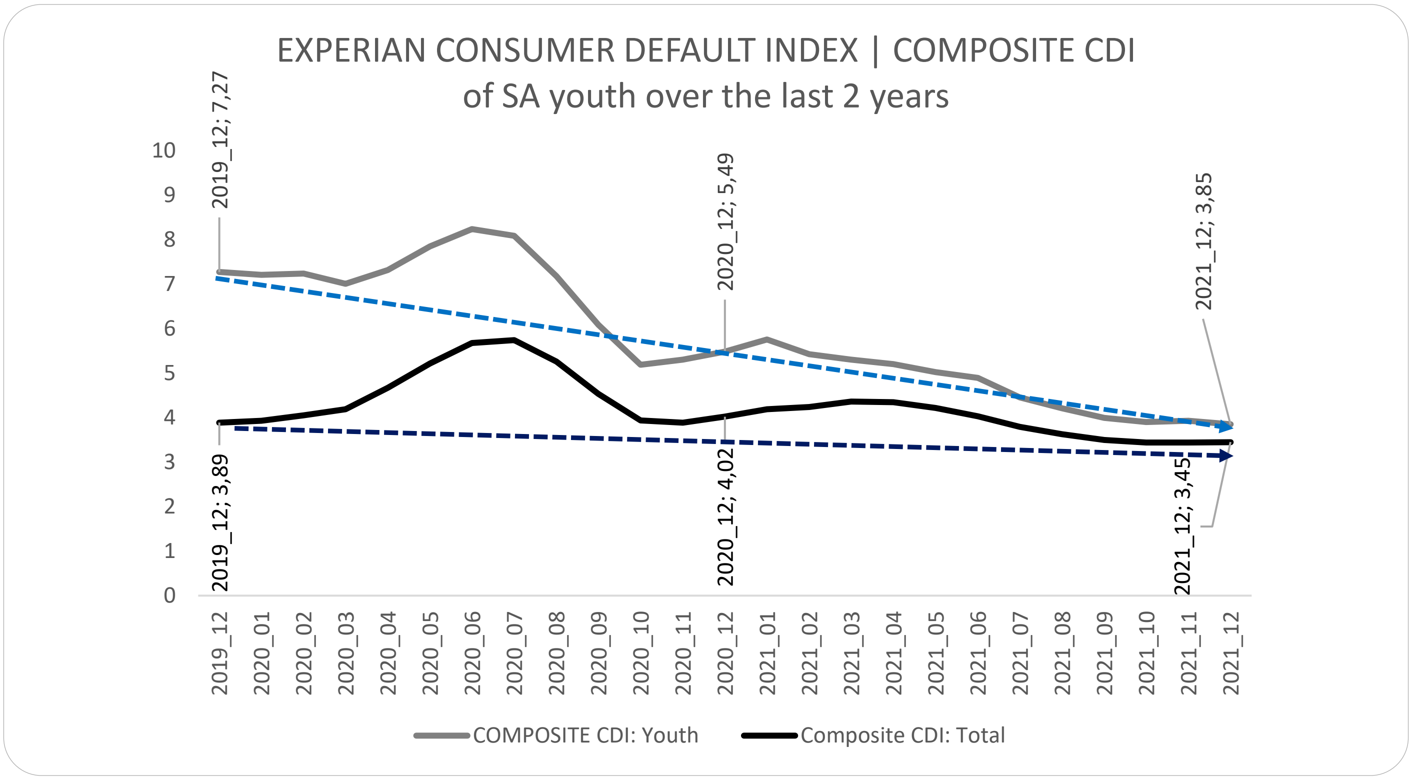


	CC	CDI Dec' 20	CDI Dec' 21	Average Oustanding Oct' 21 - Dec' 21	New Default Balances Oct' 21 - Dec' 21	CDI Relative % Change
	Group 1: Luxury Living	3,43	5,18	R 50,83 Billion	R 2,29 Billion	51%
	Group 2: Aspirational Achievers	5,47	6,17	R 61,43 Billion	R ,66 Billion	13%
	Group 3: Stable Spenders	8,30	8,36	R 15,04 Billion	R ,95 Billion	1%
	Group 4: Money-Concious Majority	5,83	5,80	R 21,39 Billion	R ,31 Billion	0%
	Group 5: Laboured Living	8,42	7,82	R 2,03 Billion	R ,31 Billion	-7%
	Group 6: Yearning Youth	10,01	10,03	R ,85 Billion	R ,04 Billion	0%

CDI and Youth

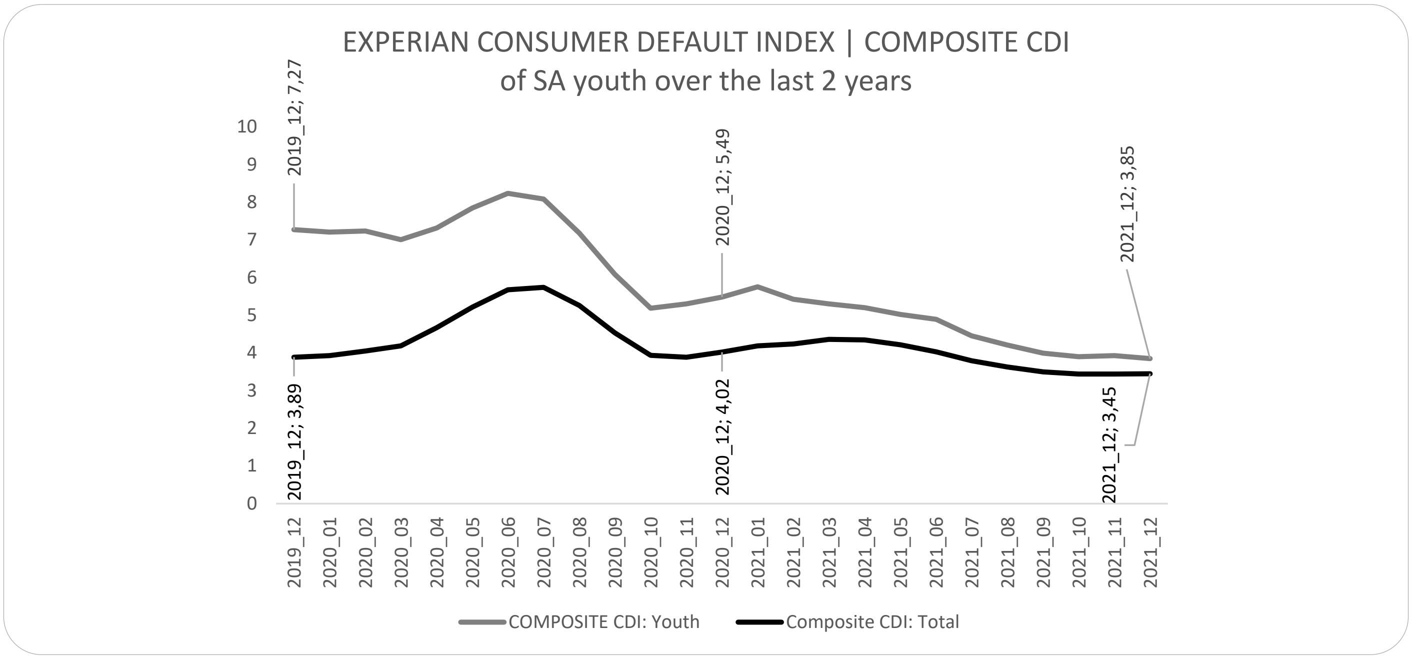
Youth CDI

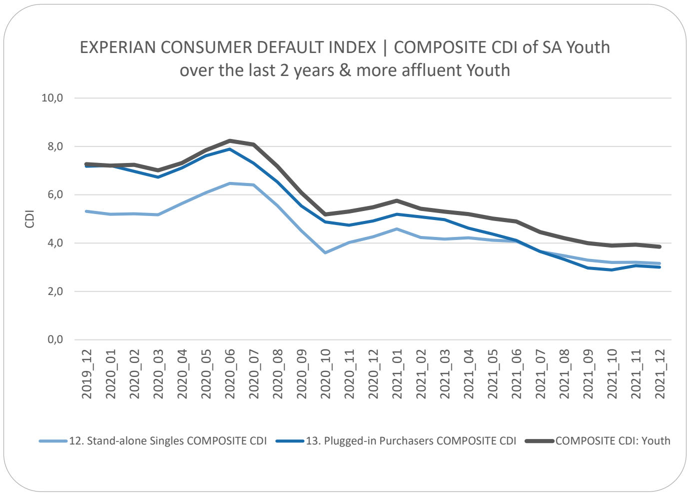
Youth (FAS Types 12, 13, 29 and 30) show a much more significant improvement and even a long-term downward trend compared to the total market

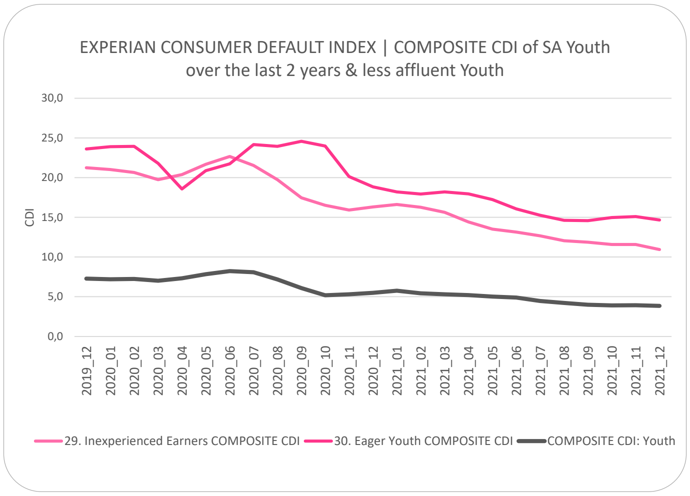


Youth CDI – by FAS Type

CDI associated with Youth groups split into high (FAS Types 12 & 13) and low (FAS Types 29 & 30) affluence types. Note how low affluence Youth exhibited significant improvement in CDI. This is due to their increased exclusion from credit, usually non-qualification due to strict lending criteria. More affluent young consumers also improved significantly in their CDI, as improved affordability came into play for these consumer types.



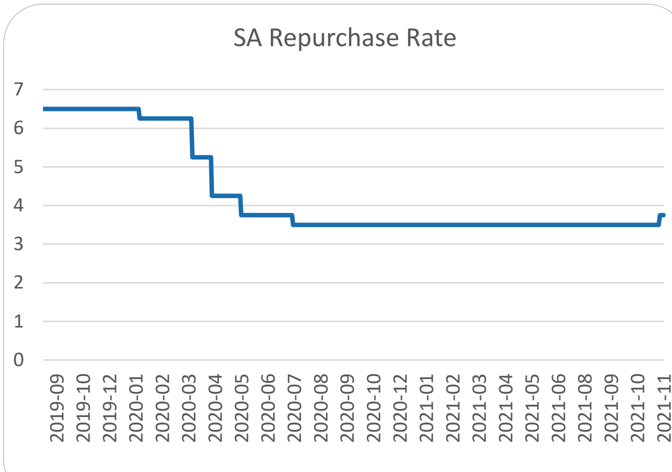




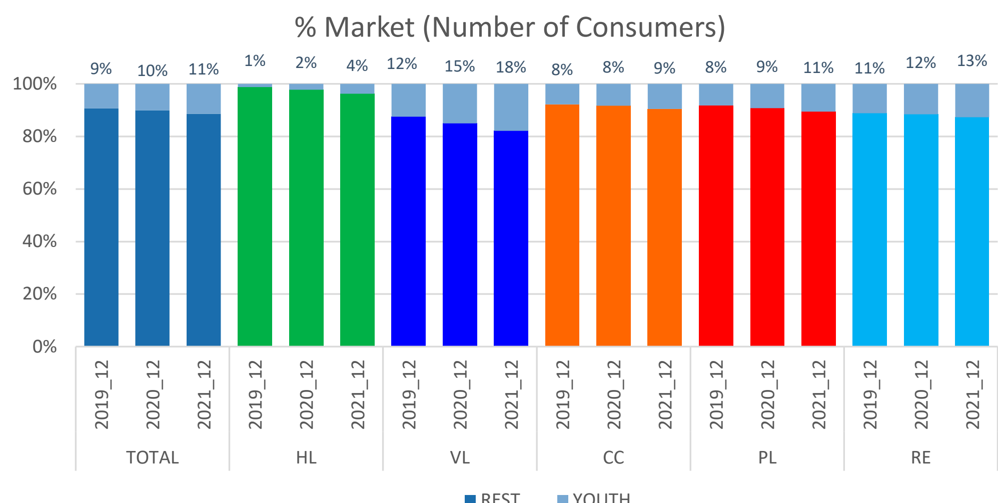
The affordability situation may change

Employed young consumers showed an **increase in exposure** – specifically in the **secured lending** space. This is probably off the back of favourable interest rates, with the SARB lowering interest rates during COVID to stimulate the South African economy.

The recent start of the **upcycle for REPO rates** as well as the re-opening of **Travel and Entertainment** industries will be a test for these inexperienced credit consumers, who are still learning to manage their finances responsibly.



Source: SARB

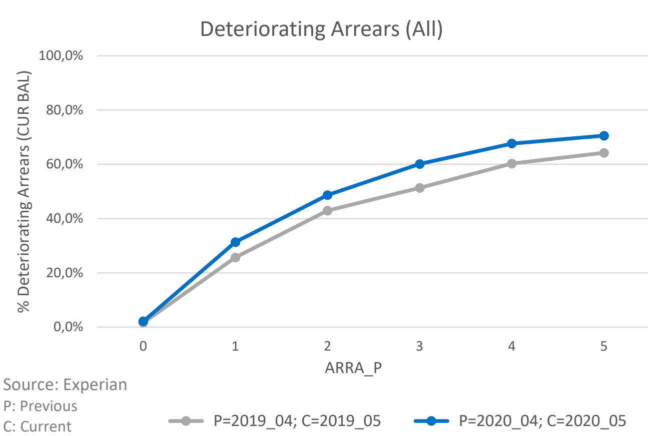


Source: Experian

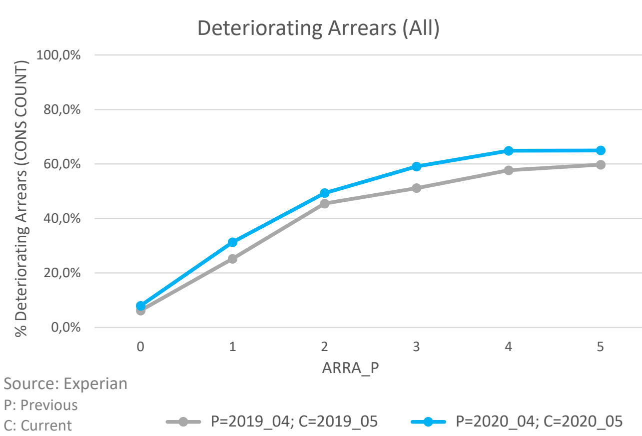
Collections

Roll Rates: April-May 2021

Deterioration in arrears rates during hard lockdown (2020_Q2) showed a significant increase from what was seen in 2019_Q2.



Source: Experian
P: Previous
C: Current



Source: Experian
P: Previous
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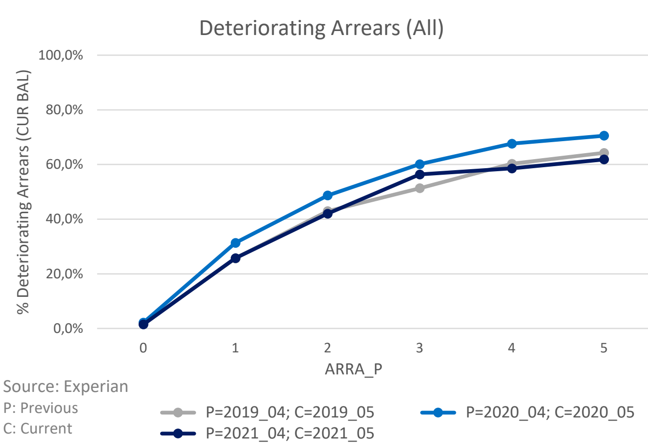
Deterioration in arrears rates during 2021_Q2 returned to levels that were seen in 2019_Q2.



Source: Experian
P: Previous
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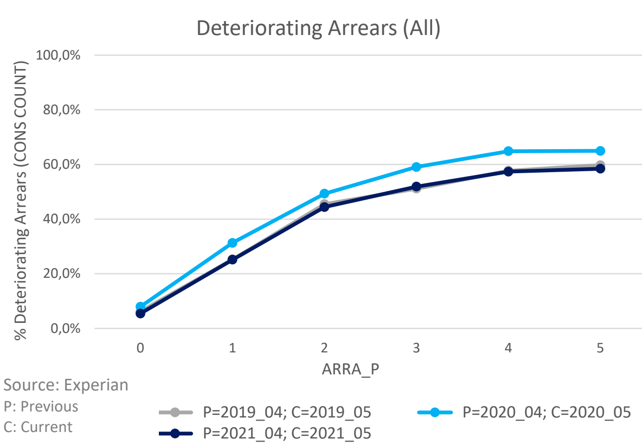
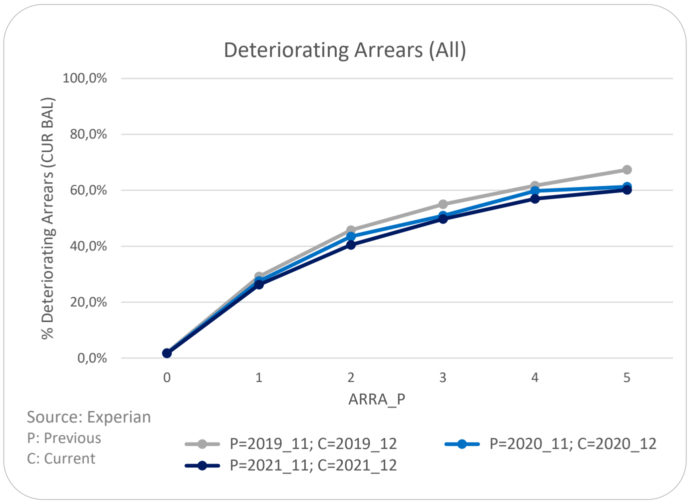
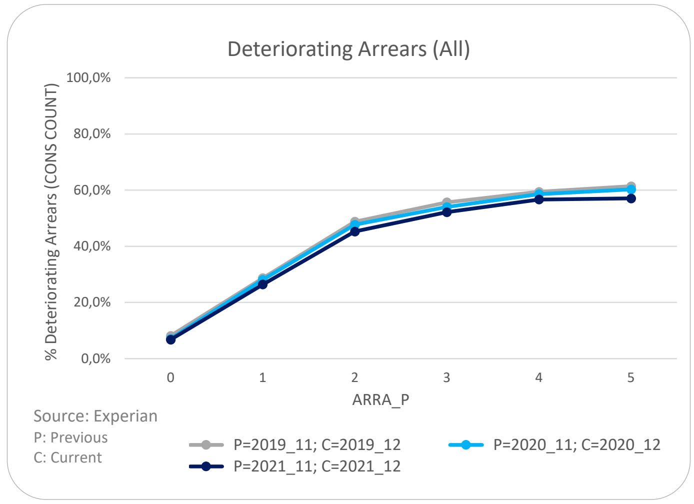


Source: Experian
P: Previous
C: Current

Roll Rates: November-December 2021

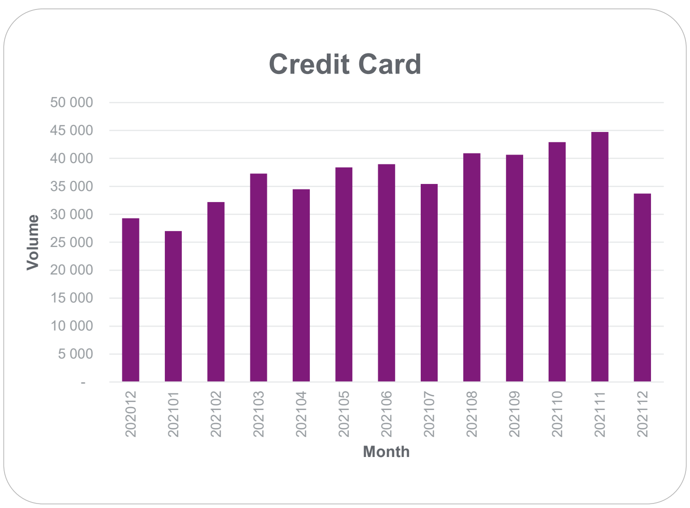
Disregarding hard lockdown conditions, we see continued improvement in roll rate deteriorations since 2019.





New Business Volumes

Unsecured Banking Products



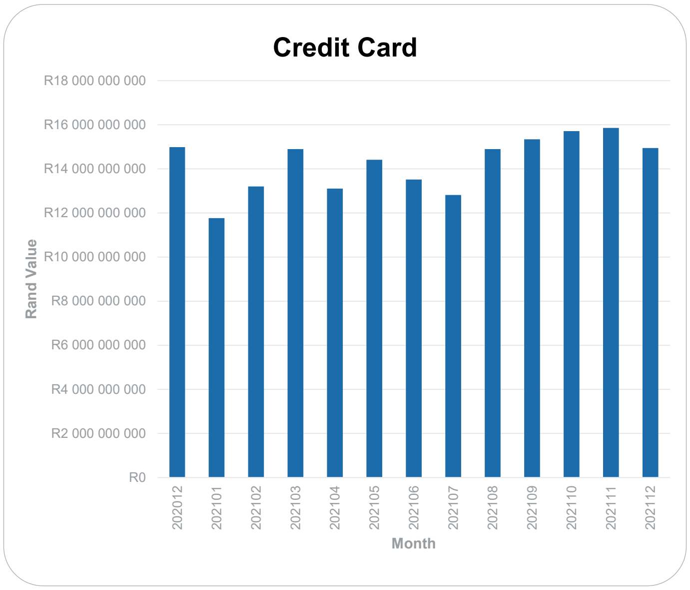
	Rate of change in Volume	
	Personal Loans	Credit Card
Dec 20	353,793	29,300
Dec 21	374,857	33,715
	5.95%	15.07%

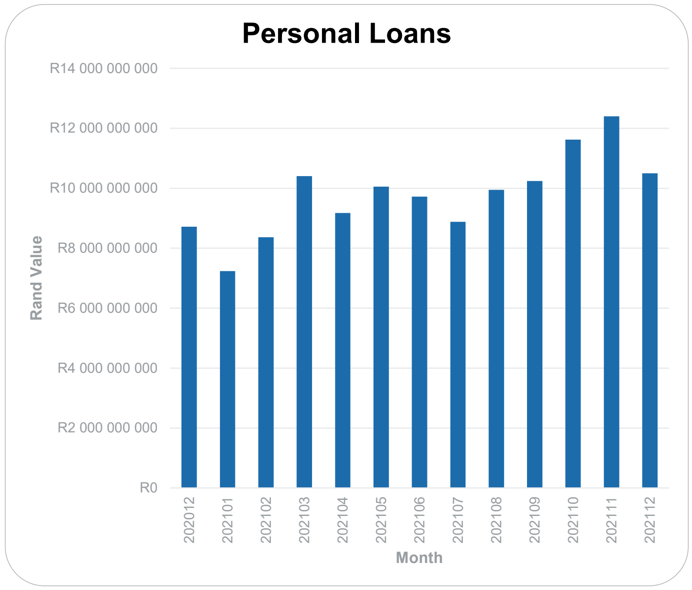
	Average Weighted New Business	
	Personal Loans	Credit Card
Dec 20	R 24645.66	R 29781.62
Dec 21	R 28009.06	R 26327.38
	13.65%	-11.60%

Credit Card had an increase in volume, but lower limits were extended to consumers. Personal Loans had more new business with a higher loan amount.

New Business Rand Value

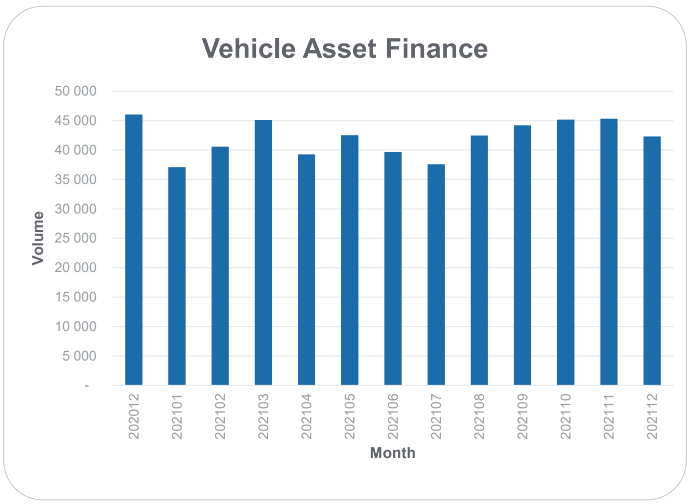
Unsecured Banking Products

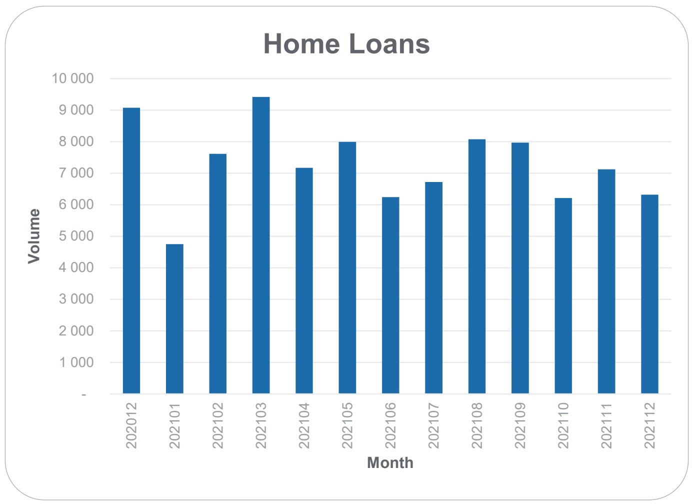




New Business Volumes

Secured Banking Products



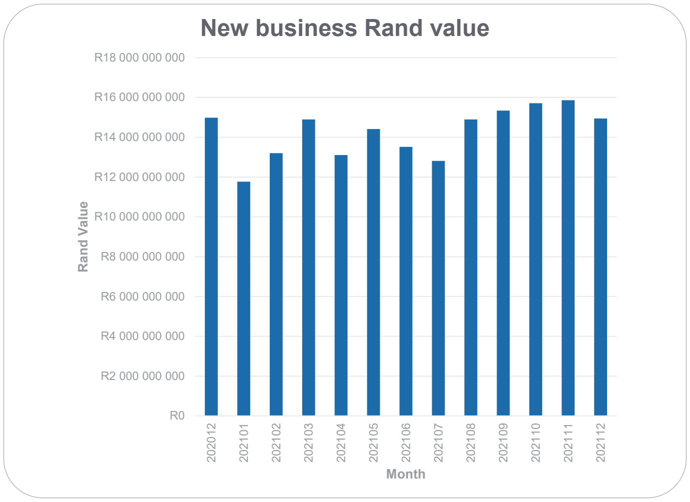


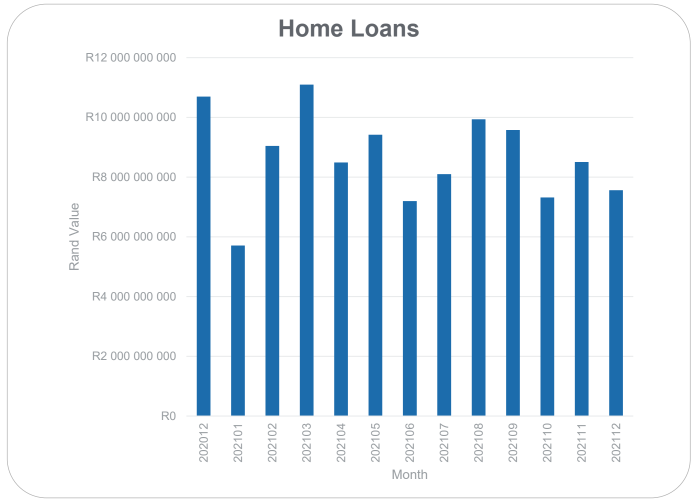
	Rate of change in Volume	
	Vehicle Asset Finance	**Home Loans**
Dec 20	46 060	9 075
Dec 21	42 306	6 316
	-8.15 %	-30.40%

	Average Weighted New Business	
	Vehicle Asset Finance	**Credit Card**
Dec 20	R 325 282	R 1 178 727
Dec 21	R 353 150	R 1 197 725
	8.57%	1.61%

New Business Rand Value

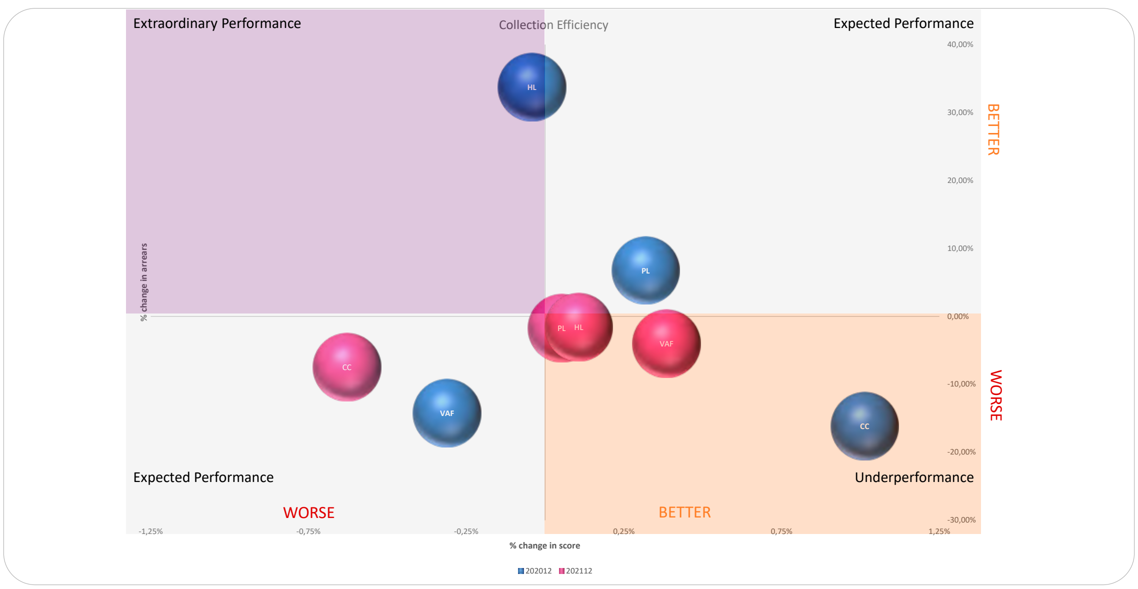
Secured Banking Products





Collection Comparison – Collection Efficiency

The graph below depicts how efficient each product collection is based on score and arrear changes; results compared between December 2020 and December 2021.



Unsecured Products

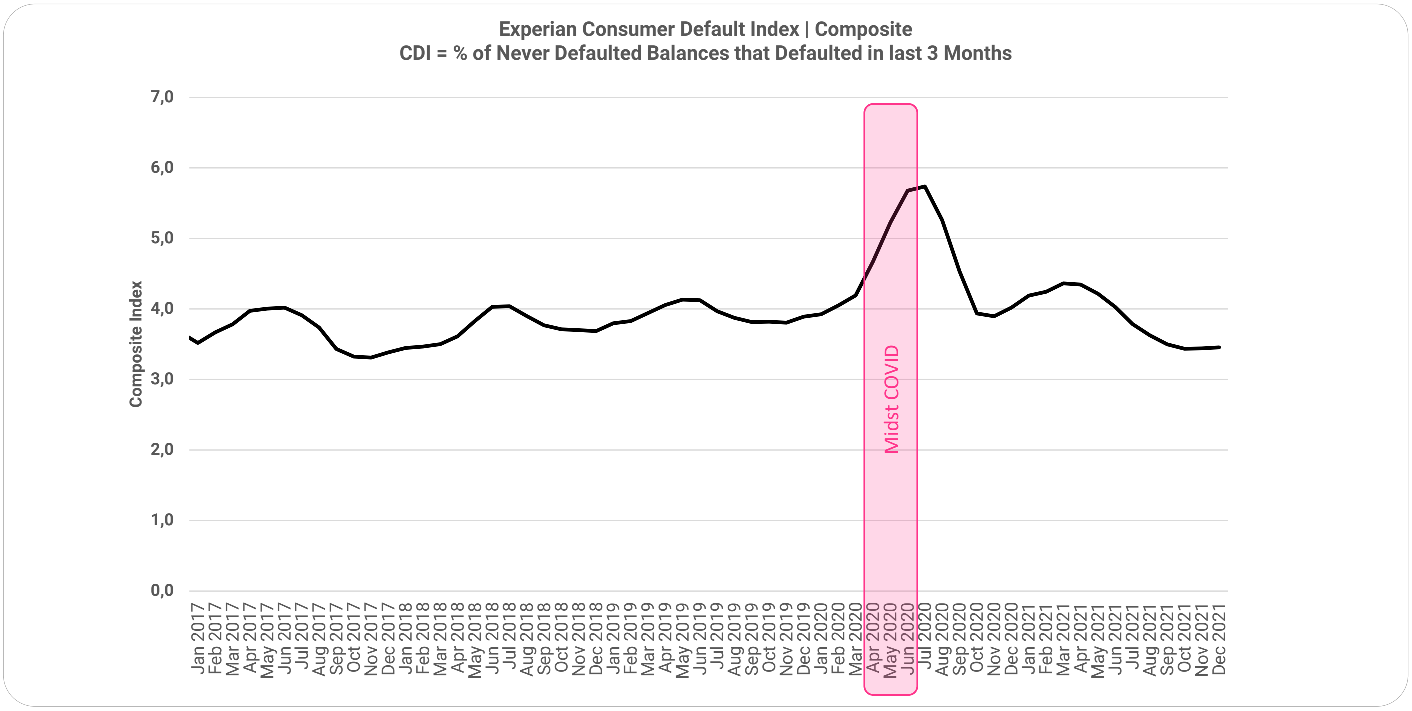
VAF showed an improvement in arrears and score, but the arrears are still underperforming relative to the improvement in the score.

Credit Cards showed an improvement in arrears and a decrease in score. This is seen as positive and therefore classified as "Expected performance".

Personal Loans showed a deteriorating score and a higher percentage of arrears. This is classified as "Underperformance" and therefore strongly suggests that there should be a focus on collections within this industry.

Beyond COVID

We expect the CDI to become less volatile and show flattening in the short-term but to return to a long-term increasing trend.



Source: *Experian*

Conclusion

The 2021 Q4 CDI results indicate a **Y-o-Y improvement in first-time default rate** at a composite level. However, the Q-o-Q movement was relatively flat. Expectations are that, as the economy stabilises in the coming months and, assuming lockdown regulations continue to be relaxed, we see a less volatile CDI in the short-term and a resurface of the long-term deterioration of the index in the long-term.

From the analyses done on collections, we saw that, although mid-COVID conditions caused a temporary increase in **deteriorating arrears** status, this was a short-term situation, with the overall long-term move indicating that collections were more successful as we moved passed the initial hard lockdown shock.

On a product level, the collection efficiency per product shows that arrears have improved but some products like Personal Loans showed no improvement.

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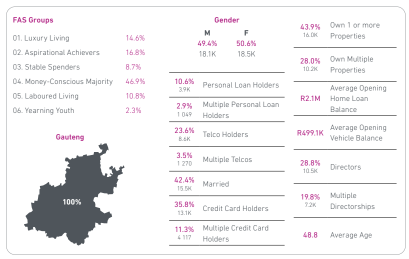

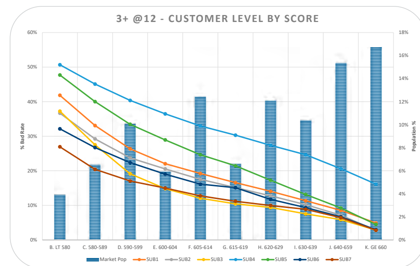

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