22 September 2021

Experian Africa

Insights into the Redefined Credit Economy – September 2021

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

Contents page

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 September 2021 report focus areas include:

CDI: Update on first-time default rates

- Composite CDI
- Home Loans and Retail Loans CDI
- CDI – Women in the South African Credit Economy

Latest state of the Redefined Credit Economy and Early Warning Analyses

Download the latest CDI Report **here**

Consumer Default Index

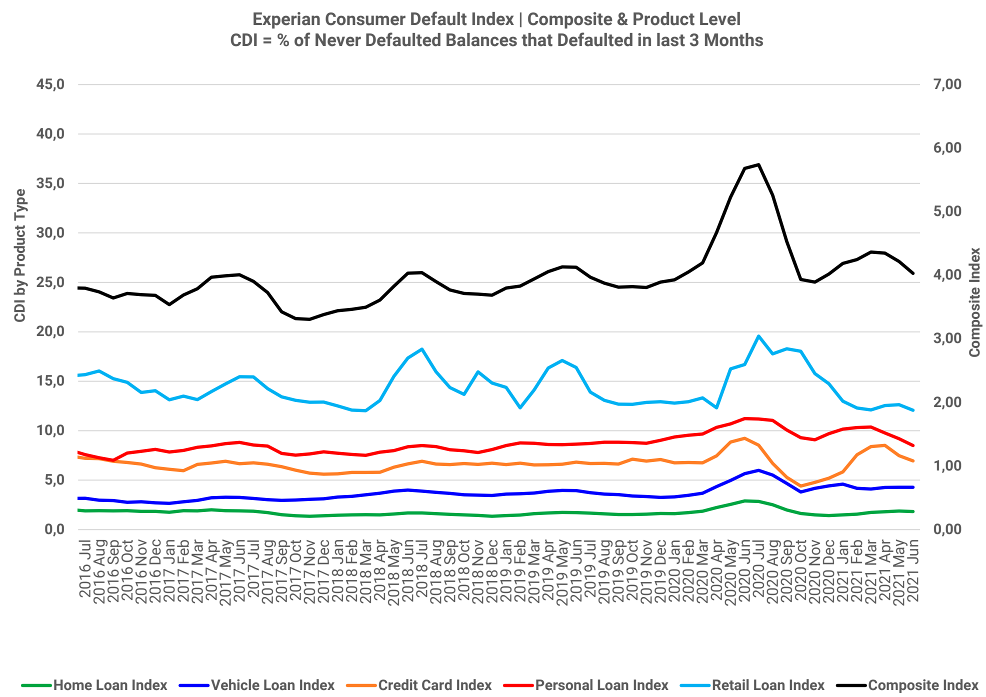
CDI 2021 Q2

South African consumers are showing deterioration in terms of first-time default rates.

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 4.33% in March 2021 to 4.03% in June 2021, the **Composite CDI saw a significant improvement** Q-o-Q. The Composite CDI also saw an even more significant improvement Y-o-Y, from 5.68% in June 2020.

This Y-o-Y improvement is due to the historical high observed in 2020 Q2 following the **strict COVID lockdown measures** that were in place at that time. The lockdown resulted in many consumers not being able to meet their debt obligations – either through loss of income or through the inability to make payments on their accounts through non-digital channels.



CDI by Product

Credit Cards experienced a drastic relapse in CDI following the impressive improvement observed in 2020 Q4.

All products that comprise the CDI showed a significant improvement Y-o-Y.

Most significant, in relative terms, was the improvement observed for **Home Loans**, moving from 2.90 in June 2020 to 1.83 in June 2021. This constituted a relative improvement of 37%. Given the high values associated with Home Loans, this product set contributes the most by far to the Composite CDI.

Retail Loans also exhibited a particularly significant improvement, moving from 16.69 in June 2020 to 12.07 in June 2021 (a relative improvement of 28%). However, the contribution of Retail Loans to the Composite CDI only comes to roughly 2%. This is due to the small value associated with these types of loans.

Index	CDI Jun'21	CDI Jun'20	Average Outstanding Apr'21-Jun'21	New Default Balances Apr'21-Jun'21	Relative	Weight in CDI
Composite	4,03	5,68	1 901 242 380 505	19 151 063 289	**-29%**	**100%**
Home Loan	1,83	2,90	976 280 200 460	4 464 739 966	-37%	51%
Vehicle Loan	4,28	5,66	449 935 804 946	4 815 361 625	-24%	24%
Credit Card	6,94	9,23	144 696 314 944	2 511 976 242	-25%	8%
Personal Loan	8,51	11,22	292 921 682 946	6 229 880 029	-24%	15%
Retail Loan	12,07	16,69	37 408 377 208	1 129 105 427	-28%	2%
Home Loan + Veicle Loan + Credit Card	3,00	4,31	1 570 912 320 351	11 792 077 833	-30%	83%
Retail Loan + Personal Loan	8,91	11,90	330 330 060 154	7 358 985 456	-25%	17%

The 6 groups that make up macro-FAS include:

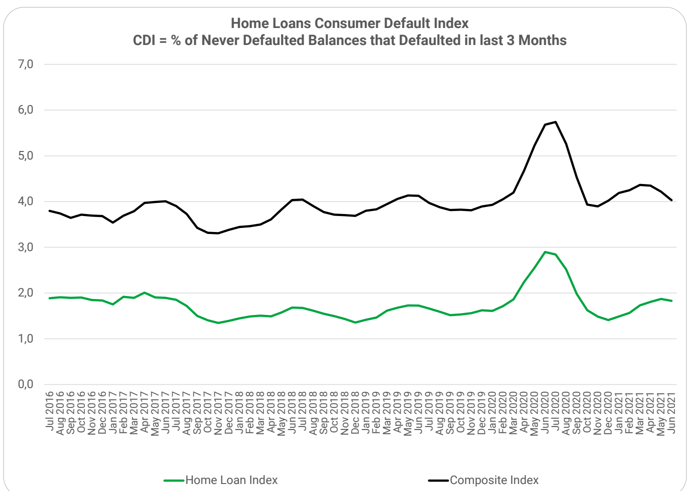
- **FAS Group 1: Luxury Living** (2.5% of the credit-active population) - Affluent individuals representing the upper crust of South African society with the financial freedom to afford expensive homes and cars.
- **FAS Group 2: Aspirational Achievers** (9.3% of the credit-active population) - Young 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 the 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 the credit-active population) - Older citizens that are conscious of where and how they spend their money, often seeking out financial products to cover basic needs or for unforeseen expenses.
- **FAS Group 5: Laboured Living** (24.6% of the credit-active population) - Financially limited individuals 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 the 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.

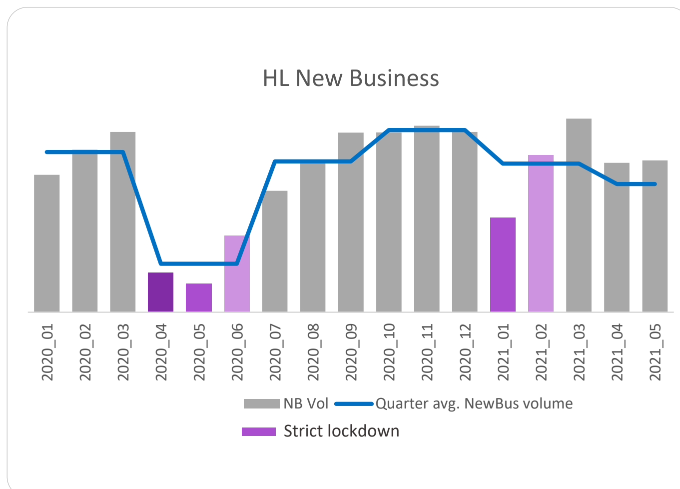
Home Loans

Home Loans CDI showed the most significant improvement of all the measured products (in relative terms) in June 2021. This is partly due to reduced new loan extensions over 2021 Q1 (Level 4 lockdown conditions).

When looking at the Y-o-Y movement in the Home Loans CDI by FAS Group, it is clear that **all consumer groups** experienced a significant improvement in their CDI.

However, FAS Group 1 (Luxury Living) consumers and FAS Group 2 (Aspirational Achievers) saw a **less significant improvement** than the lower affluence groups did, e.g., Group 6 - Yearning Youth and Group 5 - Laboured Living. This is consistent with what we have seen over the past year, where less affluent consumers just did not meet **stricter lending criteria** imposed by many lenders, and thus these less affluent consumer groups exhibit a reduced incidence of first-time default.





HL	CDI Jun'20	CDI Jun'21	Average Outstanding Apr'21-Jun'21	New Default Balances Apr'21-Jun'21	CDI Relative % Change
Group 1: Luxury Living	2,83	1,92	R 381,05 Billion	R 4,43 Billion	**-32%**
Group 2: Aspirational Achievers	2,75	1,74	R 448,44 Billion	R 1,83 Billion	-37%
Group 3: Stable Spenders	3,22	1,35	R 61,05 Billion	R 1,95 Billion	-58%
Group 4: Money-Conscious Majority	3,68	2,29	R 74,57 Billion	R ,21 Billion	-38%
Group 5: Laboured Living	3,72	2,05	R 3,35 Billion	R ,43 Billion	-45%
Group 6: Yearning Youth	7,78	2,75	R ,6 Billion	R ,02 Billion	-65%

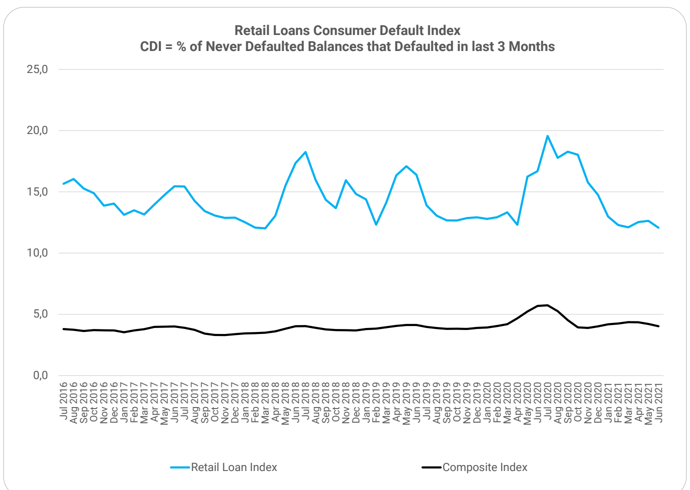
Retail Loans

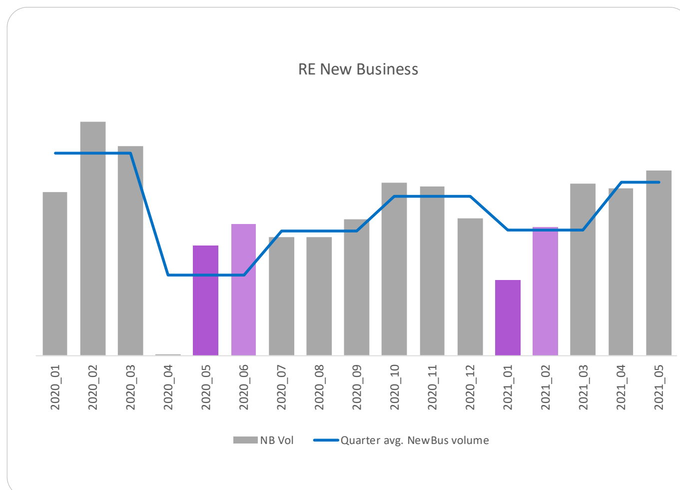
Very significant improvement in June 2021 partly due to reduced new Retail Loan extensions over 2021 Q1 (Level 4 lockdown conditions and strict loan extension criteria).

The significant Y-o-Y improvement in Retail Loans CDI was due to low volumes of new credit extended in 2021 Q1 as well as the very high CDI observed in 2020 Q2, during the period of Level 5 and Level 4 lockdowns.

When looking at Retail Loans CDI by FAS Group, **all consumer groups** showed a significant improvement in CDI.

We do not see the same pattern for Retail Loans as we did in Home Loans, where more affluent consumers exhibited less significant improvement. In the case of Retail Loans, consumer groups are much more **similar in their relative change**. In fact, we have seen the Retail Loan CDI showing a less drastic response to COVID lockdown regulations overall – probably due to many retailers becoming more **conservative in their lending** even before the onset of COVID.





HL	CDI Jun'20	CDI Jun'21	Average Outstanding Apr'21-Jun'21	New Default Balances Apr'21-Jun'21	CDI Relative % Change
Group 1: Luxury Living	10,46	6,92	R 42,82 Billion	R 3,14 Billion	**-34%**
Group 2: Aspirational Achievers	12,30	8,71	R 55,09 Billion	R ,85 Billion	-29%
Group 3: Stable Spenders	17,25	13,33	R 14,61 Billion	R 1,27 Billion	-23%
Group 4: Money-Conscious Majority	14,77	10,45	R 20,79 Billion	R ,48 Billion	-29%
Group 5: Laboured Living	24,57	17,74	R 2,29 Billion	R ,44 Billion	-28%
Group 6: Yearning Youth	27,91	21,78	R ,9 Billion	R ,07 Billion	-22%

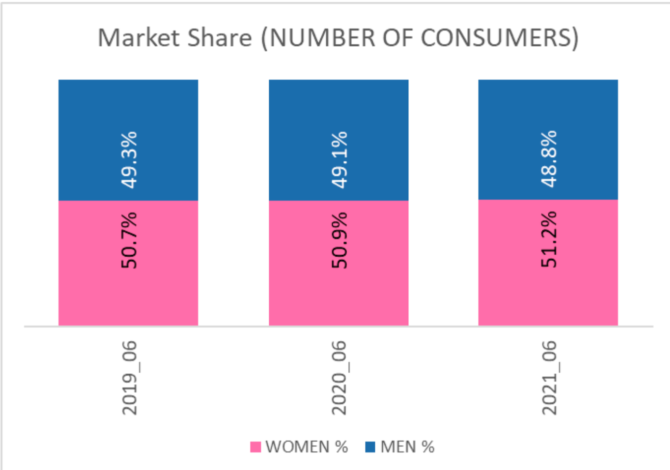
Market exposure of South African Women

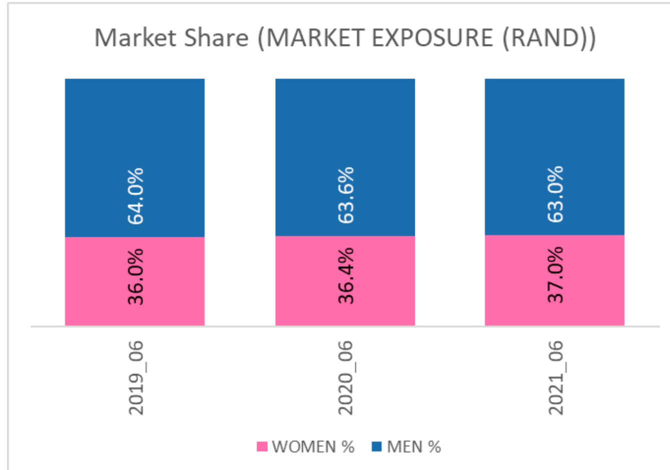
Data reflects June 2021 totals

TOTAL South African Market	South African Women
23.3m consumers with Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan accounts.	**11.9m** female consumers with Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan accounts.
28.6m active accounts across Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan.	**14.9m** active Female accounts across Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan.
R1.90 Trillion in outstanding debt.	**R0.7** Trillion in outstanding debt held by women.

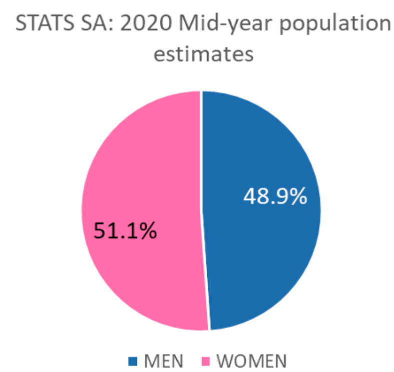
NOTE: For this analysis, shared Home Loan accounts were assigned only to the oldest account holder, to prevent duplication on number of accounts.

Banking and Retail Credit (June 2019, 2020, 2021)

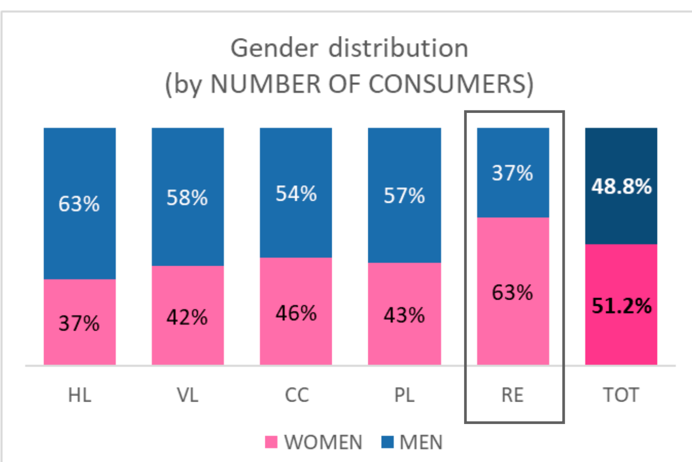


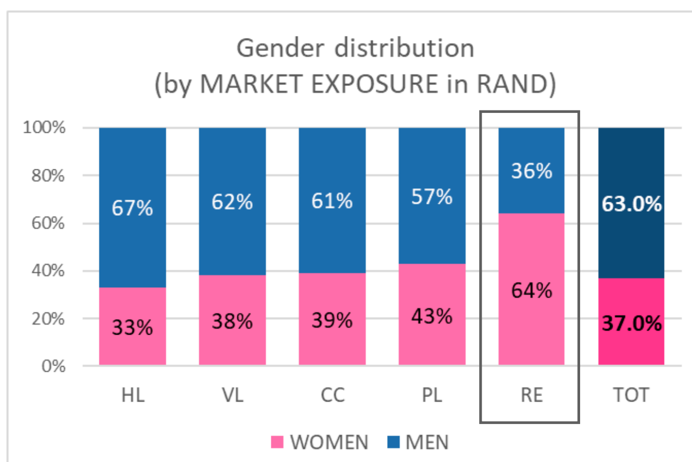


Women constitute just over **half of the South African adult population**, and this is reflected in women's market share in terms of the number of consumers represented on the bureau. However, women represent just over **a third of the market when looking at the Rand value of their exposure**. This is because, at an individual level, women typically take on less debt than their male counterparts do.



Banking and Retail Credit (June 2021)

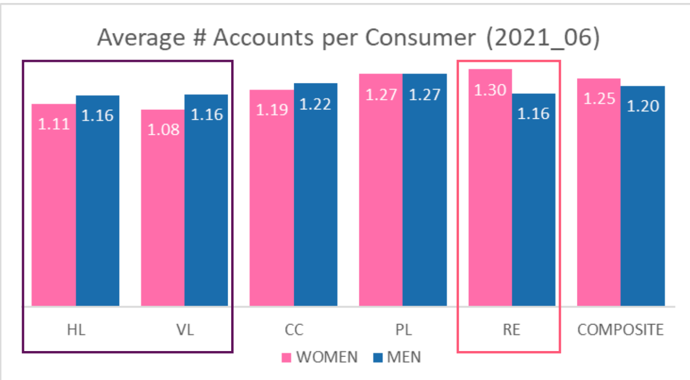


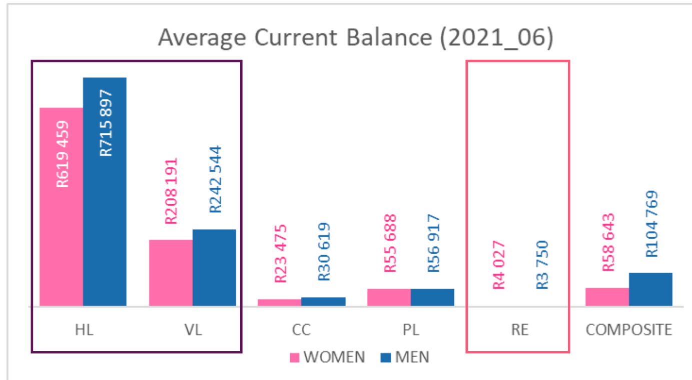


Women are particularly under-represented when it comes to **secured lending products** – both in terms of consumer numbers and market exposure. Interestingly, women account for almost two-thirds of the **Retail Loans** market in both volume and Rand value.

Number of Accounts and Current Balance

Banking and Retail Credit (June 2021)





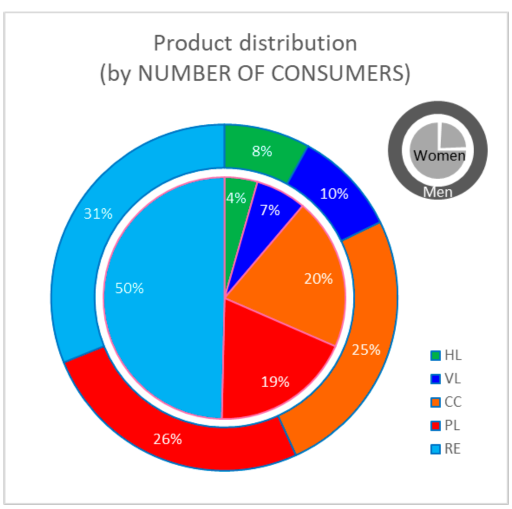
On average, a South African credit-active woman will have **slightly fewer banking loan accounts** than her male counterpart will – particularly when it comes to Vehicle Loans. However, when it comes to **Retail Loans**, credit-active women on average have more accounts per person than men do.

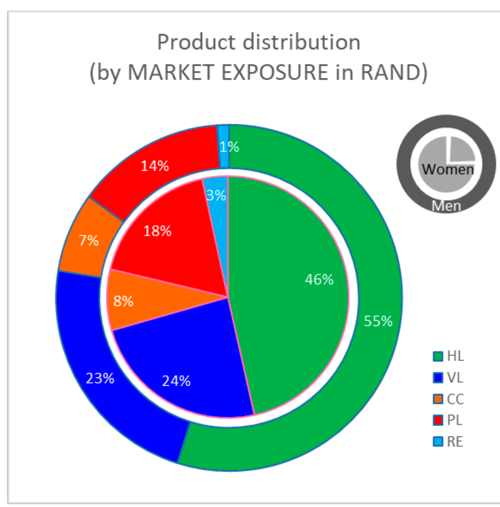
The same pattern emerges when looking at the typical balance of these accounts, where women on average have smaller outstanding balances than men do, except for Retail Loans. At a composite level, a credit-active South African woman has almost half the total outstanding debt of what a South African male does.

Product Distribution

Banking and Retail Credit (June 2021)

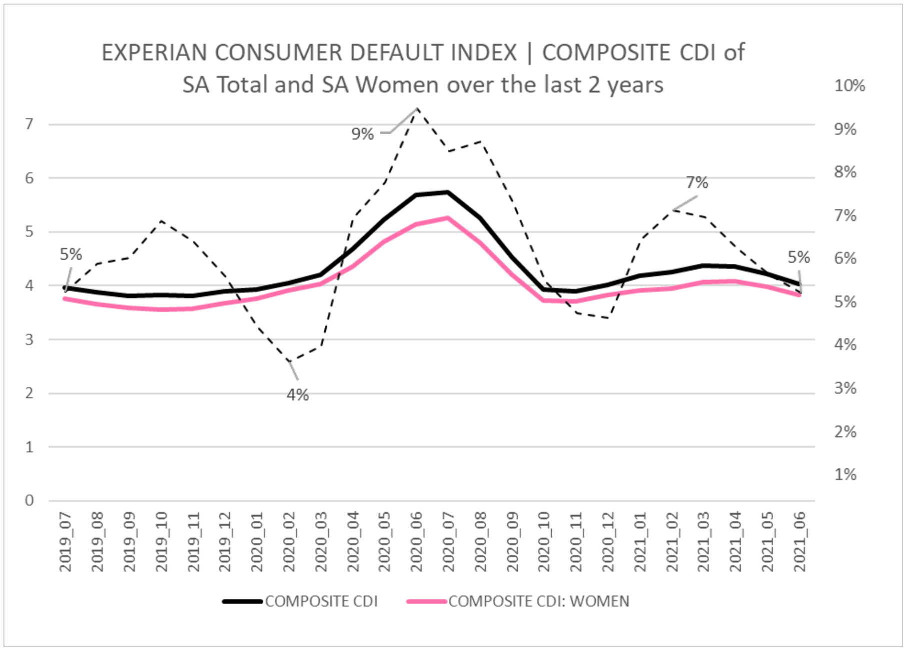
When comparing the distribution of product holding between men and women, we again see that women make substantially **more use of Retail Loan** products than their male counterparts, with roughly half of the female consumers on the bureau having Retail Loans (vs 31% of males). The value of these loans is only a fraction of banking loans – particularly secured lending like Home Loans and Vehicle Loans. As a result, Retail Loans only constitute 3% of the total exposure of women in the South African market (vs the 1% of men). Conversely, 46% of women's exposure is in Home Loans, whilst 55% of men's exposure is in Home Loans.



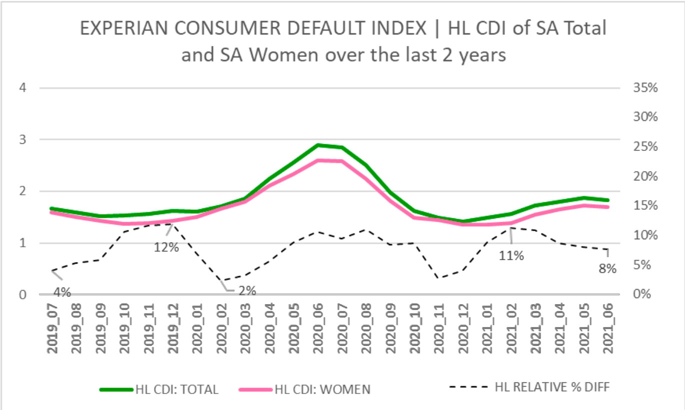


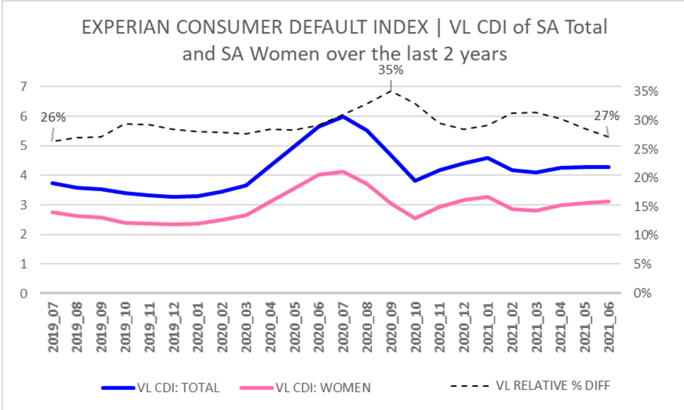
Consumer Default Index: Women

South African **Women exhibit a lower CDI** than the total South African credit market does. This may be because women have less exposure in the credit market (and thus have more manageable monthly debt commitments to keep), but it also might point towards women putting a higher priority on meeting their debt obligations.



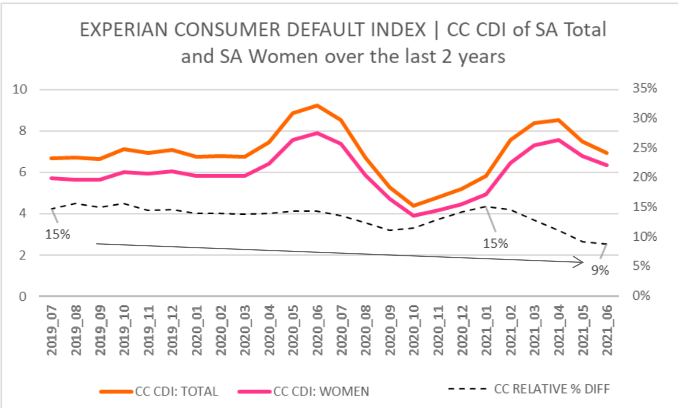
Secured Bank Loans

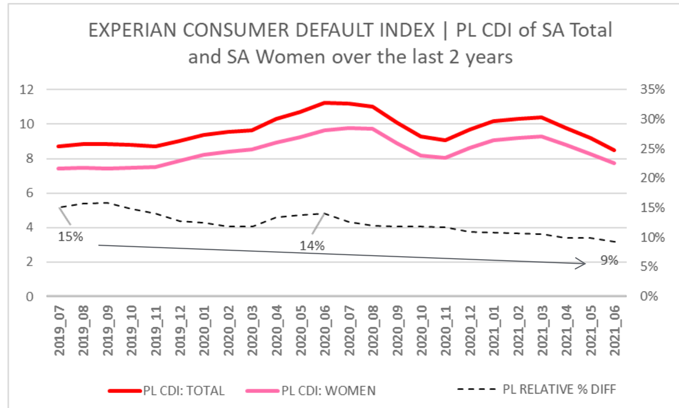




Women have a lower CDI for secured loan products when compared to the total South African market. The difference is particularly evident when it comes to Vehicle Loans, where the relative % difference typically ranges between 26% and 35%.

Unsecured Bank Loans

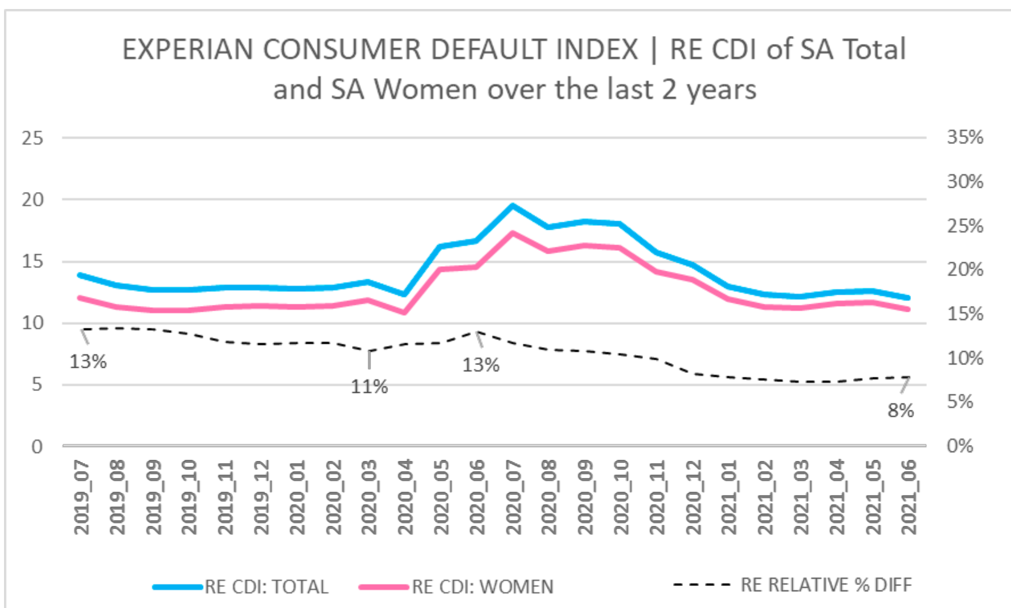




For unsecured bank loan products, women also typically have a lower CDI when compared to the total South African market. Interestingly, the relative difference has been reducing over the long run - both for Credit Cards and Personal Loans. This suggests that women exhibit increasingly similar default behaviour to men in unsecured banking loans.

Retail Loans

Retail Loans exhibit similar trends to what we see for unsecured bank loans when looking at how women fare in the CDI context. Again, we see that women exhibit a lower CDI and also that the relative difference has been reducing over the long run for Retail Loans.

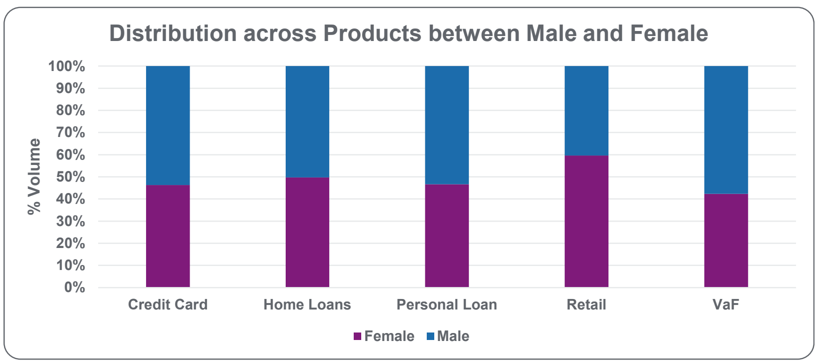


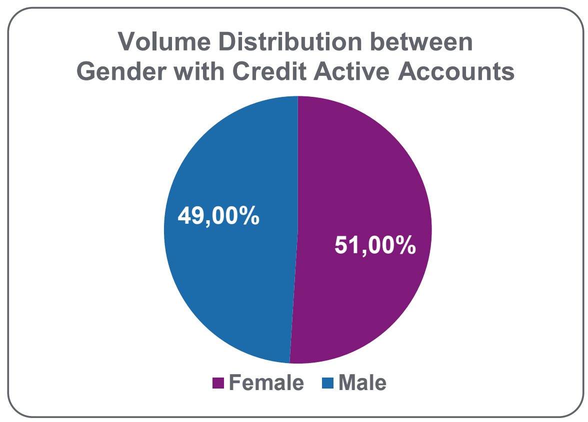
Insights into the Credit Economy focussing on Gender Split and Industry

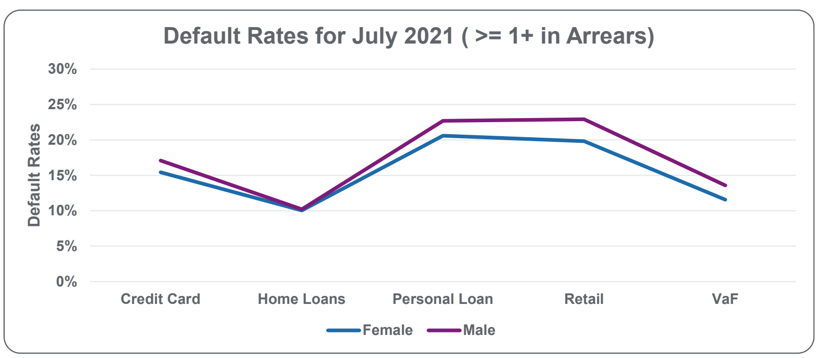
Gender Split on Credit-Active Consumers

NOTE: For this analysis, shared Home Loan accounts were assigned both account holders.

A Gender split on Credit-Active Consumers as well as a product split.
The volume distribution between gender of credit-active consumers is in line with the population split in South Africa between Males and Females. It is predictable to lean towards Females having more credit than Males. The graph below shows the distribution between Males and Females across products. Most females have Retail accounts, whereas Males have slightly more Credit Cards and Personal Loans. Home Loans is a 50/50 split as most bonds are joint loans. It also shows that using a Default Rate definition of 1+, Males do have a higher Default Rate than Females. The Home Loans Default Rate is similar as most loans are joint loans.







Early Warning System: Risk Triggers

We have created EWS Indicators as a unique tool to segment consumers into four categories to identify consumers that indicate an early risk of defaulting.

The EWS triggers were designed to measure the repayment behaviour of South African consumers with active credit products such as Home Loans, Personal Loans, Credit Cards, Vehicle Asset Finance, Telecoms (post-paid contracts) and Retail Loan Accounts.

These trigger categories depict early indications of various degrees of risk by calculating repayments in the last six months across accounts and incorporates the current month's repayment to indicate whether consumers are Good, Improving, Distressed or Bad payers.

	Missed Current Month	Paid Current Month
Missed in last 6 Months	BAD	IMPROVING
Paid last 6 Months	DISTRESSED	GOOD

The triggers look at consumers' payment behaviour on individual accounts as well as at the consumer level (aggregating the triggers by using a ranking tool across accounts). Thus, these risk definitions can be assigned at an account level as well as at a consumer level (using an instalment-weighted approach).

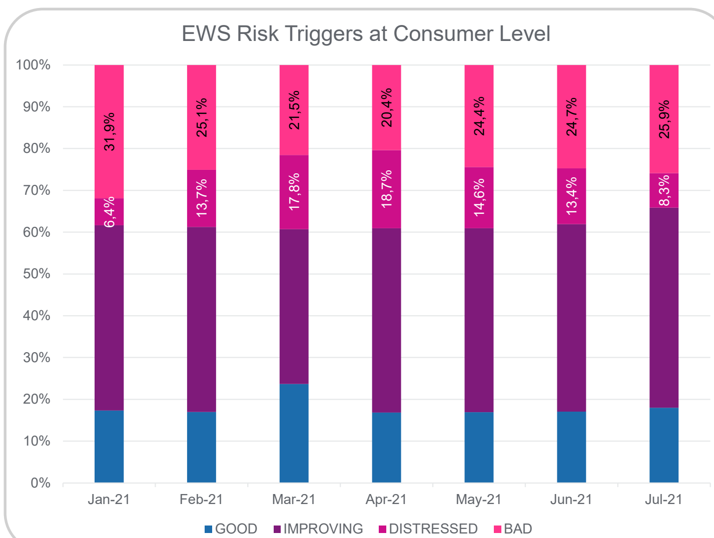
Credit-Active Base at Consumer Level

The EWS triggers are plotted across the last 6 months on a consumer level.

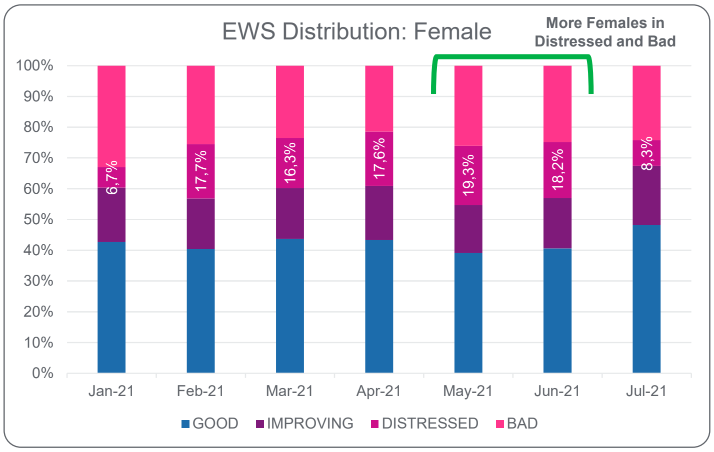
A ranking tool was applied to consumers' accounts to aggregate the EWS triggers to a consumer level. This means that each consumer will have an EWS trigger based on the performance of their accounts.

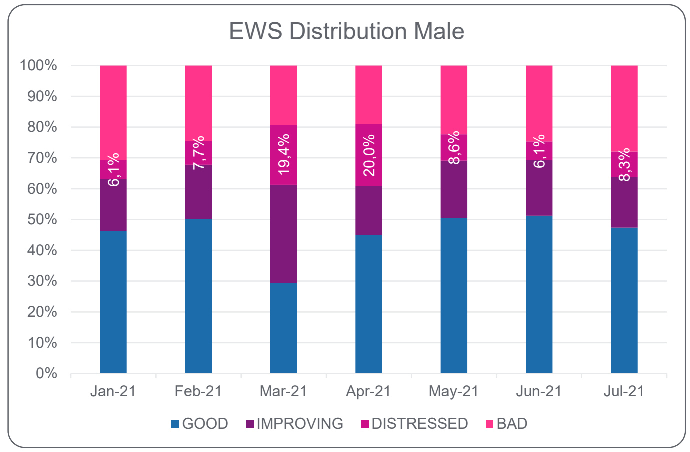
The aggregated trigger gives a holistic view of the consumer's repayment behaviour and shows that there was an improvement in repayment behaviour in July.

Note that in May and June there was an increase in the percentage of consumers moving from Distressed to Bad.



Female and Male at Consumer Level

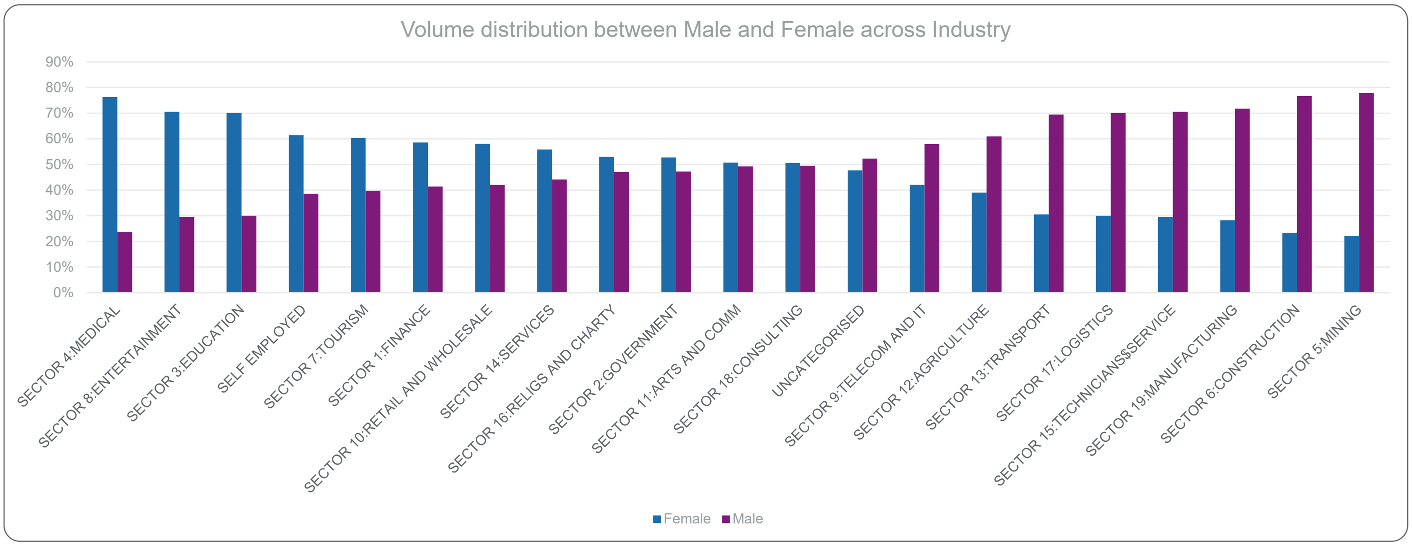




In April, the distressed population for Females increased from 18% to approximately 20% in May and June 2021; however, they recovered in July 2021. Females have been struggling to repay their debt, and this could be due to unemployment due to the current economic circumstances in South Africa. It can also be a function of the industry Females work in. Many Industries have been suffering due to lockdown level changes such as restrictions on interprovincial travel. The looting in early July 2021 also played a role in the volume of defaults as shops were vandalised or closed to prevent looting and protect the safety of employees and had an impact on the employee income or repayment channels.

Employment: Industry and Gender Split on Credit-Active Consumers

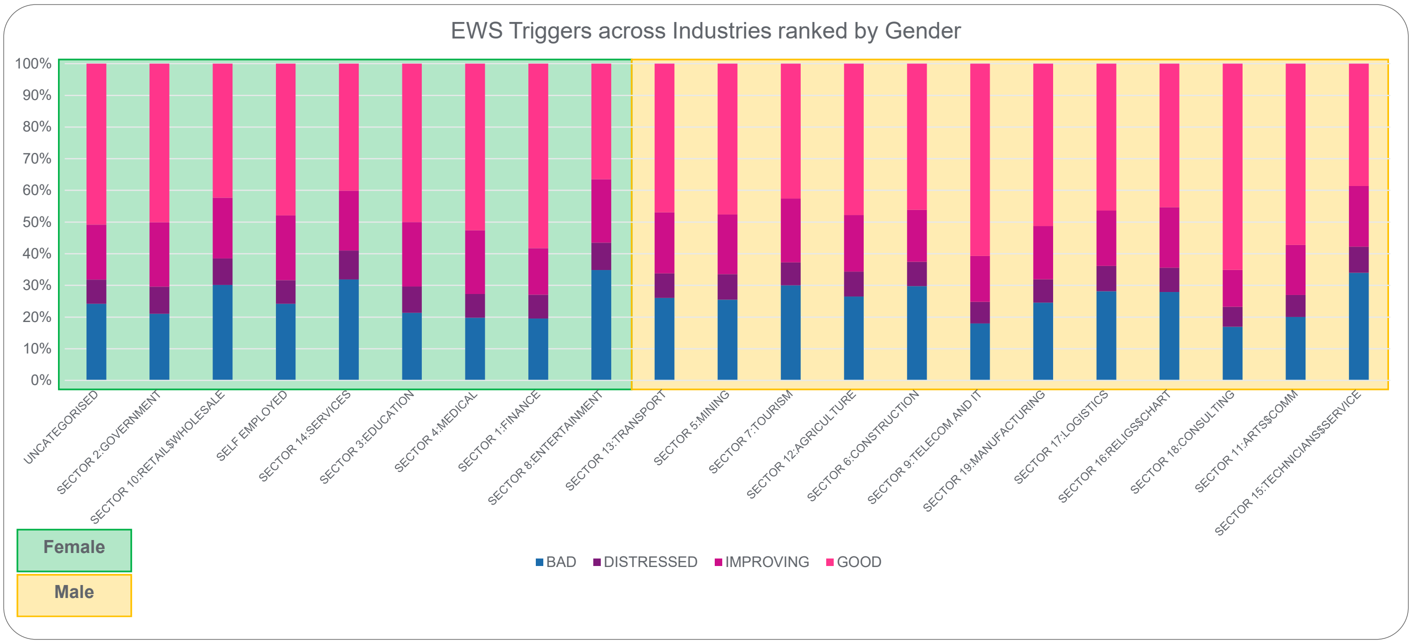
Volume across Industry between Gender. Highlighting the gender that is in the majority of the Industry.

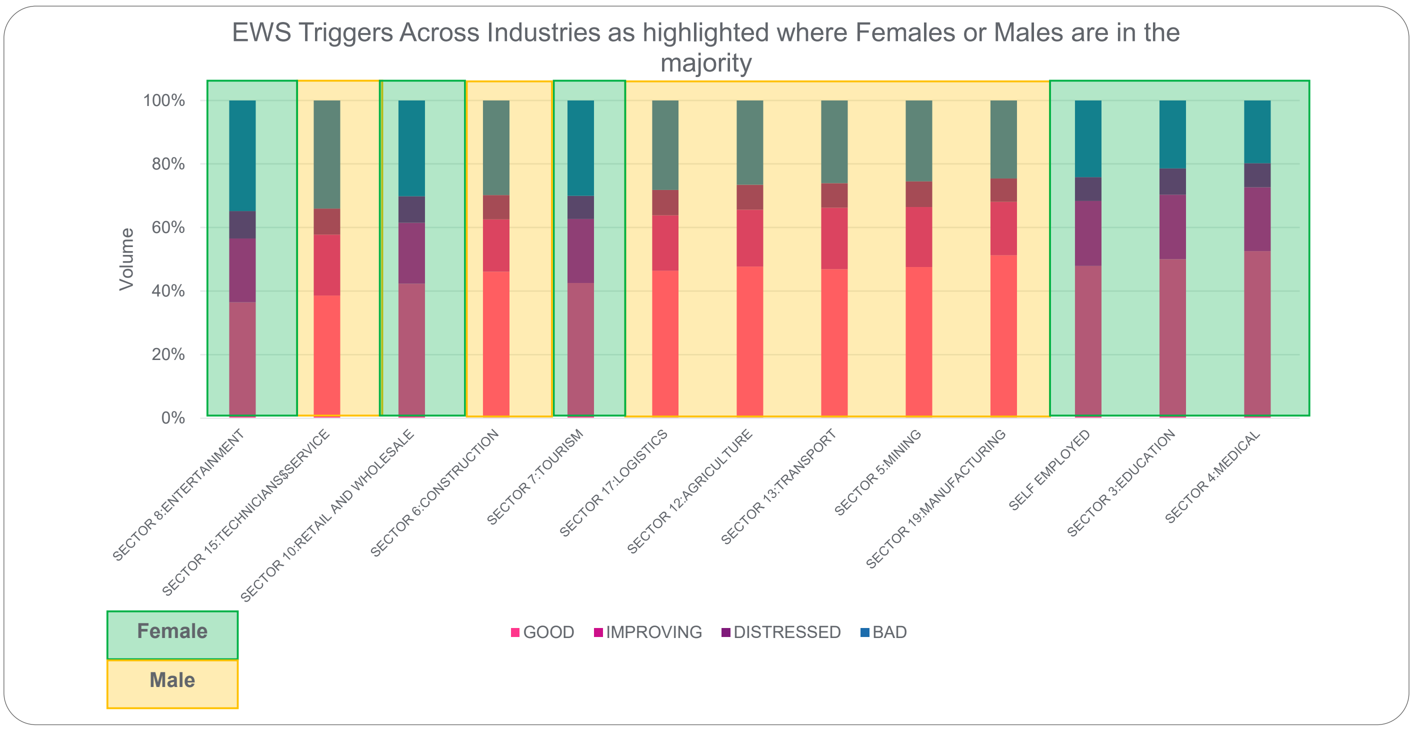


Females are the majority of the employed population (from credit-active consumers) in the following Industries: Education, Medical, Tourism, Entertainment, and Self-employed. Males are the majority in the following industries: Mining, Construction, Agriculture, Transport, Technicians, Logistics and Manufacturing.

Gender Split on Credit-Active Consumers

EWS Triggers help understand which industries are showing early signs of distress.





Even though Females are performing slightly better in July than Males, they are employed within volatile industries. This is particularly true for Tourism and Entertainment.

Males' performances across industries are more stable than the industries where Females are in the majority, with the exception of Technician work and Services. This can be due to the fact that plumbing, garden services and electrical installation were not deemed essential services during the strict lockdown periods.

Conclusion

The **CDI** reveals that, overall, consumers have been able to meet their debt commitments to a greater extent in 2021 Q2 – both compared to the previous quarter and to the same time last year. This is largely due to **conservative lending criteria** being implemented by many of the major credit providers. The **easing of lockdown** criteria in 2021 Q2 (levels 4 and 3 implemented in 2021 Q1 and levels 5 and 4 in 2020 Q2) has also played a role in the improvement of the CDI.

Although the demography of **South Africa's Women** is represented in terms of the consumer footprint on the bureau, women are **under-represented in terms of Rand-value exposure**. Women have exceptionally high exposure in the **Retail** vertical, but the value of these loans are typically small when compared to banking products. Women exhibit significantly **lower CDI** – both at a composite and product level.

Consumer debt repayment analyses reveal that consumers are still in distress. Female consumers are typically employed within industries that have been impacted more severely by lockdown levels and looting. Males, however, pose a higher credit risk than Females do but operate in industries that were in distress since Covid-19, but their repayment behaviour remained stable.

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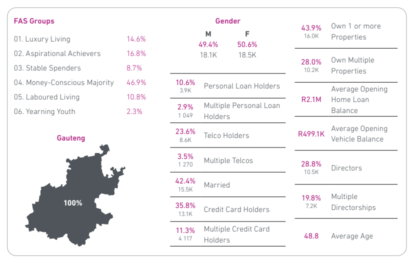

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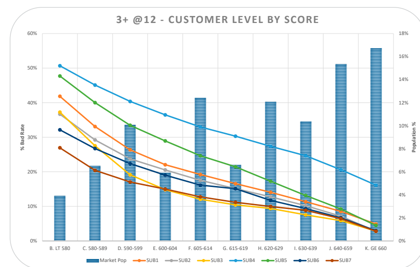

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