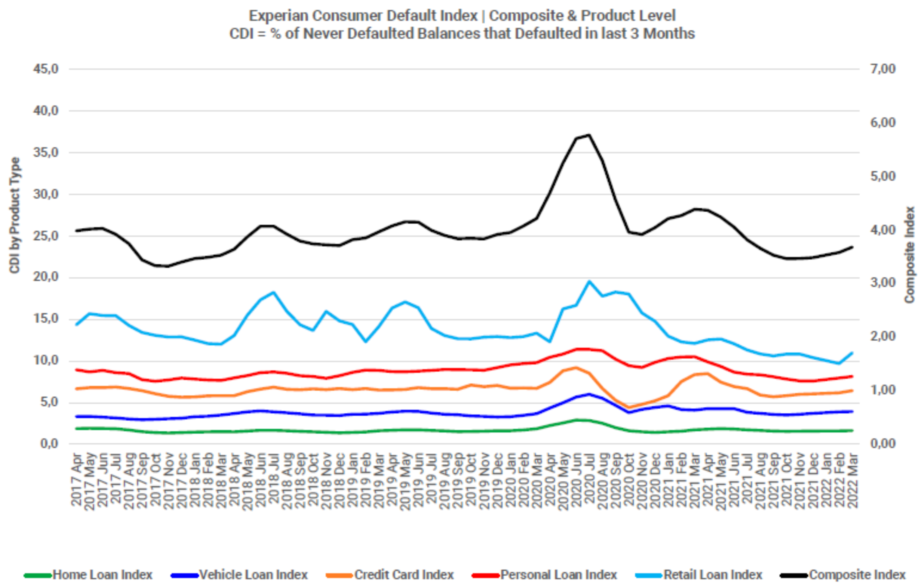
news release

First-time consumer credit defaults increase in Q1

- *R18.11 billion in value defaulted for the first time over the period January 2022 to March 2022*
- *Average outstanding debt remains at R1,97 trillion*
- *Most significant improvement seen in unsecured credit products*



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

The CDI increased quarter-on-quarter, moving from 3.49 in 2021 Q4 to 3.68 in 2022 Q1. Year-on-year, however, an improvement was observed, moving from 4.39 in 2021 Q1 down to 3.68 in 2022 Q1.

Jaco van Jaarsveldt, Head of Commercial Strategy and Innovation at Experian Africa, said: "The year-on-year improvement was observed across all products, with the most significant improvement for unsecured credit products. Relatively speaking, the improvements observed for Credit Card and Personal Loans were the most significant, with both of these products showing a relative improvement in CDI of almost 23%. However, consumers are cautioned against reading too much into the year-on-year improvements which can be attributed to the tail end of reduced credit lending by credit providers and spend by consumers due to the impact of Covid lock downs experienced in 2021.

"What is of concern is the quarter-on-quarter increase observed across all products, predominantly caused by the turmoil in Ukraine. The impact of the rapidly rising fuel, gas and grain costs, which are significant contributors to the global rise in inflation, is starting to have a direct impact on consumers across all products. For the first time in almost 18 months, the Retail CDI saw a deterioration on a quarter-on-quarter basis, moving from 10.41 in Q4 2021 to 10.97 in Q1 2022," says Van Jaarsveldt.

	Index	CDI Mar '22	CDI Mar '21	Average Outstanding Jan'22-Mar'22	New Default Balances Jan'22-Mar'22
	Composite	3,68	4,39	R 1,97 Trillion	R 18,11 Billion
	Home Loan	1,63	1,73	R 1,04 Trillion	R 4,23 Billion
	Vehicle Loan	3,93	4,10	R 444,63 Billion	R 4,37 Billion
	Credit Card	6,44	8,35	R 152,93 Billion	R 2,46 Billion
	Personal Loan	8,13	10,52	R 298,78 Billion	R 6,07 Billion
	Retail Loan	10,97	12,11	R 35,4 Billion	R ,97 Billion
	Home Loan + Veicle Loan + Credit Card	2,71	3,05	R 1,63 Trillion	R 11,06 Billion
	Retail Loan + Personal Loan	8,43	10,70	R 334,18 Billion	R 7,04 Billion

The decline in Q1 2022 indicates that consumers are becoming increasingly exposed to the rising cost of living. Additionally, interest rates are expected to increase more rapidly and frequently than before to manage the inflationary pressures. As a result, consumers across all segments of the market will be exposed to higher cost of living and increased instalments on credit – in many cases.

Financial Affluent Segments (FAS) most affected

	Composite CDI	CDI Mar' 21	CDI Mar' 22	Average Oustanding Jan' 22 - Mar' 22	New Default Balances Jan' 22 - Mar' 22	CDI % Change
	Group 1: Luxury Living	2,70	2,53	R 724,14 Billion	R 4,57 Billion	-6%
	Group 2: Aspirational Achievers	4,09	3,54	R 823,94 Billion	R 7,29 Billion	-13%
	Group 3: Stable Spenders	7,30	5,27	R 187,28 Billion	R 2,47 Billion	-28%
	Group 4: Money-Concious Majority	7,25	5,65	R 185,15 Billion	R 2,62 Billion	-22%
	Group 5: Laboured Living	13,02	11,27	R 27,03 Billion	R ,76 Billion	-13%
	Group 6: Yearning Youth	16,41	13,53	R 9,18 Billion	R ,31 Billion	-18%

Whilst on a year-on-year basis a similar improving trend in CDI is visible across all consumer segments, the quarter-on-quarter trends are vastly different with early signs of distress clearly visible.

The most affluent consumer group, the *Luxury Living* segment, represents the upper crust of South African society which is highly exposed to secured credit and is typically deemed to be the least risky consumer segment. Consumers in *Luxury Living* have a large exposure to secure lending products 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.

Although this group showed improvement from 2.70 to 2.53 on a year-on-year basis, the relative improvement only came to 6%. On a quarter-on-quarter basis however, the CDI shows a reverse trend with a 12.4% deterioration from 2.25 to 2.53, due to the impact of rising cost of living and interest rate increases starting to impact consumers in this segment.

Similarly, on the opposite side of the consumer segmentation scale, the relative year-on-year improvement in CDI is more pronounced for less affluent groups like Group 3 – Stable Spenders and Group 4 – Money-Conscious Majority at 28% and 22% respectively.

The *Stable Spenders*, which make up about 7% of the South African population, saw the greatest relative CDI improvement from 7.30 in 2021 in Q4 to 5.27 in 2022 Q1 (28% relative CDI change). This group is made up of consumers who are mostly young and middle-aged adults, who live from month-to-month and require credit to make ends meet. Their exposure to secured credit is very limited, with only about 10% owning a home. Exposure to unsecured credit – particularly pay-day loans and retail loans, is more substantial and is used by these consumers to afford certain necessities. Again, when looking at the quarter-on-quarter trends for this segment, the opposite can be seen as the higher cost of living has a more pronounced impact on this segment. The quarter-on-quarter CDI shows a deterioration from 5.23 in 2021 in Q4 to 5.27 in Q1, with this trend expected to continue into the coming months.

"It is unfortunate that we are not able to reap the rewards of the improved consumer debt performance observed over the past two years on the back of a more stringent lending and spending environment predominantly caused by Covid. Just as the South African consumer came out the Covid lockdown phase with new capacity to spend on the back of better credit standing and more liberal lending practices reintroduced by credit providers, the turmoil in Ukraine and consequential global inflationary effect thereof again applies pressures on consumers across all financial affluence segments. We expect the CDI trend to continue deteriorating as interest rate increases take effect and advise consumers to manage their budgets carefully through these challenging time," concludes van Jaarsveldt.

834 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
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- 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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