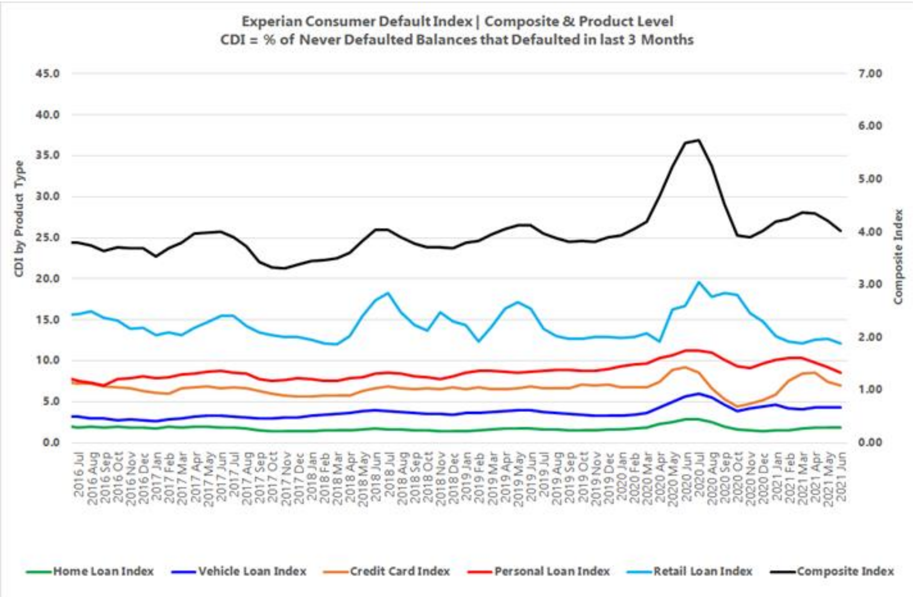
news release

First-time consumer credit defaults improve in Q2

- *R19.15bn in value defaulted for the first time over the period Apr 2021 to Jun 2021*
- *South African women exhibit a lower CDI than the total SA credit market*
- *Most significant improvement seen in Home Loans*



Johannesburg, 25 August 2021 – The rate people defaulted on their loans for the first time decreased in the second quarter of the year, according to Experian South Africa's Consumer Default Index (CDI).

Although consumer debt remains at R1.9 trillion, the index improved from 4.33 in March to a reading of 4.03 in June 2021. The improvement can be attributed to the stringent lockdown criteria imposed 12 months prior, resulting in significantly reduced credit extension and thus an expected improvement in the overall CDI performance.

Jaco van Jaarsveldt, Chief Decision Analytics Officer at Experian Africa, said: "We have seen new business volumes decrease since the onset of the Covid 19 pandemic, thus reducing the population from which first-time default stems. While we have seen the demand for credit improve to pre-Covid levels over the past 12 months, the supply remains constrained due to the continuous conservative lending criteria imposed by most lenders."

	CDI	CDI	Average Outstanding	New Default Balances
	Jun'21	Jun'20	Apr'21-Jun'21	Apr'21-Jun'21
Composite Index	4.03	5.68	1 901 242 380 505	19 151 063 289
Home Loan Index	1.83	2.90	976 280 200 460	4 464 739 966
Vehicle Loan Index	4.28	5.66	449 935 804 946	4 815 361 625
Credit Card Index	6.94	9.23	144 696 314 944	2 511 976 242
Personal Loan Index	8.51	11.22	292 921 682 946	6 229 880 029
Retail Loan Index	12.07	16.69	37 408 377 208	1 129 105 427
HomeLoan + VehicleLoan + CreditCard	3.00	4.31	1 570 912 320 351	11 792 077 833
RetailLoan + PersonalLoan	8.91	11.90	330 330 060 154	7 358 985 456

At 4.03 in 2021 Q2, the year-on-year CDI is tracking lower than the all-time high of 5.68 observed in 2020 Q2, following the initial level 5 lockdown that was imposed on 27 Mar 2020.

According to Van Jaarsveldt: “The CDI improved year-on-year across all products, most predominantly home loans, which improved from 2.90 in 2020 Q2 to 1.83 in 2021 Q2. Home loans account for more than 50% of the composite CDI and as such was the driving force behind the improvement, supported by improvement in all the other banking and retail products.”

Financial Affluent Segments most affected

COMPOSITE CDI	CDI Jun'20	CDI Jun'21	Average Outstanding Balance Apr'21-Jun'21	Total New Default Balances Apr'21-Jun'21	CDI Relative % Change
Group 1: Luxury Living	3.85	2.99	R 600.13 Billion	R 4.49 Billion	-22%
Group 2: Aspirational Achievers	4.95	3.68	R 840.27 Billion	R 7.74 Billion	-26%
Group 3: Stable Spenders	8.91	5.45	R 197.69 Billion	R 2.69 Billion	-39%
Group 4: Money-Conscious Majority	8.37	5.72	R 214.52 Billion	R 3.07 Billion	-32%
Group 5: Laboured Living	16.01	10.79	R 28.97 Billion	R .78 Billion	-33%
Group 6: Yearning Youth	21.61	12.63	R 9.76 Billion	R .31 Billion	-42%

Over the past year (2020 Q2 to 2021 Q2), Financial Affluence Segmentation (FAS)[1] Groups 1 and 2 have exhibited the least significant improvement (CDI % change).

Van Jaarsveldt explains: “Since the onset of COVID, we again see the most affluent consumers benefitting least from the improvement in CDI. There was a noteworthy impact on *Luxury Living* group as they are highly exposed to secured credit resulting in a relative CDI improvement of 22%, moving from 3.85 in June 2020 to 2.99 in June 2021. The *Aspirational Achievers* group, also highly exposed to secured credit, saw a CDI improvement from 4.95 in June 2020 to 3.68 in March 2021 which is also relatively modest, compared to the improvement observed for less affluent FAS Groups.”

The *Yearning Youth* group, which makes up about 16% of the SA population, saw the greatest relative CDI improvement from 21.61 in June 2020 to 12.63 in June 2021 (42% relative CDI change). Their exposure to secured credit is negligible (<1 %). However, exposure to unsecured credit – particularly retail loans, is more substantial at 6%. The significant improvement in CDI in 2021 Q2 stems from levels of credit granted in particularly in the retail industry, where many providers opted for more stringent lending criteria along with the impacts of the hard lockdown criteria at the at the start of the pandemic.

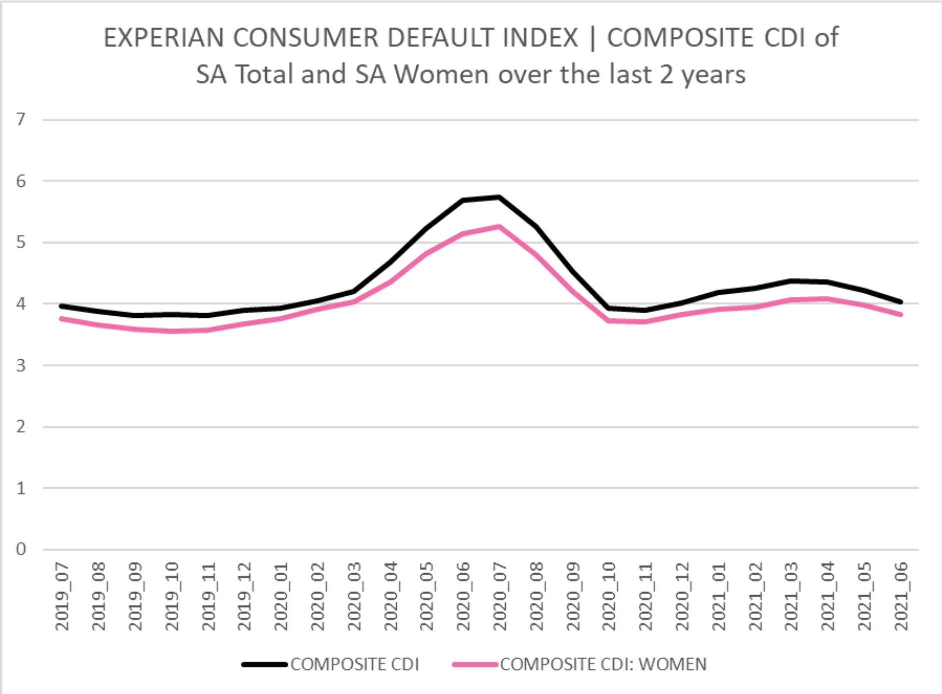
What is the market exposure of Women in South Africa?

Women constitute just over half of the SA adult population[2]. 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.

Women are particularly underrepresented in secured lending products – both in terms of consumer numbers and market exposure. But, interestingly, women account for almost two-thirds of the market (both in volume and value) with regard to retail loans.

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 credit bureau having retail loans (vs 31% of males).

The value of these loans is only a fraction of the banking loans – mainly secured lending like home loans and vehicle loans. As a result, retail loans only constitute 3% of the total exposure of women in the SA market (vs the 1 % of men). Conversely, 46% of women's exposure is in home loans, while 55% of men's exposure is in home loans.



Van Jaarsveldt concludes: "In general, South African women exhibit a lower CDI than the total SA credit market does. This might 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 them putting a higher priority on meeting their debt obligations."

*****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).

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