National Debt Awareness Month 2024

Q4 2023 Debt Index

NATIONAL DEBT AWARENESS MONTH

DEBT BUSTERS

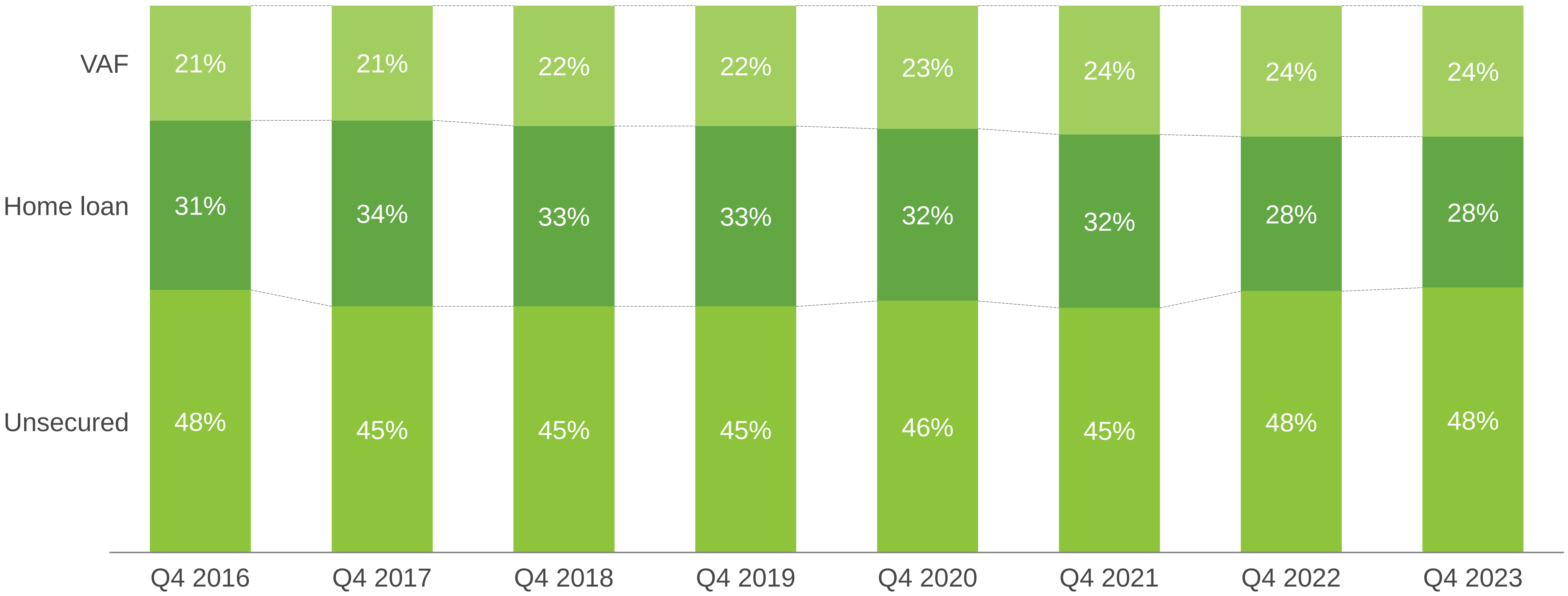
Executive Summary - Benay Sager, Executive Head of DebtBusters

- **Publishing of the Q4 2023 Debt Index coincides with the launch of the National Debt Awareness Month 2024**. 2023 was probably one of the most financially difficult years on record for South Africans: high inflation (especially food, electricity and petrol) and high interest rates (which are now 475 basis points higher than 2020) combined to erode disposable incomes, whereas consistently crippling levels of load shedding made it nearly impossible for any meaningful economic growth for businesses and therefore income growth for consumers. Against this backdrop, consumers continued to be proactive in managing their credit, taking advantage of not only online debt management tools, but also the most effective way of dealing with interest rates: debt counselling. We are encouraged by the demand and resilience shown by South Africans to make themselves more financially sustainable, and therefore we have chosen this year's theme for National Debt Awareness Month as **Financial Sustainability**.
- In Q4 2023, **there was increased demand from consumers for debt management, with debt counselling inquiries up by 46% and online debt management up by 54% compared to the same period last year**. If we compare the full year 2023, debt counselling inquiries were up by 39% compared to 2022, therefore we saw an acceleration of this trend in Q4 2023. While it is early days in 2024, we anticipate a similar trend for this year as consumers' desire to become financially sustainable continues to grow.
- For the first time in a while, the median debt to annual income ratio has come down two quarters in a row; however, at 106% it is still at an elevated level. We welcome this improvement, but still observe that the full impact of successive interest rate increases since November 2021 continue to be felt in consumer finances. Virtually all consumers (95%) who applied for debt counselling in Q4 2023 had a personal loan and 24% of consumers had a short-term loan – both indicating that consumers continue to supplement their income with unsecured credit, and personal loans have become a lifeline for many. Compared to 2016, **those consumers who applied for debt counselling in Q4 2023 had**:
    - **39% less purchasing power**: Nominal incomes were 1% higher than 2016 levels, however when cumulative inflation growth of 40% is factored in for the same seven-year period, consumers' purchasing power diminished by 39% over this period. This means consumers are feeling like they are taking home 39% less today in real terms than they did in 2016.
    - **Higher debt service burden with 62% of net incomes going towards paying debt**: Consumers need to spend around 62% of their take home pay to service their debt before coming to debt counselling; those taking home R35k or more p.m. need to use 71% of their income towards debt repayments. The debt-to-income ratio for top two income bands is higher in Q4 2023 compared to same periods in the past: 131% for those taking home more than R20k p.m. and 171% for those taking home R35k or more p.m. These ratios are at or near highest-ever levels.
    - **Unsustainably high levels of unsecured debt:** Unsecured debt levels were on average 32% higher than that in 2016 levels. For those taking home R35k or more, the unsecured debt levels were 42% higher. While this is on par with inflation growth (and for some income bands lower than inflation growth), in absence of meaningful salary increases, it signals that consumers need to supplement their incomes with unsecured credit.
- As interest rates started to increase in November 2021, consumers started to feel the increasing burden of servicing asset-linked debt: average interest rate for a bond went from 8.3% p.a. in Q4 2020 to 12.3% p.a. in Q4 2023, and more asset debt has been restructured as part of debt counselling during this period. **More alarmingly, the average interest rate for unsecured debt is now at an eight-year high level of 25.6% p.a. Debt counselling is the best tool to help consumers**:
    - Unsecured debt interest rates can be reduced by over 90% while under debt counselling from an **average of 25.6% p.a. to ~2.6% p.a., allowing consumers to pay back expensive debt quicker**.
    - **Service vehicle debt and balloon payments over a meaningful period of time** by getting the average financed vehicle interest rate of 15.6% p.a. negotiated down to a more manageable level.
    - The number of consumers successfully completing debt counselling successfully has increased by over six times since 2016. **Consumers who successfully completed debt counselling in Q4 2023 paid back over R500m worth of debt to their creditors as part of the debt counselling process**.
- We are delighted to observe increasing levels of interest from consumers for free **online debt management on** www.debtbusters.co.za. New (free) subscriber base increased by 82% in full year 2023 compared to full year 2022. Consumers manage their debt using proprietary tools such as Debt Radar and recognise that if addressed early in their professional career, management of debt can become part of daily life. To help them further and consistent with our **Financial Sustainability** theme, we are delighted to launch a new tool called **Debt Sustainability Indicator** (DSI), that will show consumers what percent of their income is used up by debt repayments, and how to make that ratio more sustainable. Later in 2024, we also plan to launch additional tools to help consumers not only protect their money, but also to stretch and grow it!

Nature of debt is mostly stable, except a growing portion is from financed vehicles

Share of vehicle debt has increased in the last few years, indicating that more consumers with financed vehicles are seeking financial assistance

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management

Percent by type, by value at end of Quarter

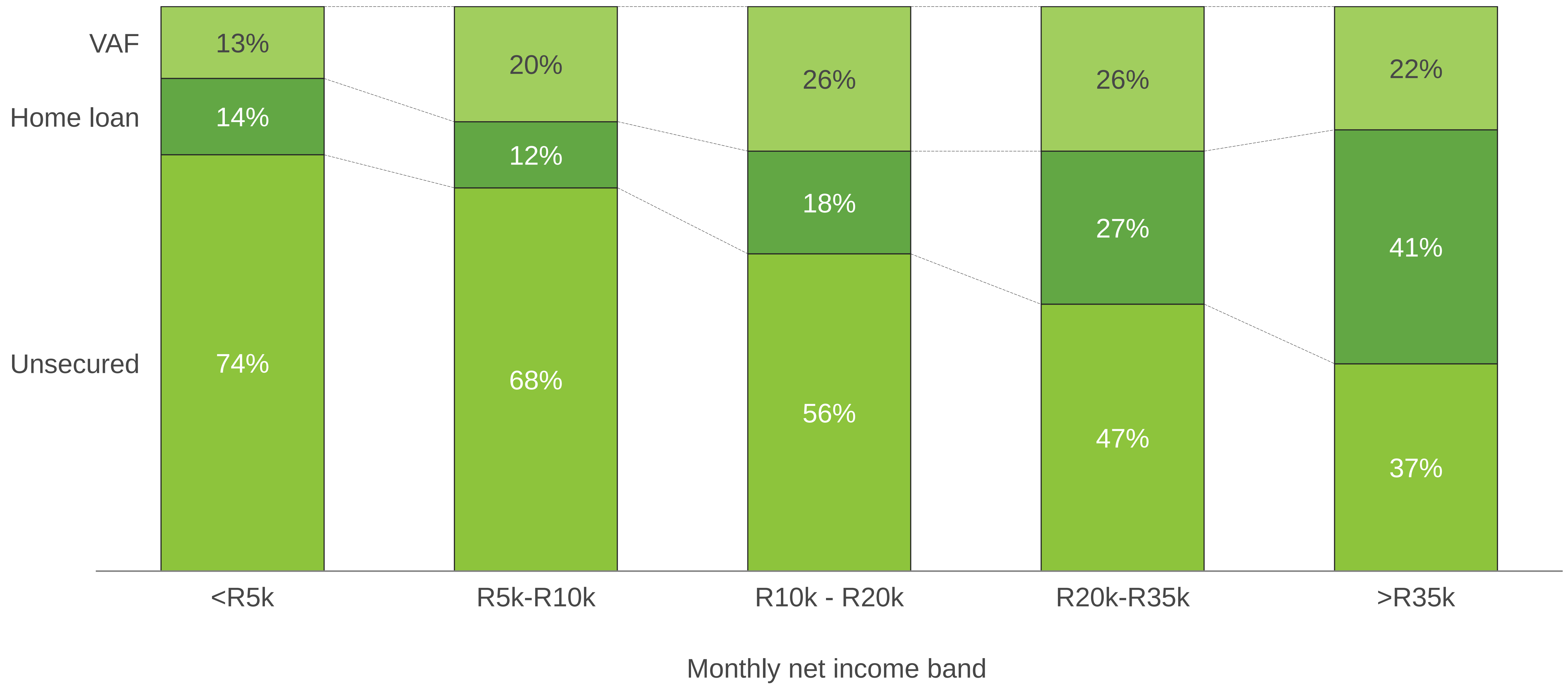
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Nature of debt varies for each income group; perhaps predictably higher income earners having a larger proportion of secured debt

TOTAL DEBT BOOK

Breakdown of DebtBusters debt under management
At end of Q4 2023



Share of debt that is asset-based increases to 53% for those taking home R20k-R35k; for those taking home R35k or more the share of debt that is asset-based goes up to 63%

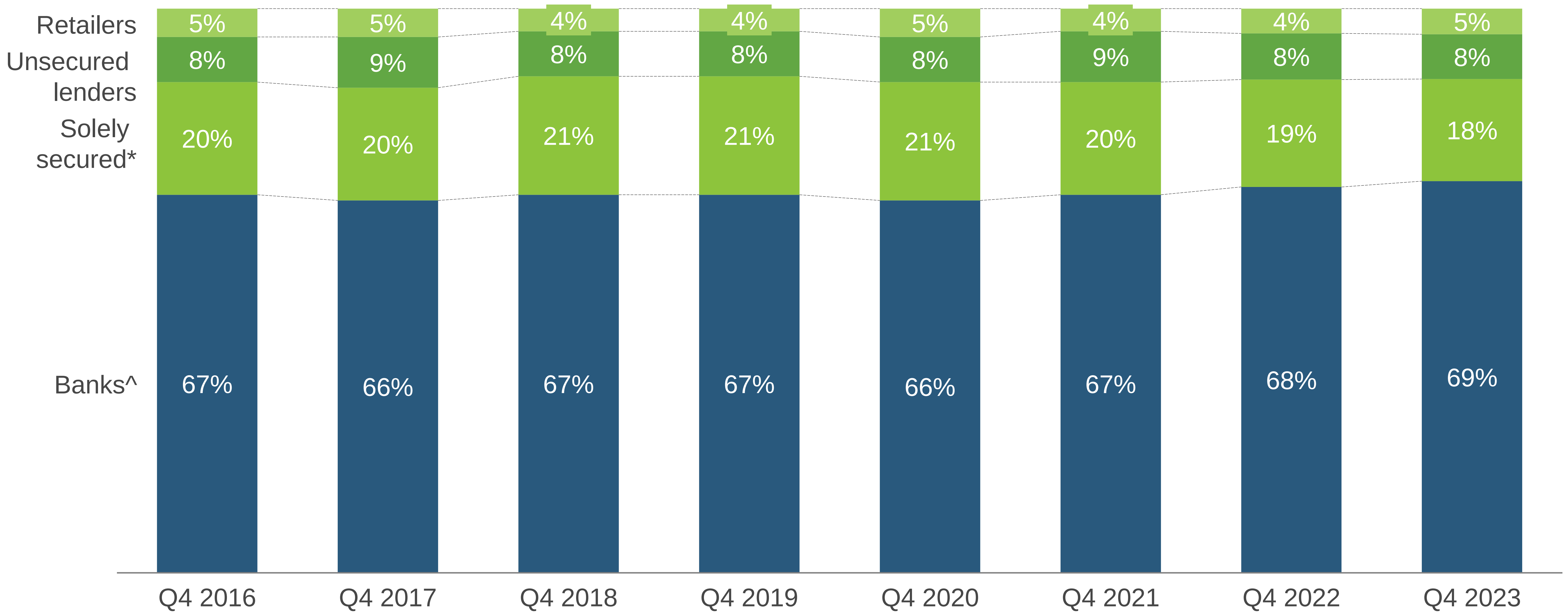
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Share of lending institutions is largely stable

Banks make up two thirds of debt; there is slight decrease in share of unsecured-only lenders over the past year

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management

Percent by type of lender, by value at end of Quarter

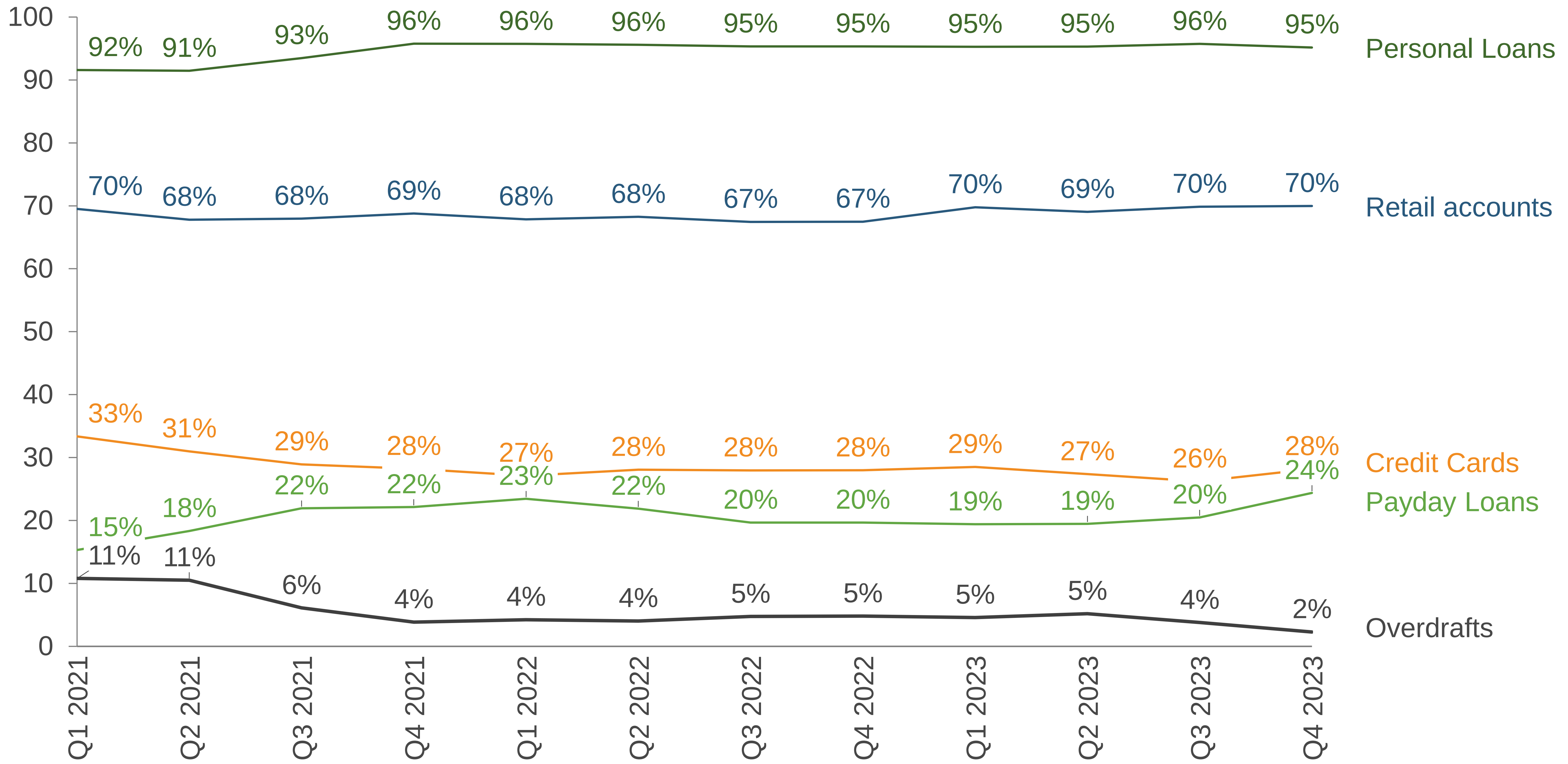
* Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW Finance who grant secured credit only (some of these institutions are linked to the banks)

^ Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank

Source: DebtBusters

Looking more closely at unsecured debt… 95% of new applicants have a personal loan (at the time they apply for debt counselling) & 24% come with a payday loan, indicating consumers continue to supplement their incomes with loans

Share of new applicants with…



- **95% of new applicants have a personal loan at time of application for debt counselling**
- **~24% have a payday loan**
- **It appears loans are back in favour in line with increases in repo rate which started in November 2021**

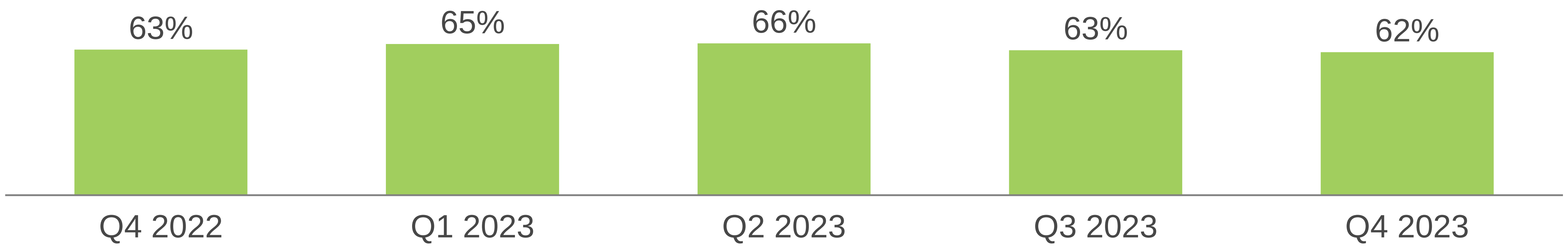
Payday loans refers to short-term unsecured loans
Retail refers to clothing accounts, store cards, furniture accounts and similar
Credit Cards refers to revolving credit facilities excluding those linked to stores or retail

Source: DebtBusters

Compared to previous quarters, overall debt levels have reduced, however consumers still need 62% of their take home pay to service their debt…

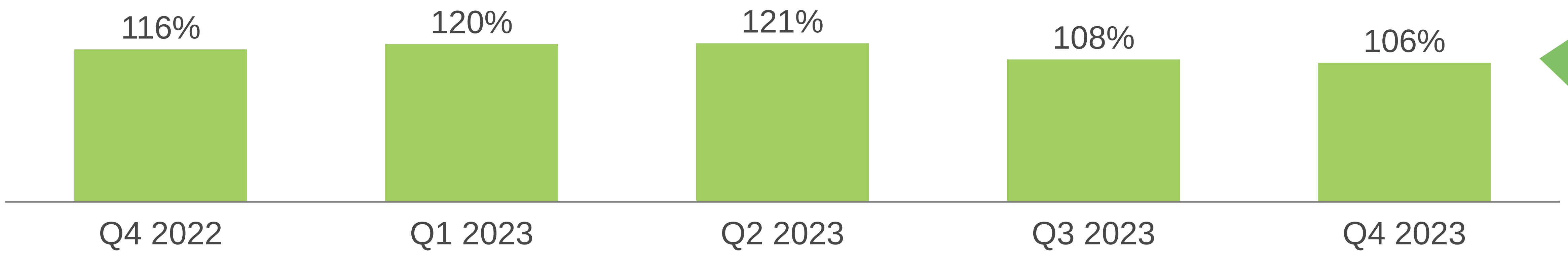
Original (median) monthly debt repayment to net income ratio[1] has stayed steady...

Percent of net income that was required to pay debt before signing up with DebtBusters



…quarter-on-quarter overall debt levels also stayed at elevated levels

Total debt exposure to annual net income ratio, when consumers sign up with DebtBusters



Comparable figure for other select countries (from OECD):

Russia 37%	Brazil 45%
Italy 88%	Germany 100%
USA 102%	UK 146%
Korea 204%	Australia 211%

In many countries, debt is mostly mortgage debt at very low interest rates

1 Median debt to net income ratio for all new consumers signed up in that quarter

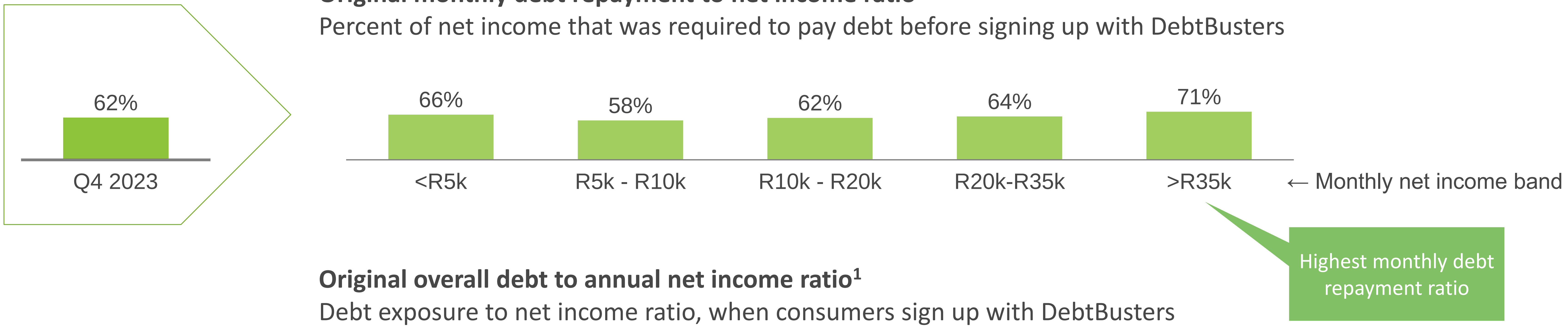
Source: DebtBusters

OECD (2024), "Household debt" (indicator), https://doi.org/10.1787/f03b6469-en (accessed on 18 January 2024).

…for those taking home more than R35k per month the total debt to annual net income ratio is 171% and they need 71% of their take home pay to service their debt repayments…

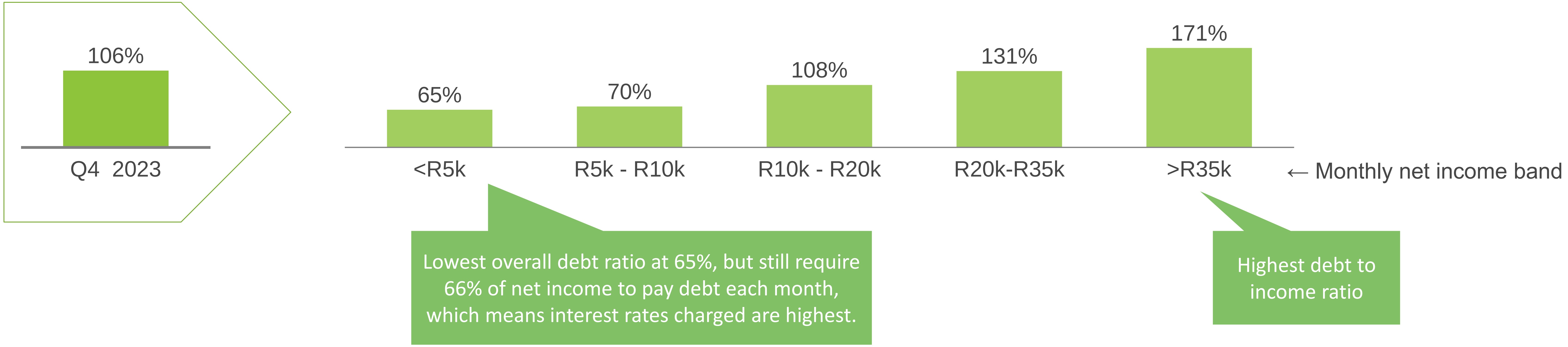
Original monthly debt repayment to net income ratio[1]

Percent of net income that was required to pay debt before signing up with DebtBusters



Original overall debt to annual net income ratio[1]

Debt exposure to net income ratio, when consumers sign up with DebtBusters



1 Debt to Income ratio is calculated by looking at the median in each quarter

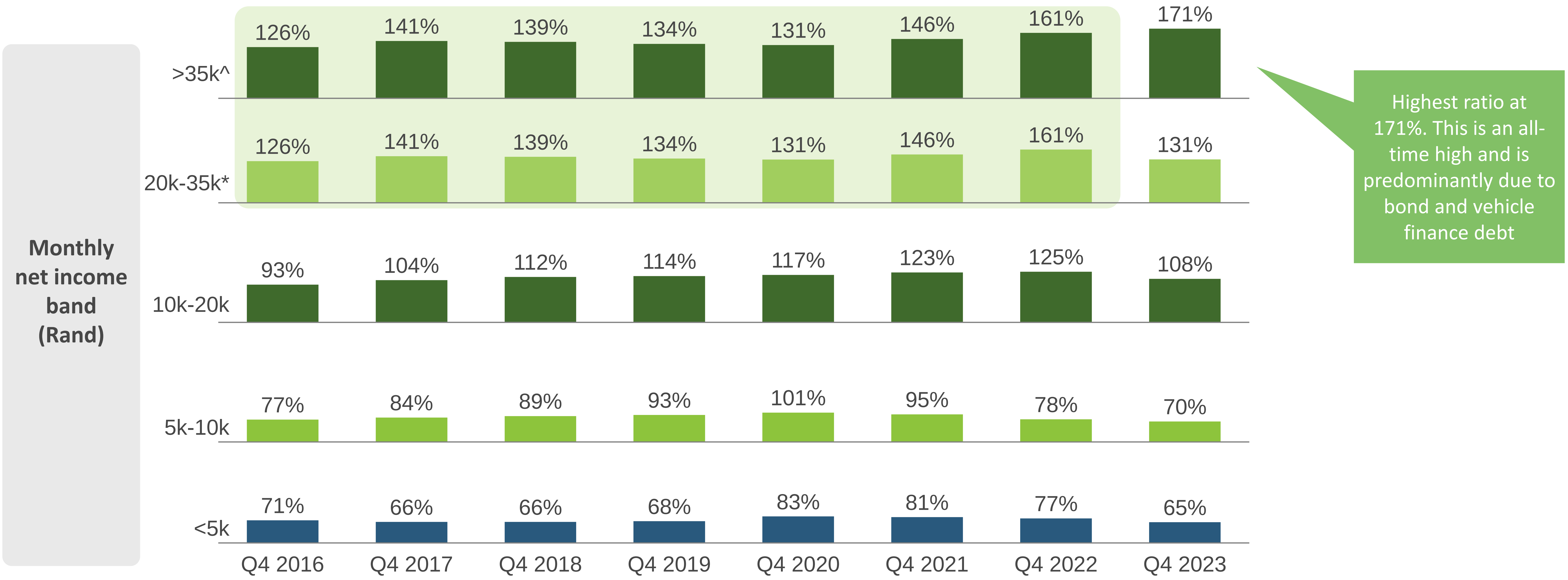
Source: DebtBusters

…the debt to annual net income ratio for most income bands appears to have improved compared to the last few years, however those taking home R35k or more have an all-time high debt-to-income ratio of 171%

Ratios are the same for this period because these two income groups were tracked together until 2023

Original overall debt to annual net income ratio[1]

Debt exposure to net income ratio, when consumers sign up with DebtBusters



1 Debt to Income ratio is calculated by looking at the median in each quarter

^ New income band reported from Q1 2023 (Split from a broader group of >R20k); previously was part of the >20k income band. Previous quarters' ratios are attributed to this group as well as R20k-35k income band

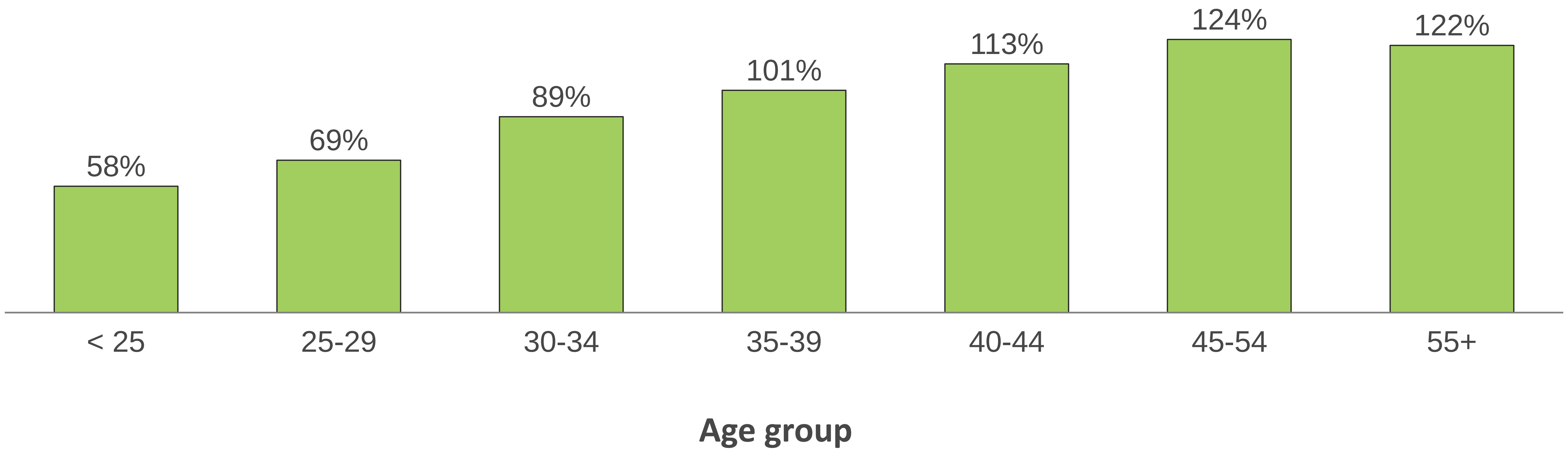
* New income band reported from Q1 2023 (Split from a broader group of >R20k); previously was part of the >20k income band. Previous quarters' ratios are attributed to this group as well as >R35k income band

Source: DebtBusters

Debt-to-income ratio varies with age group; indicating there is an opportunity for younger consumers to address their debt earlier in their professional lives

Original overall debt to annual net income ratio[1]

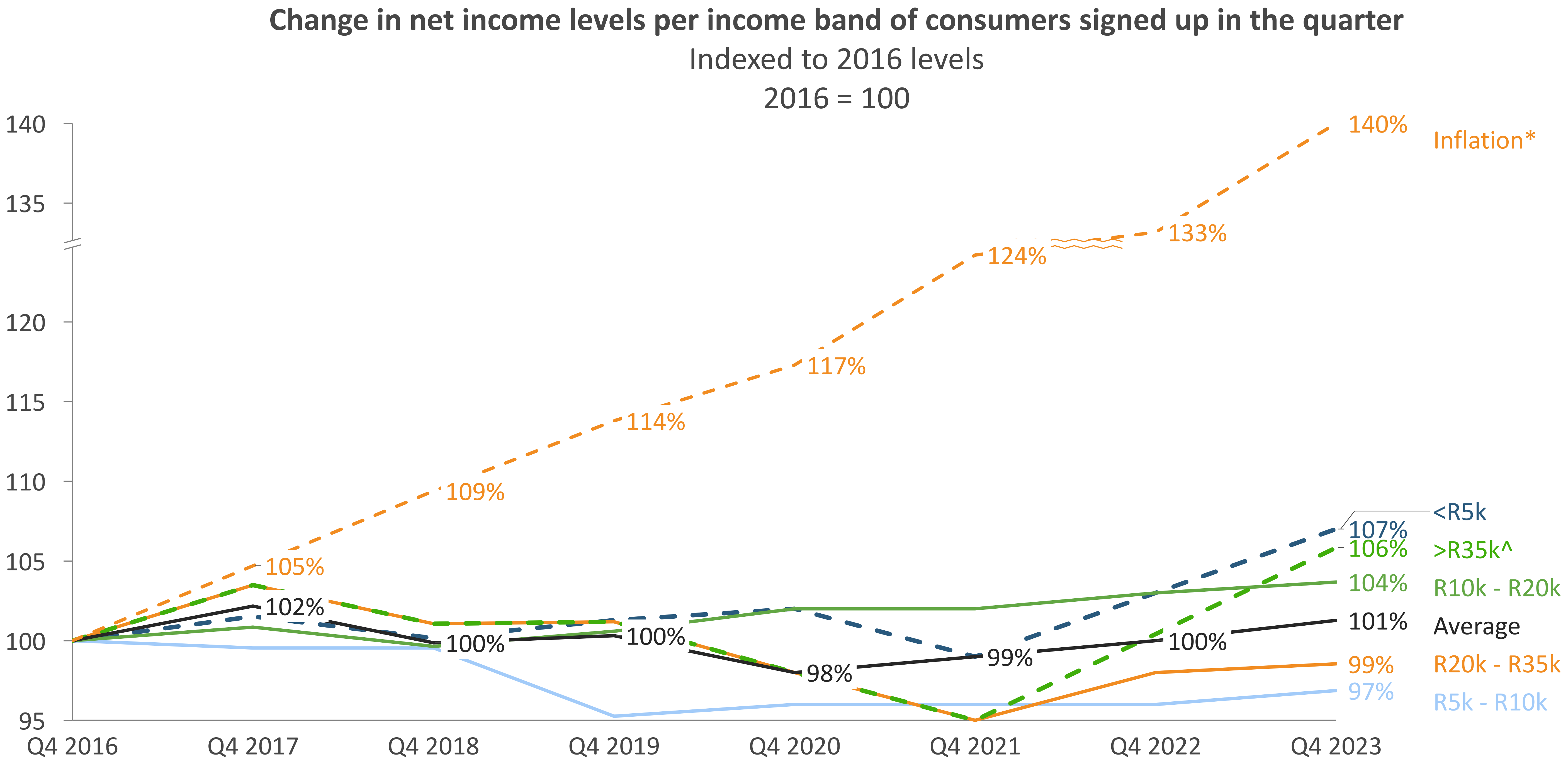
Debt exposure to net income ratio, when consumers sign up with DebtBusters



1 Debt to Income ratio is calculated by looking at the median for each age group; for most recently completed quarter

Source: DebtBusters

In the last seven years, average net incomes (take home pay) increased by 1% while inflation went up by 40%. This means that in real terms most South Africans had 39% less disposable income in 2023 compared to 2016 due mainly to the impact of high inflation…



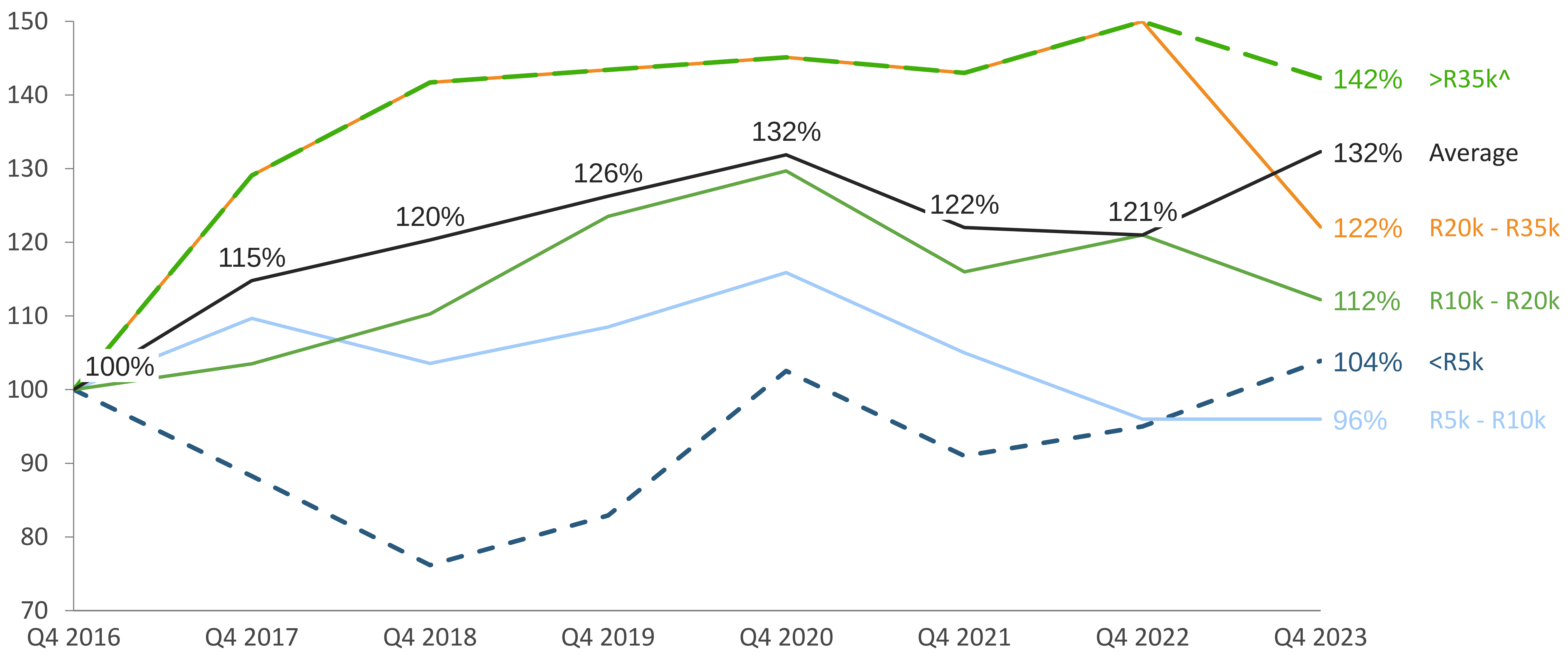
- **On average, net incomes increased by ~1% in the last seven years; during the same period compounded increase in inflation was 40%**
- **This means disposable incomes shrank by almost 40% during the past seven years**

Source: DebtBusters
- Source: Stats SA CPI history

^ New income band reported from Q1 2023; previously was part of the >20k income band

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 32% more unsecured debt in 2023 compared to 2016, those taking home R35k or more have unsecured debt levels that are 42% higher than 2016

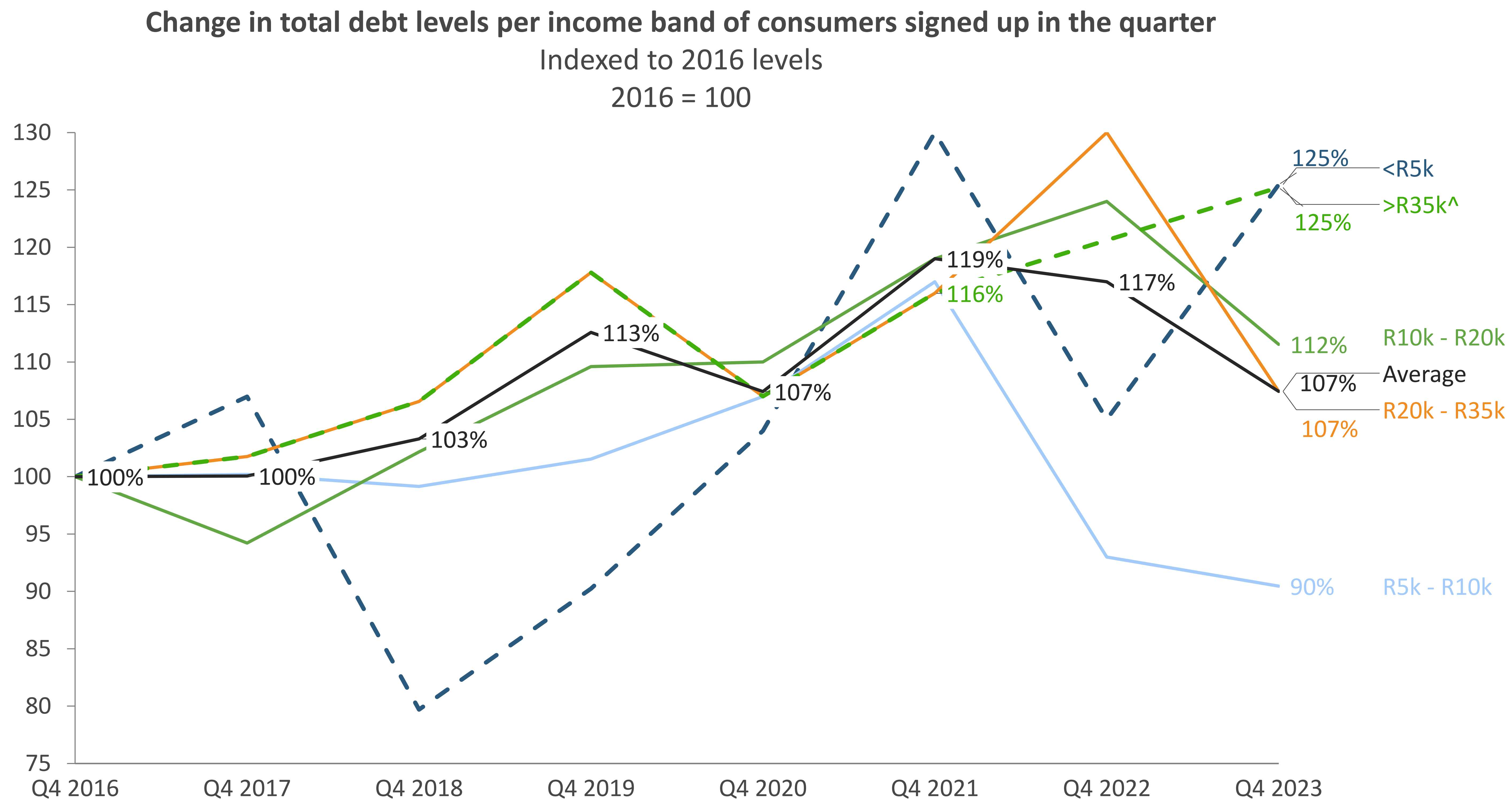
Change in unsecured debt levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100



- **Unsecured debt for the average consumer is 32% higher than 2016 levels; for top earners the figure is 42%**
- **The growth in unsecured debt levels is below inflation for most income groups, except top earners**
- **The growth in unsecured credit indicates consumers need unsecured credit to supplement their stagnant incomes as a result of the pressures of high inflation and interest rates**

Source: DebtBusters
^ New income band reported from Q1 2023; previously was part of the >R20k income band

Total debt levels (which include both secured and unsecured debt) have increased by 7% compared to 2016; this increase is lower than both inflation and unsecured debt growth. It confirms the view that unsecured debt is used as a lifeline for many income groups to supplement their incomes



- **Compared to 2016, the total debt level increased by 7% on average**
- **Those taking home more than R35k had 25% increase in overall debt levels since 2016**

Source: DebtBusters

^ New income band reported from Q1 2023; previously was part of the >20k income band

Since 2016, average unsecured loan size increased by 37% whereas the volume of new unsecured loans declined by 25%. This means larger loans are being granted to a smaller number of consumers, highlighting that risk is being concentrated on an ever-smaller group of consumers.

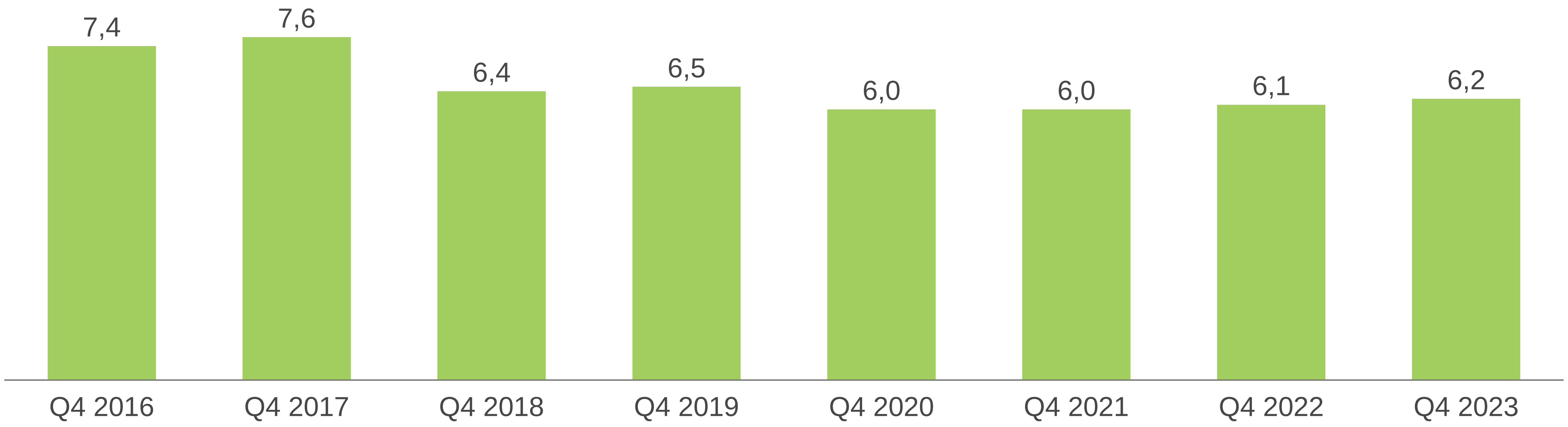
- Since 2016, average unsecured loan size increased by 37%. While this is below inflation (40%) growth during the same period, the number of loans decreased by 25%. This indicates that unsecured lending is extended largely to smaller pool of consumers.
- For secured loans, in contrast, the number of loans remained largely the same, but the average loan size increased by 32%

^: Q3 2023 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q4 2007 – Q3 2023

The average number of credit agreements (open trades) a consumer has continues to be near historical low levels. When factoring in debt levels, this indicates consumers have more debt per credit agreement and are seeking help faster than before.

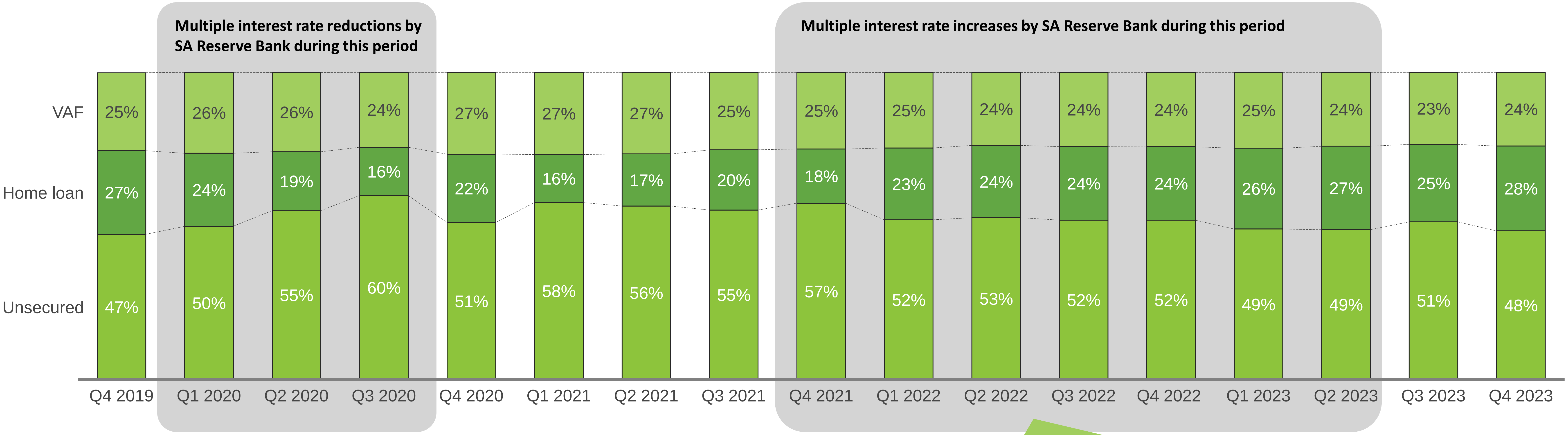
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Source: DebtBusters

The debt mix for new applicants has shifted over the last few years driven by change in interest rates. Since early 2022, the share of home loan debt has increased and now makes up 28% of new applicants' debt

Breakdown of new applicants' debt
Percent by type



- Interest rate reduction combined with bank payment holidays in first three quarters of 2020 resulted in dip in asset debt share
- With interest rates increasing from Q4 2021, we have seen an increase in the home loan share from Q1 2022 onwards

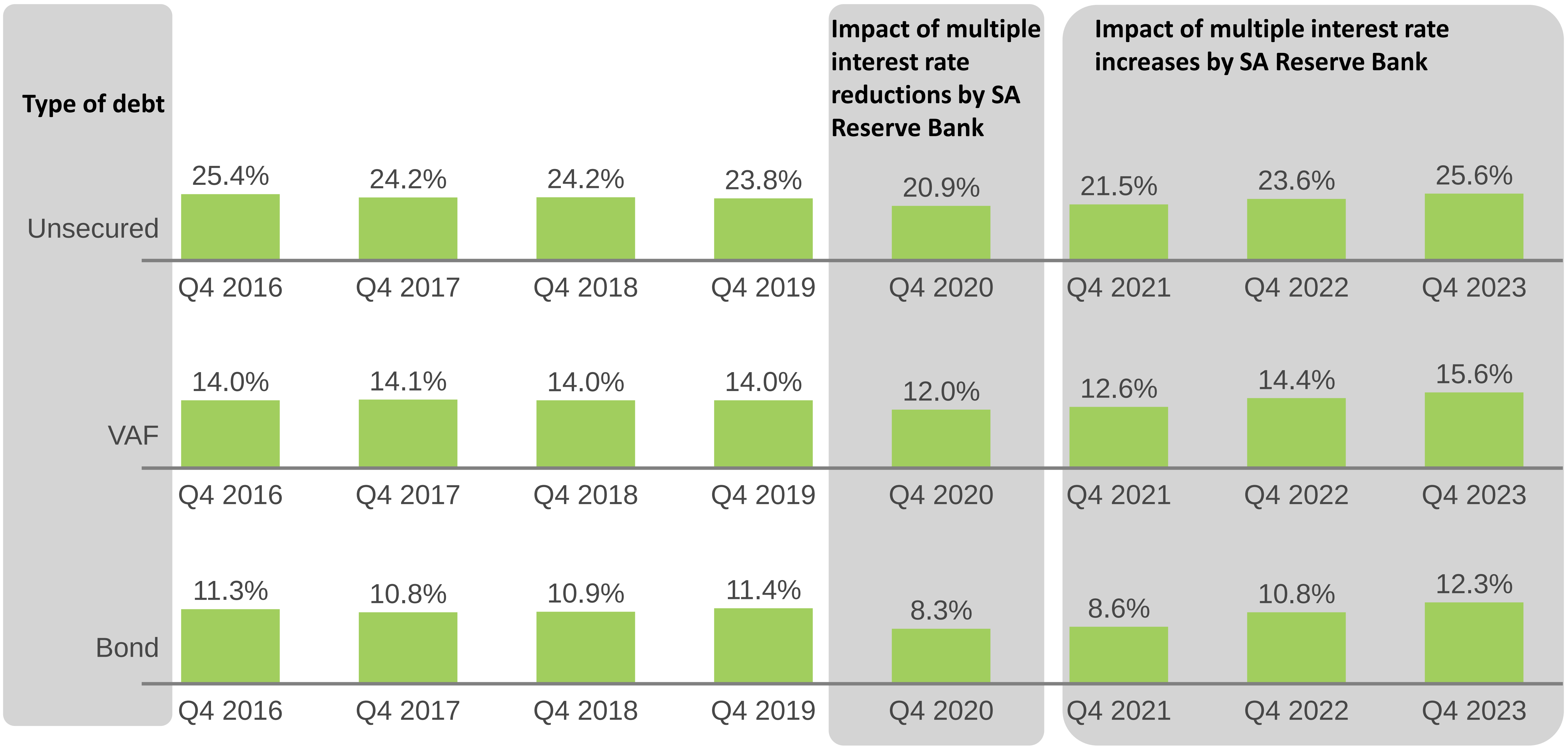
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Since late 2022, the impact of successive interest rate increases resulted in higher average interest rate of new applicants: in Q4 2023 average interest rate for unsecured debt was 25.6% p.a., average interest rate for a financed vehicle was 15.6% p.a., and average interest rate for a bond was 12.3% p.a.

Average interest rate for new applicants (before debt counselling)

Percent, per annum



- Bonds very sensitive to changes in interest rates – big swing from 2020 to 2023
- Unsecured debt interest rates have been increasing as well and are at the highest level in the last eight years
- Unsecured debt interest rate has big impact on what percent of incomes are needed to service debt

Max. allowed at end of quarter*:

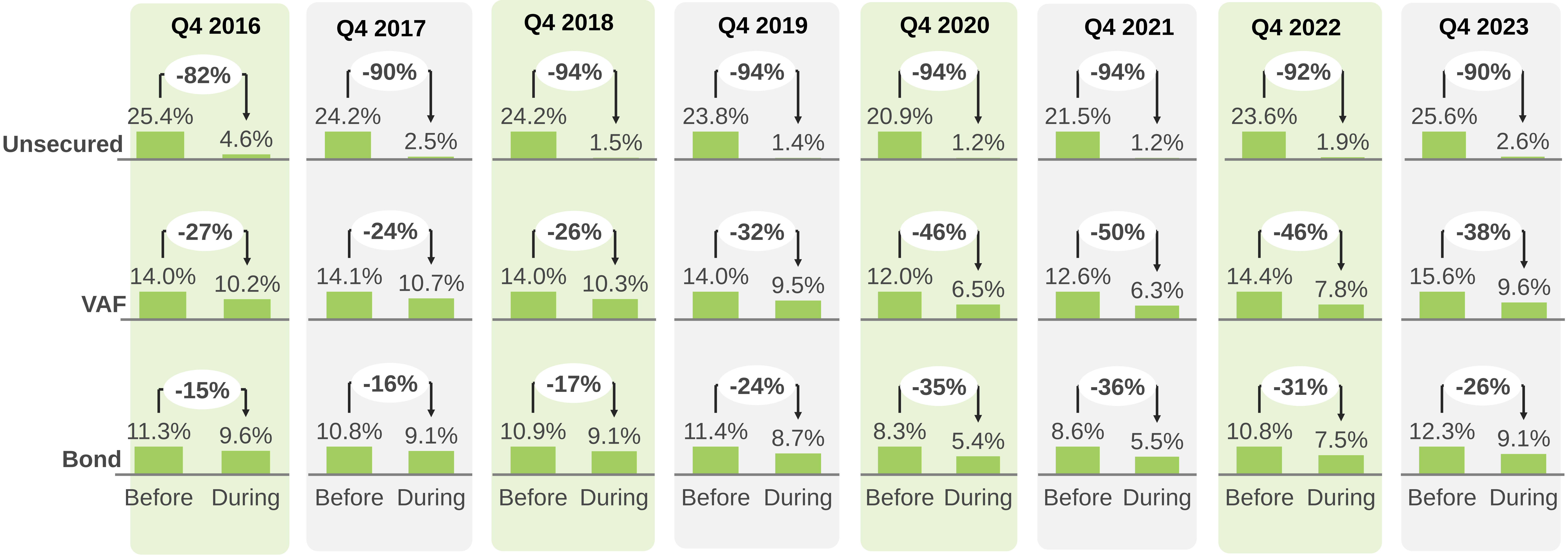
- Unsecured: 29.25% p.a.
- VAF: 25.25% p.a.
- Bond: 20.25% p.a.

VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore, it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.
* Maximum rate allowed for newly originated credit agreements in that quarter per dtic guidelines

Source: DebtBusters

In debt counselling, interest rates can be reduced by over 90%+, allowing consumers to pay off their expensive debt quicker. In 2023, in partnership with creditors, DebtBusters was able to reduce interest rates significantly for consumers, and in return consumers paid over R3.1bn to their creditors

Average interest rate for new applicants (before and proposed during debt counselling)
Percent

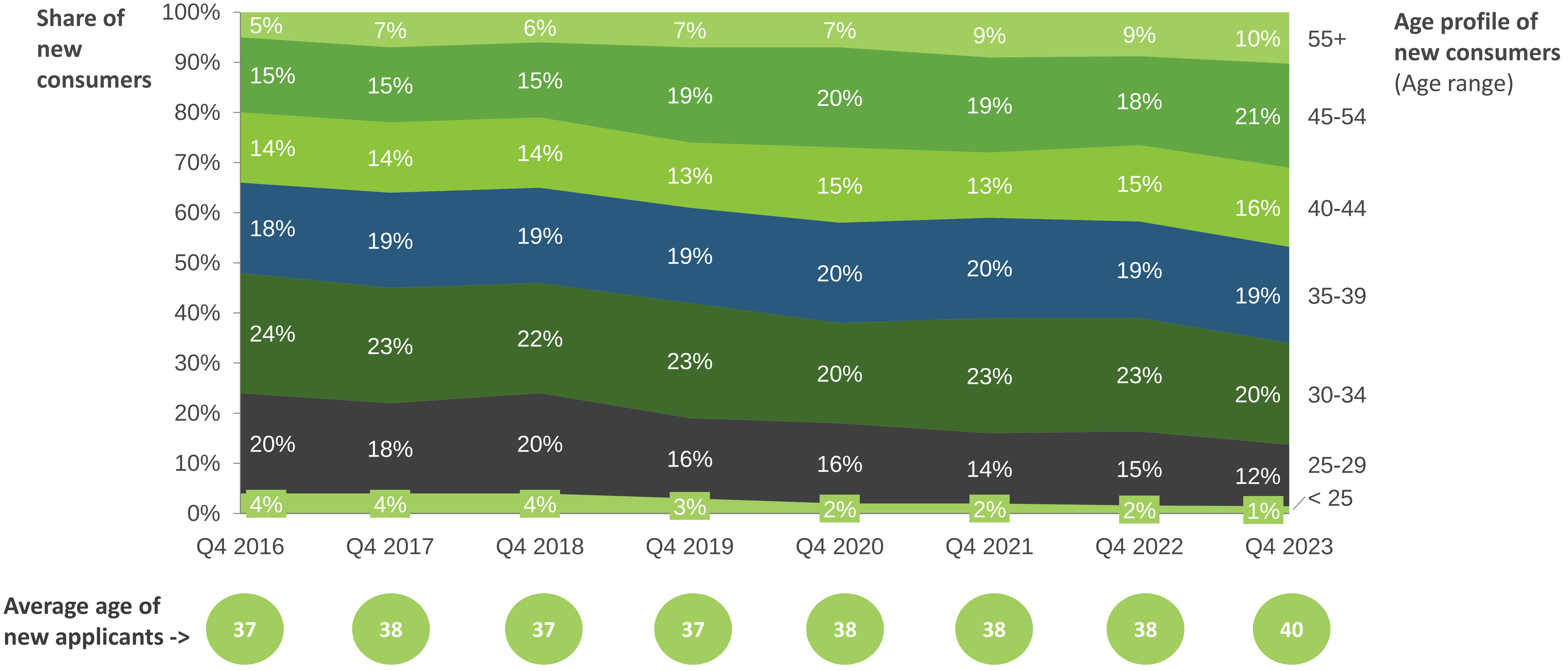


VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

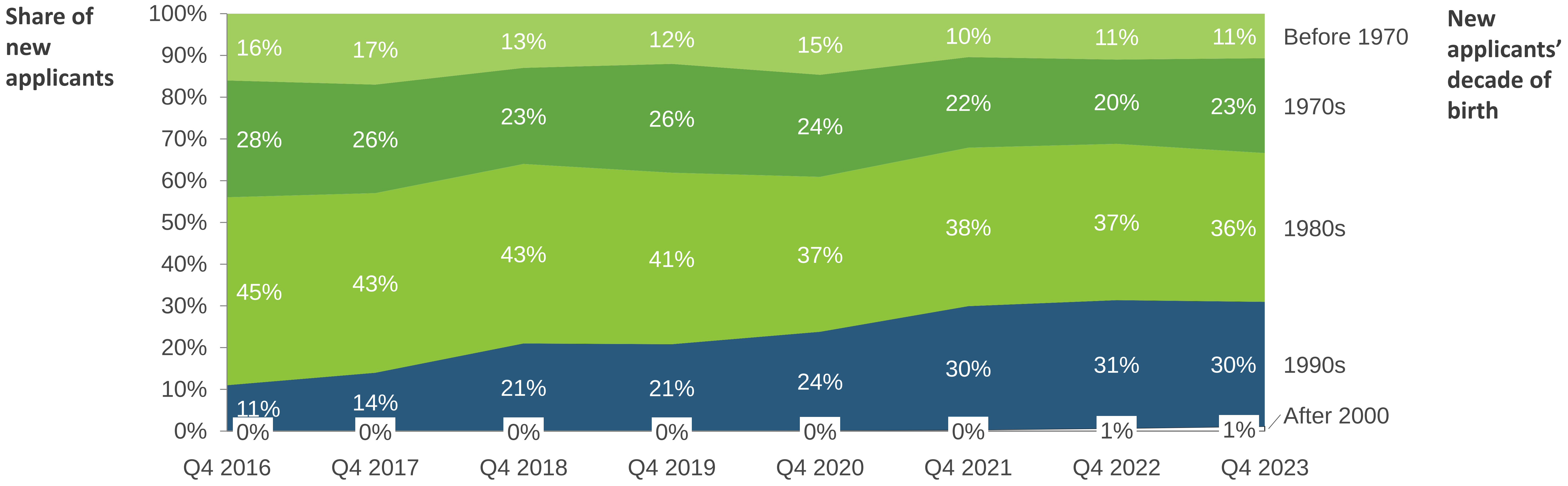
Consumer age profile indicates increasing financial stress in 45+ age group

Average age of new applicants has increased to 40. In addition, the share of applicants who are 45 or older has increased from ~20% to 31% over the past seven years, indicating financial stress is becoming more prevalent in this age category



Source: DebtBusters

The ratio of male applicants is consistently above 50%, indicating men are becoming more proactive about addressing financial distress. During the most recent quarter, 54% of applicants were male.

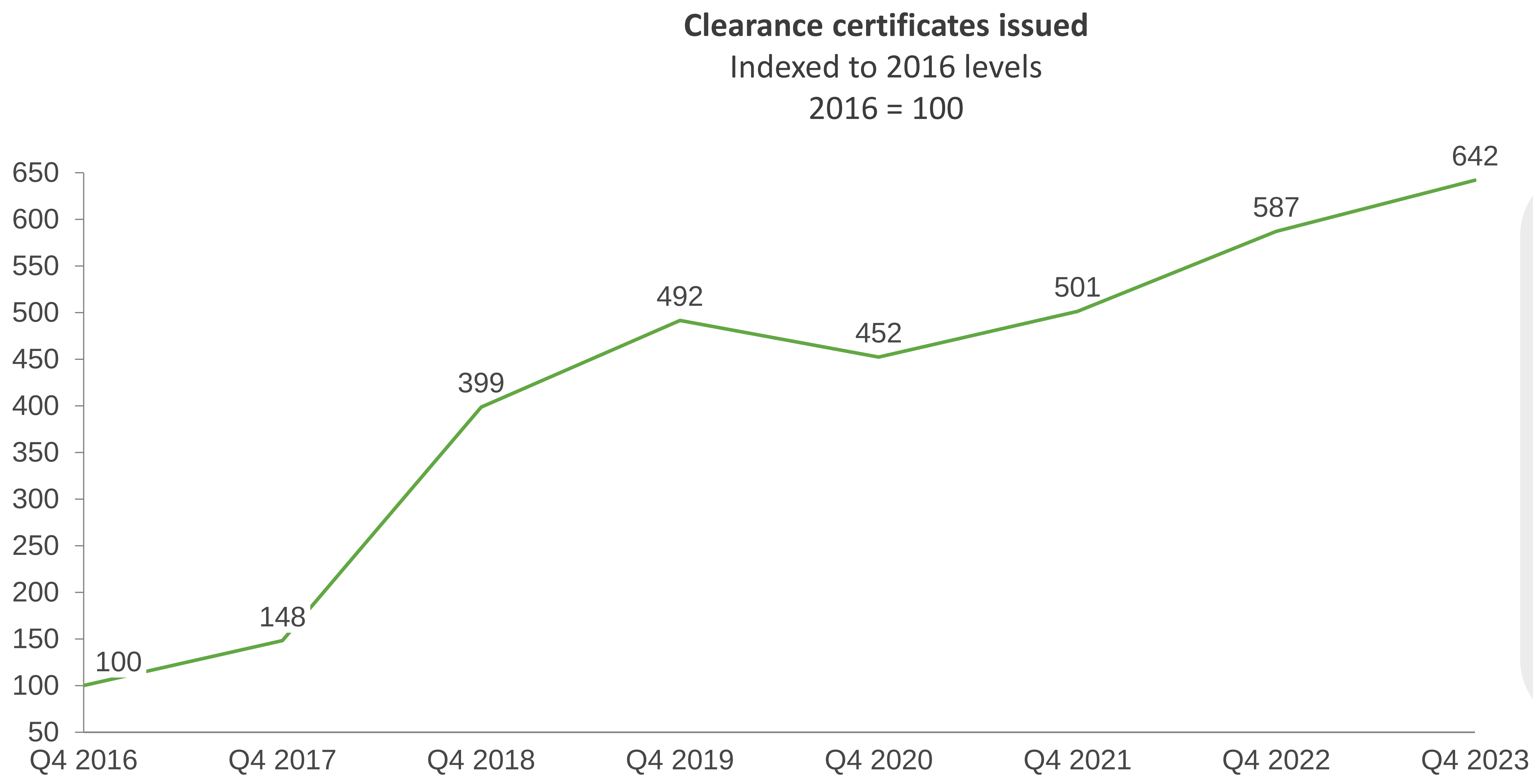


Share of applicants who are:

	Q4 2016	Q4 2017	Q4 2018	Q4 2019	Q4 2020	Q4 2021	Q4 2022	Q4 2023
Male	52%	51%	51%	53%	55%	54%	55%	54%
Female	48%	49%	49%	47%	45%	46%	45%	46%

Source: DebtBusters

In the most recent quarter, the number of consumers graduating from debt counselling (successfully receiving their clearance certificates) was over six times higher than the same period in 2016; consumers who graduated in Q4 2023 paid over R500m to their creditors while under debt counselling

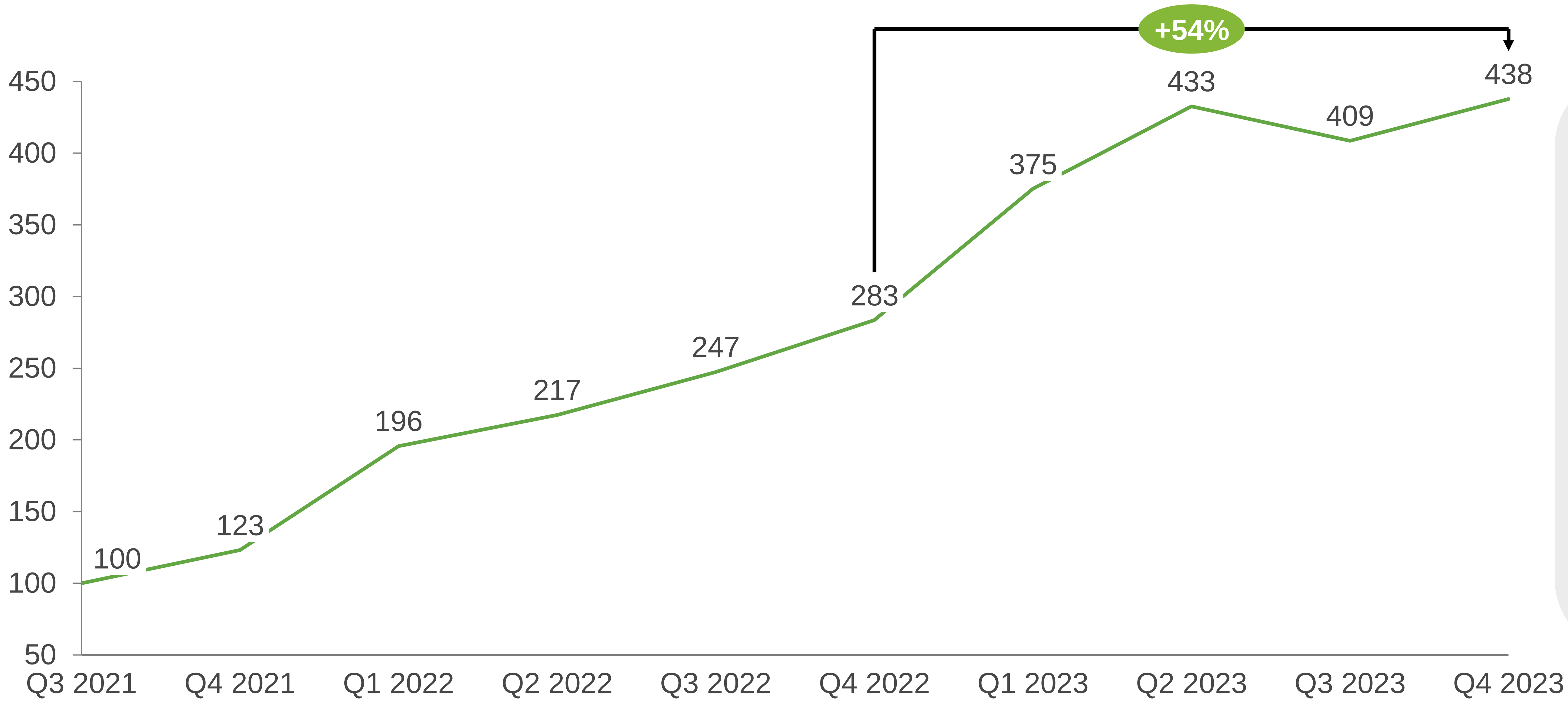


- **In Q4 2023, there were 6x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid over R500m to their creditors while under debt counselling**

Source: DebtBusters

Consumers' interest in online debt management continues to increase. We have observed that the non-debt counselling userbase for DebtBusters website has grown 54% over the past year.

Number of new non-debt counselling subscribers to DebtBusters website
Indexed to Q3 2021 levels; Q3 2021 = 100



- **54% increase in last year in new subscribers for online debt management on DebtBusters website**
- **Consumers enjoy the freedom of managing their debt profile at their own time and have access to debt management tools, such as budgeting, Debt Radar, and others**

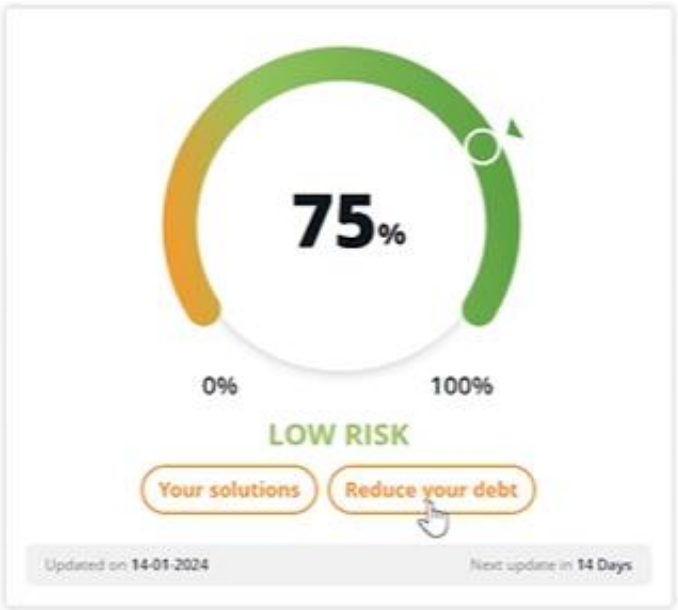
Source: DebtBusters

We continue to provide new online debt management tools for consumers; the newest on our website is Debt Sustainability Indicator.

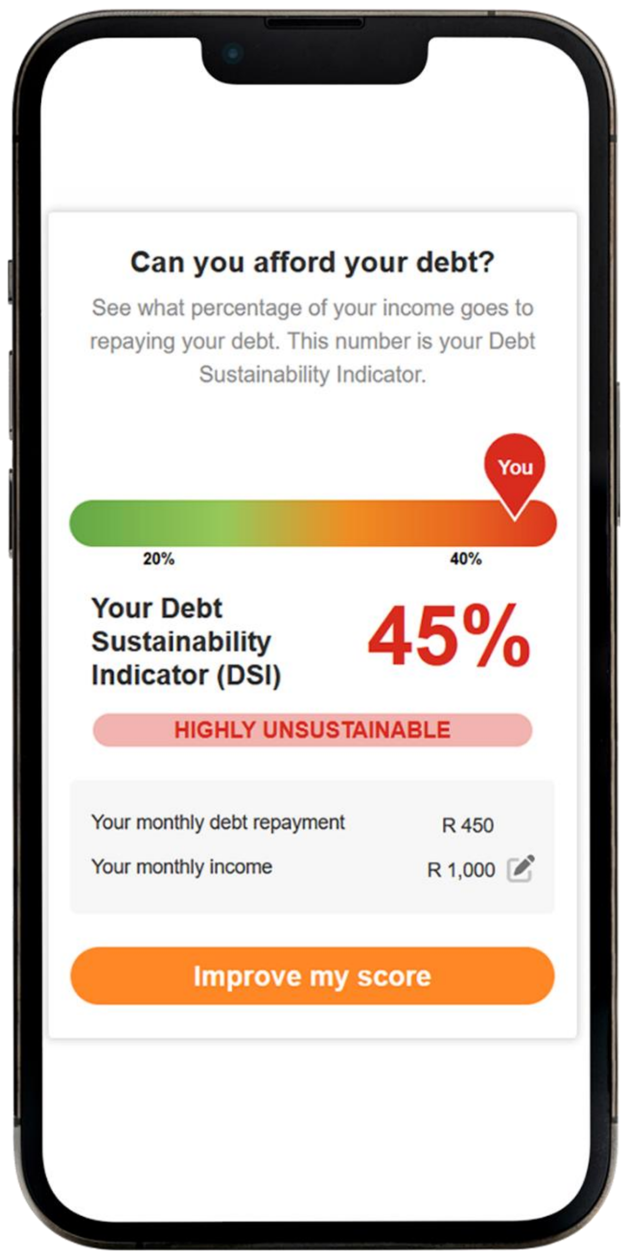
DebtBusters Debt Radar

Financial Behaviour Indicator

Credit score out of 100%



Debt Sustainability Indicator



Source: DebtBusters.co.za

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NATIONAL DEBT AWARENESS MONTH

DEBT BUSTERS