DEBT BUSTERS

Debt Index |Q1 2023

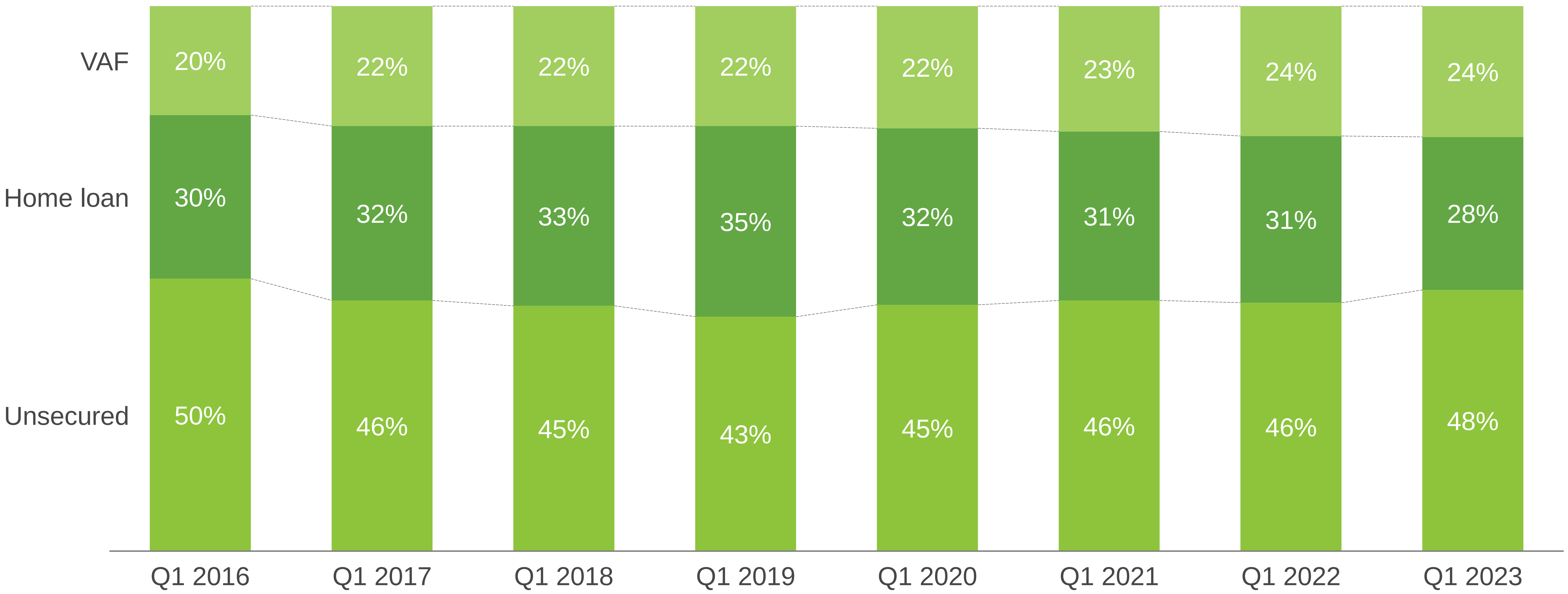
Executive Summary - Benay Sager, Head of DebtBusters

- In Q1 2023, **there was increased demand from consumers for debt management, with debt counselling inquiries up by 40% and online debt management up by 92% compared to the same period last year**. For the rest of 2023 we expect a similar trend. In our view, this is the clearest evidence yet that consumers are facing up to their debt and taking the necessary steps to do the responsible thing and pay back their debt.
- The full impact of successive interest rate increases since November 2021 and elevated levels of inflation is now fully evident in consumer finances. With interest rate increases, lending activity has increased: average loan size has increased by 34% in a few years and virtually all consumers (96%) who applied for debt counselling in Q1 2023 had a personal 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 Q1 2023 had**:
  - **38% less purchasing power**: Nominal incomes were 2% 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 38% over this period. This means consumers are feeling like they are taking home 38% less today in real terms than they did in 2016. In fact, when one considers petrol price almost doubled and electricity has increased by ~90% over the same period, consumers definitely feel like they are taking home far less than they did previously.
  - **Higher debt service burden with 65% of net incomes going towards paying debt**: Consumers need to spend around 65% of their take home pay to service their debt before coming to debt counselling – those taking home R20k or more p.m. need to use 70% of their income towards debt repayments. The debt-to-income ratio for top two band is higher in Q1 2023 compared to same periods in the past: 123% for those taking home more than R10k per month and 159% for those taking home R20k or more p.m. These are either at or near all-time high levels.
  - **Unsustainably high levels of unsecured debt:** Unsecured debt levels were on average 30% higher than that in 2016 levels; for those taking home R20k or more, the unsecured debt levels were 67% higher. This is a direct result of erosion of net income (take home pay): consumers need to supplement this erosion with unsecured credit.
- Starting from Q2 2020, average interest rates for bonds and vehicle finance started to decrease, thanks to multiple interest rate reductions by the SA Reserve Bank. This had ushered many (especially younger) consumers to purchase vehicles and homes at attractive interest rates. As interest rates started to increase in late 2021, these consumers have started to feel the increasing burden of servicing asset-linked debt: average interest rate for a bond went from 8.3% in Q4 2020 to 11.4% in Q1 2023, and more asset debt has been restructured as part of debt counselling during this period. **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 24.8% to ~1.9%, allowing consumers to pay back expensive debt quicker**.
  - The number of consumers successfully completing debt counselling successfully has increased by nine-fold since 2016. **Consumers who successfully completed debt counselling in Q1 2023 paid back over R406m worth of debt to their creditors as part of the debt counselling process**.
- During the same period, we observed increasing levels of interest from consumers for **online debt management on** www.debtbusters.co.za. New (free) subscriber base increased by 92% over the past year. Younger consumers generally have less debt burden and have been taking advantage of online debt management tools to help manage their debt more pro-actively. These consumers are keen to learn how best to 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.
- For more information and to find out how DebtBusters helps consumers with debt management, visit our website.

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 Q1 2023

- **Share of debt that is asset-based increases to almost ~60% for those taking home R20,000 or more per month**

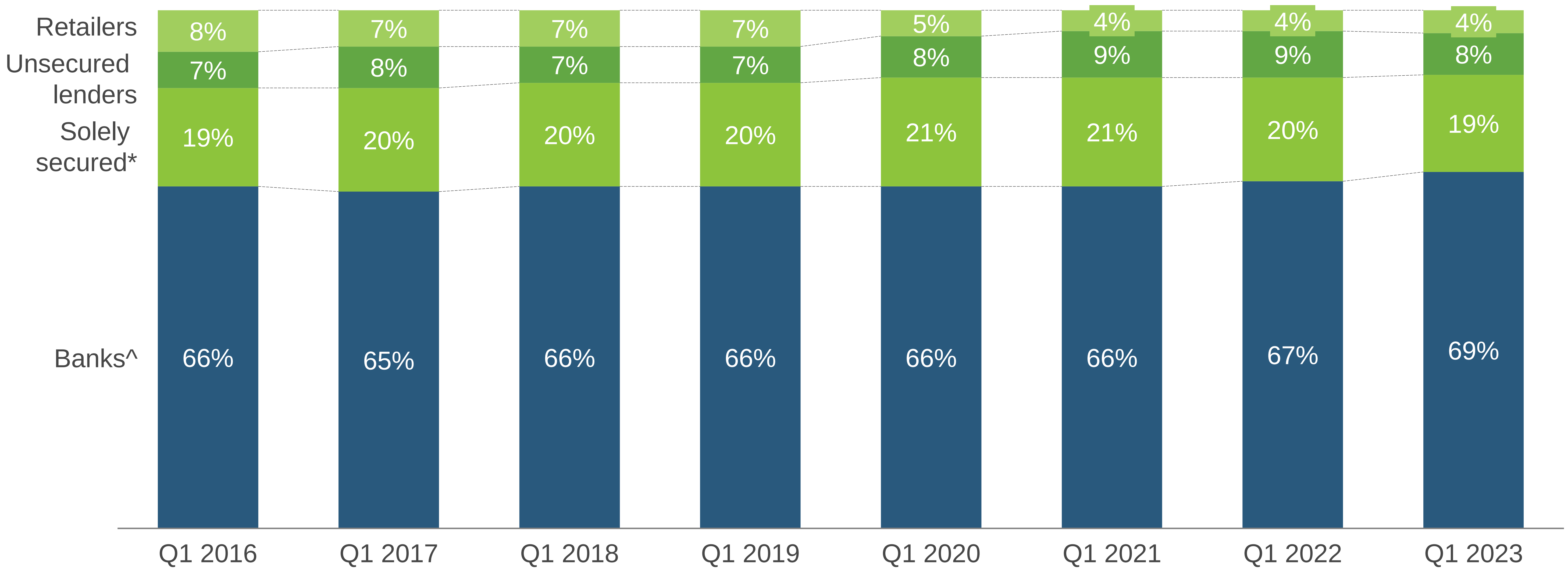
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

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

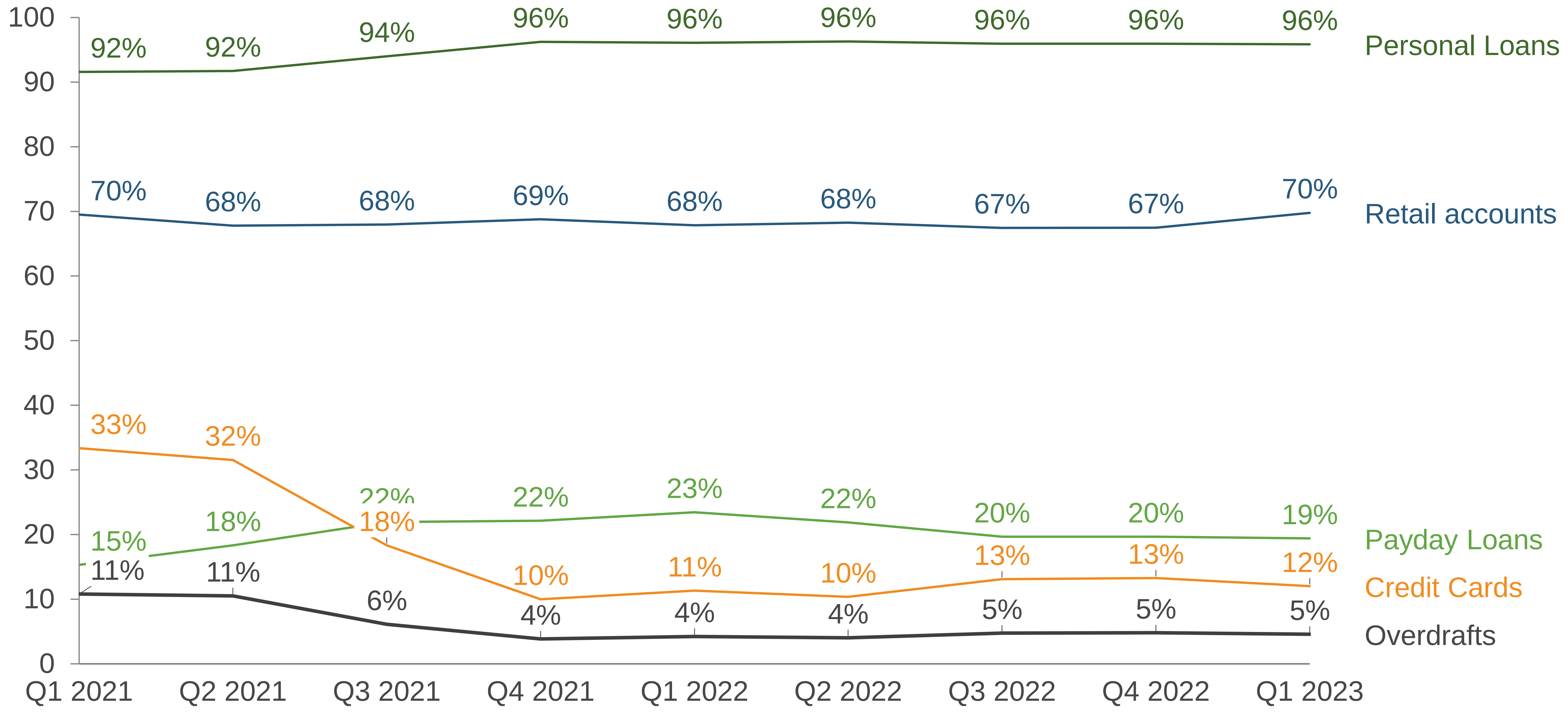
* Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW, who grant secured credit only (some of these institutions are linked to the banks)

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

Source: DebtBusters

Looking more closely at unsecured debt… 96% of new applicants have a personal loan (at the time they apply for debt counselling) & 19% come with a payday loan, indicating consumers continue to supplement their incomes with loans

Share of new applicants with…



- 96% of new applicants have a personal loan at time of application for debt counselling
- ~19% have a payday loan
- It appears loans are back in favour in line with increases in repo rate which started in November 2021

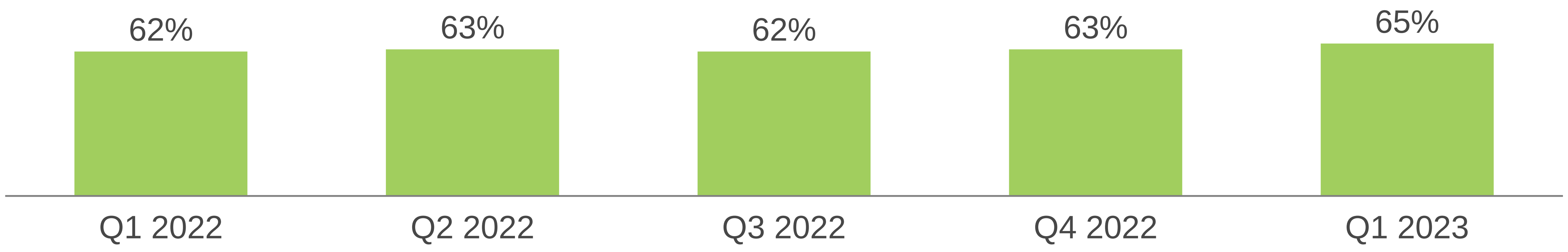
Payday loans refers to short-term unsecured loans
Retail refers to clothing accounts, store cards, furniture accounts and similar
Credit Cards refers to revolving credit facilities excluding those linked to stores or retail

Source: DebtBusters

Compared to previous quarters, overall debt levels have remained high, where total debt to annual net income ratio is now 120% on average…

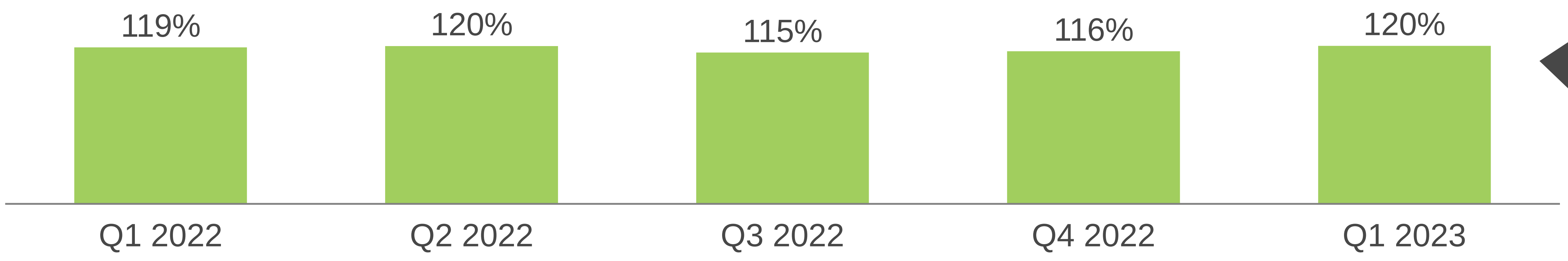
Original (median) monthly debt repayment to net income ratio[1] has stayed steady...

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 90%	Germany 102%
USA 101%	UK 148%
Korea 206%	Australia 211%

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

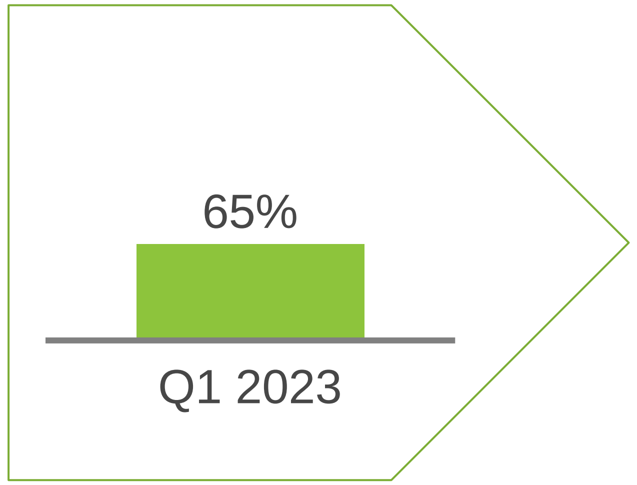
1 Median debt to net income ratio for all new consumers signed up in that quarter
Source: DebtBusters

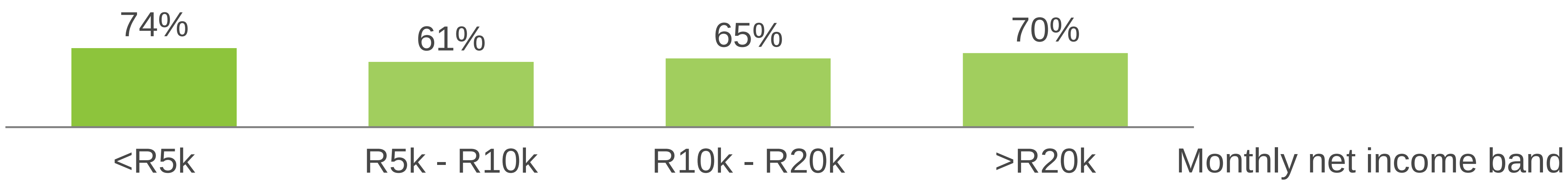
OECD (2023), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 5 May 2023)

…for those taking home more than R20k per month the total debt to annual net income ratio is 159% and they need 70% of their take home pay to service their debt repayments…

Original monthly debt repayment to net income ratio[1]

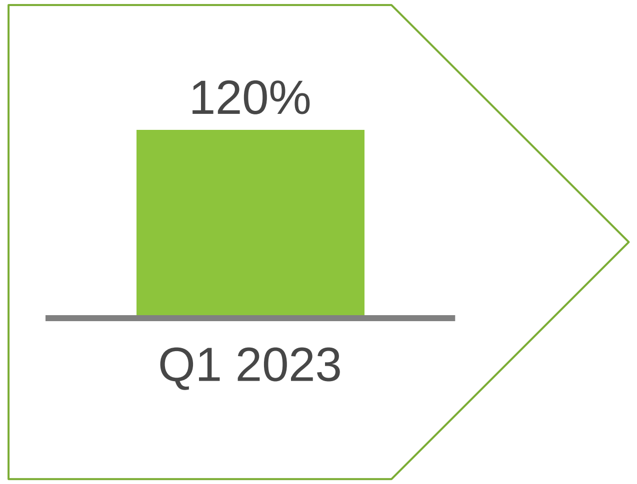
Percent of net income that was required to pay debt before signing up with DebtBusters

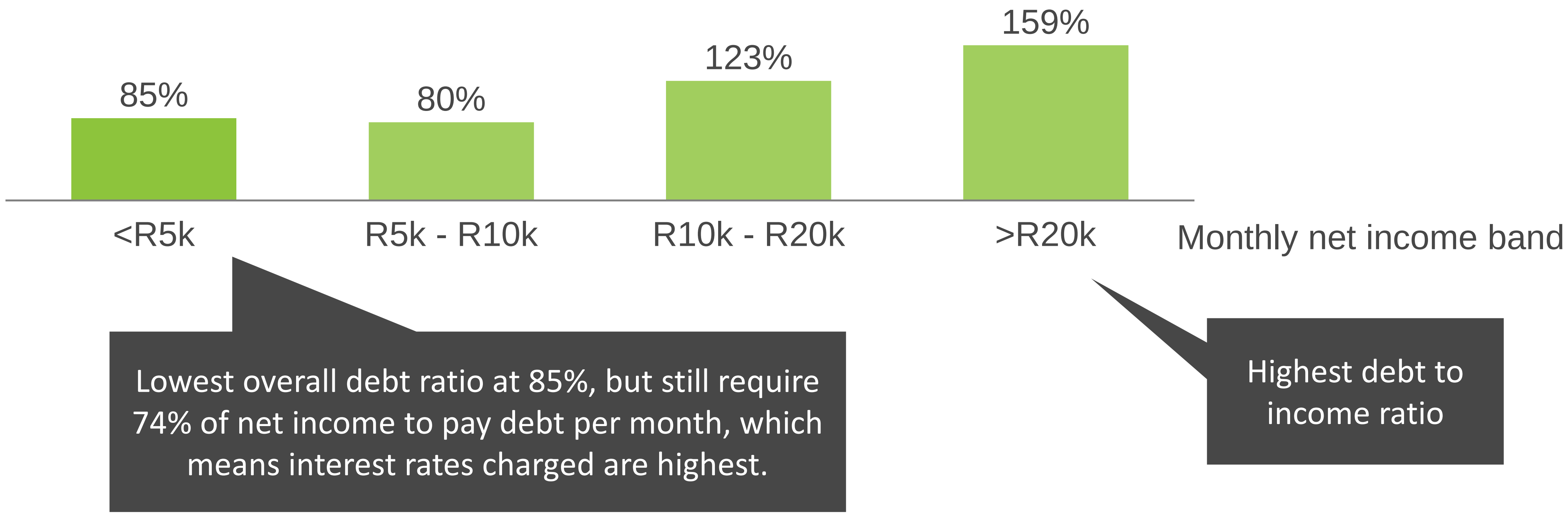




Original overall debt to annual net income ratio[1]

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





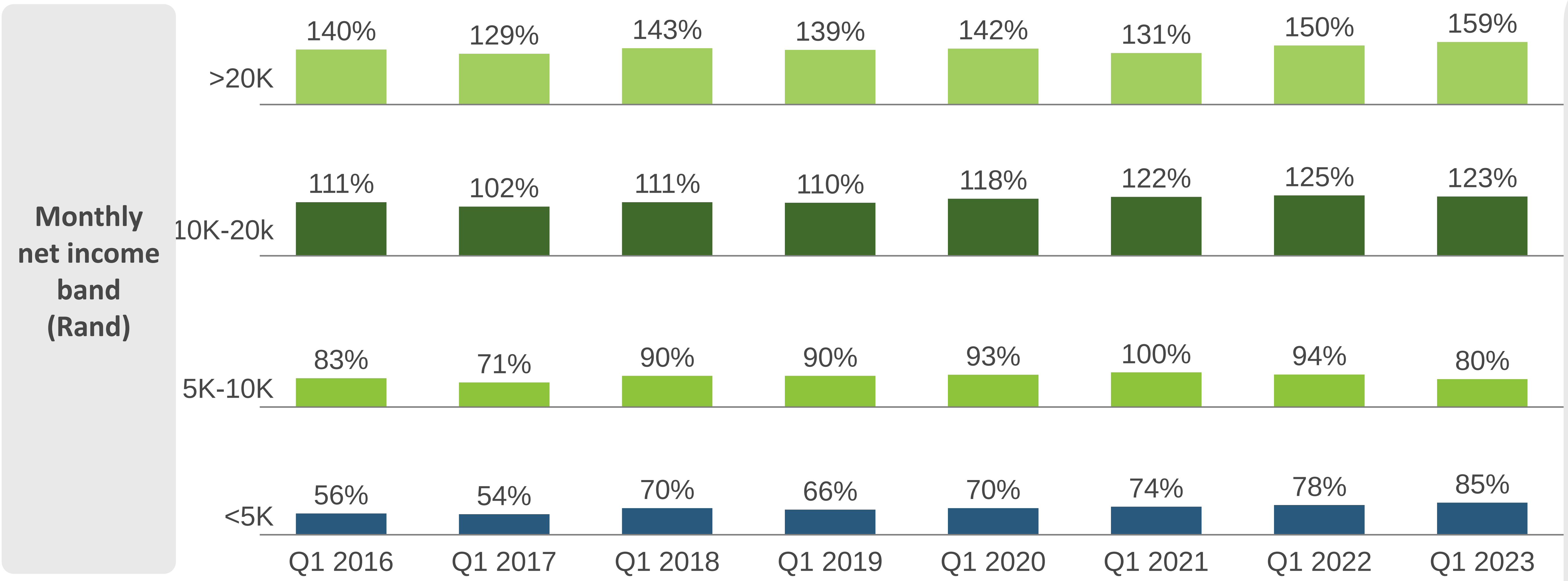
1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

…the debt to annual net income ratio for most income bands is near its highest level ever; those taking home R20k or more have a debt-to-income ratio of 159%

Original overall debt to annual net income ratio[1]

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



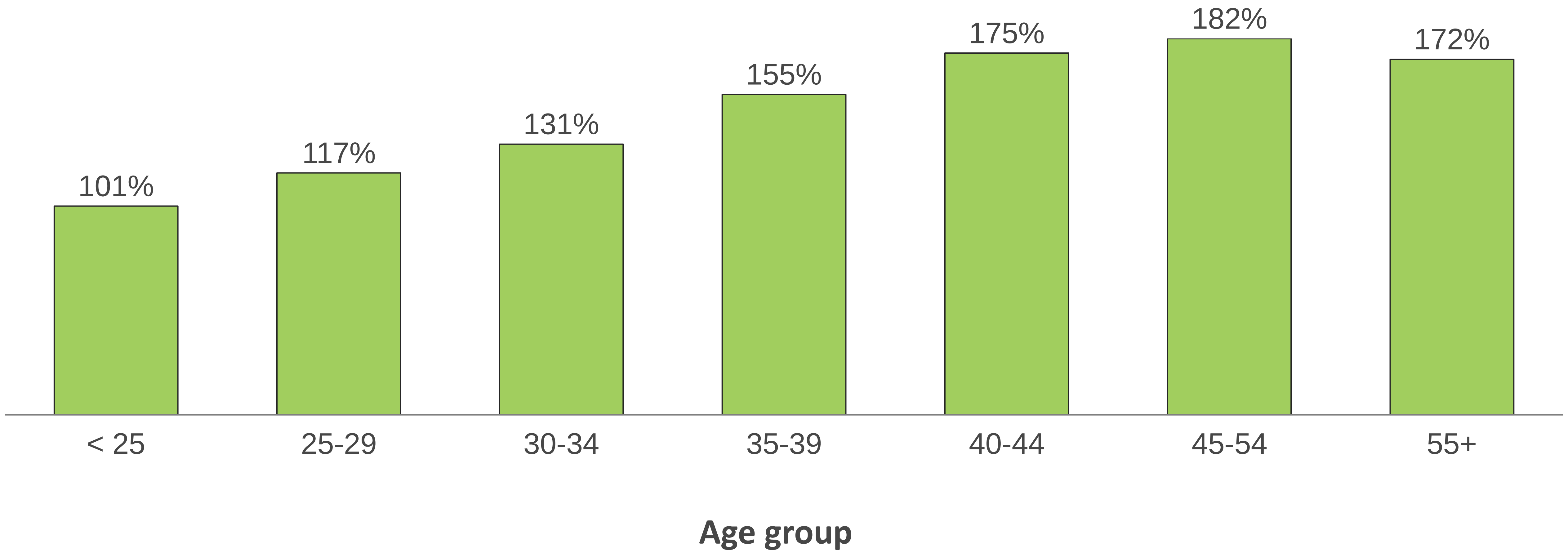
- **Debt exposure worsened significantly for top two income groups in the last few years, which are the some of the highest levels recorded**
- **Worst increase in debt exposure is for those taking home R20k or more: their debt-to-income ratio now sits at 159%, slightly less than the 161% of last quarter and the 2nd highest ever recorded.**

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

Source: DebtBusters

Debt-to-income ratio seems 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 average for each age group; for most recently completed quarter

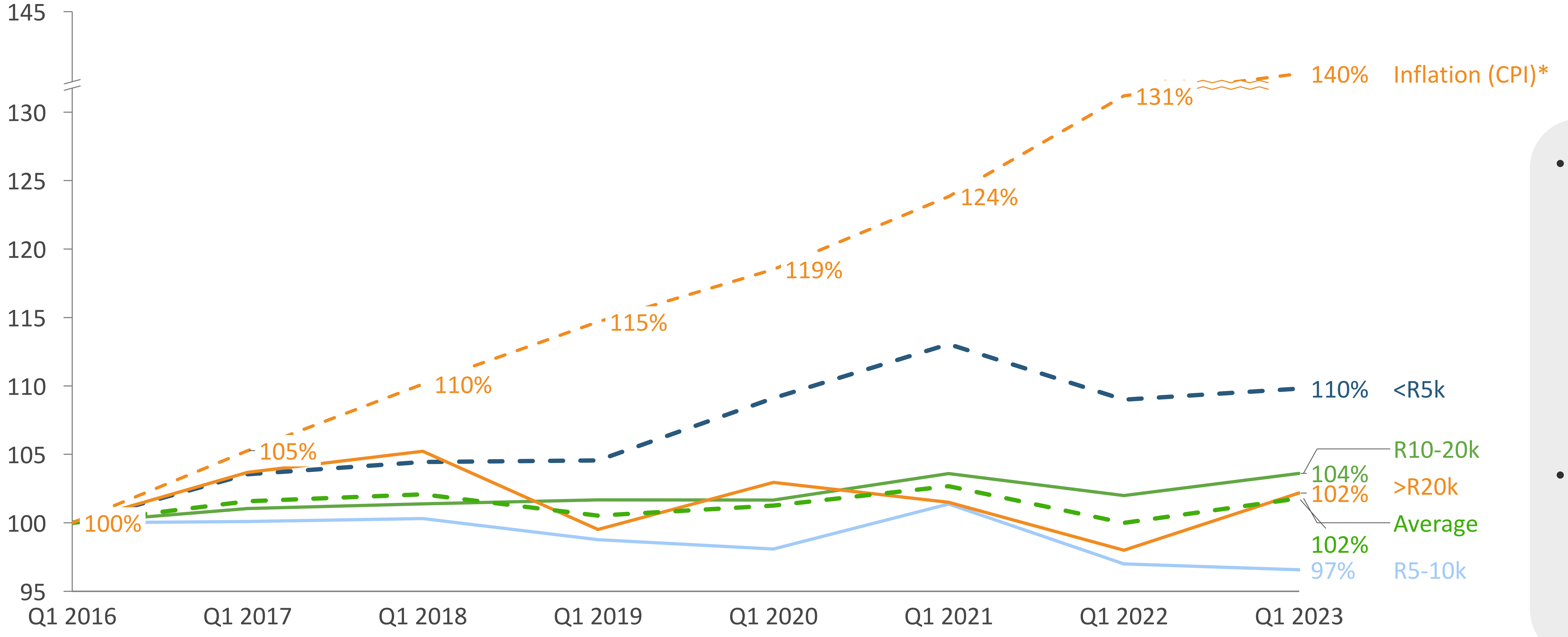
Source: DebtBusters

In the last seven years, average net incomes (take home pay) increased by 2% while inflation went up by 40%. This means that in real terms most South Africans had 38% less disposable income in 2023 compared to 2016 due mainly to the impact of high inflation…

Change in net income levels per income band of consumers signed up in the quarter

Indexed to 2016 levels

2016 = 100



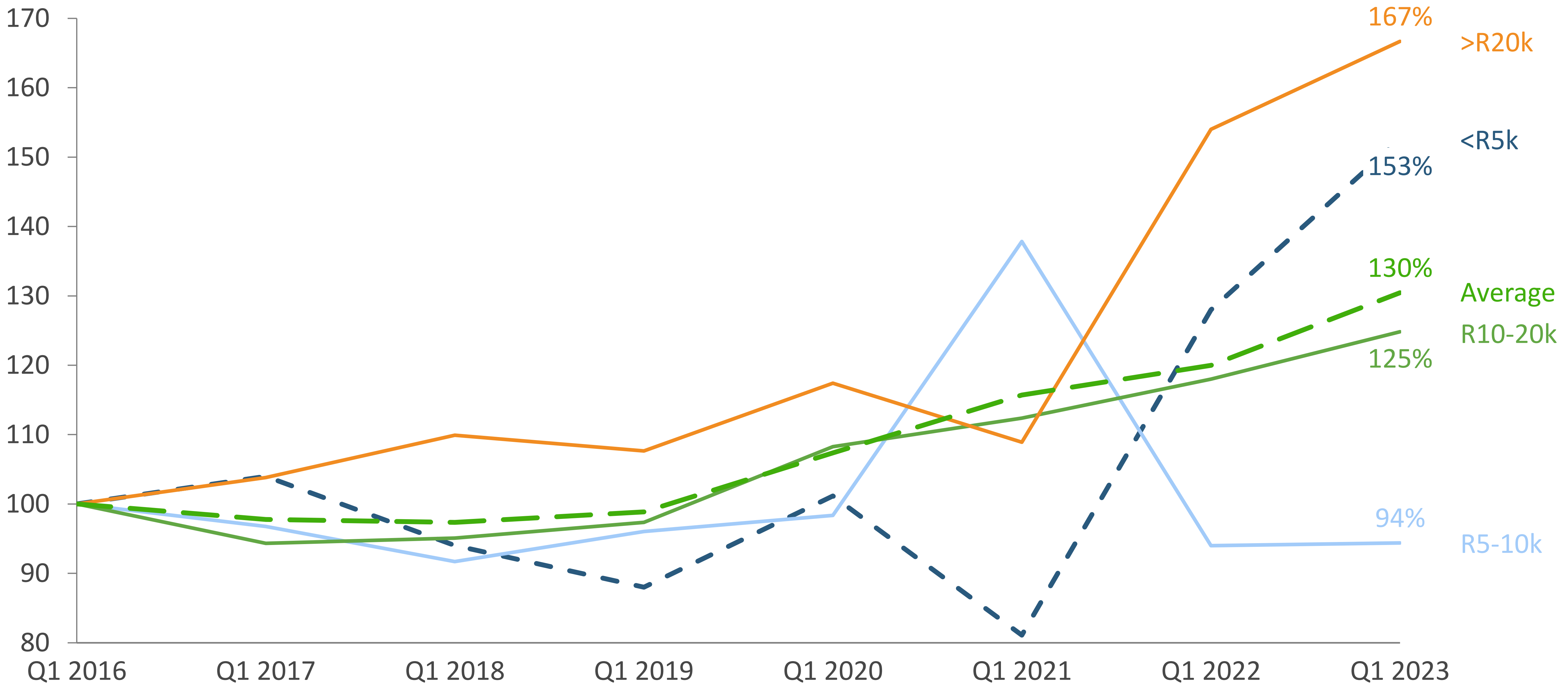
- **On average, net incomes increased by ~2% in the last seven years; during the same period compounded increase in inflation was 40%**
- **This means disposable incomes shrank by almost 38% during the past seven years**

Source: DebtBusters

* Stats SA CPI history

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 30% more unsecured debt in 2023 compared to 2016, those taking home R20k or more have unsecured debt levels that are 67% higher than 2016

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

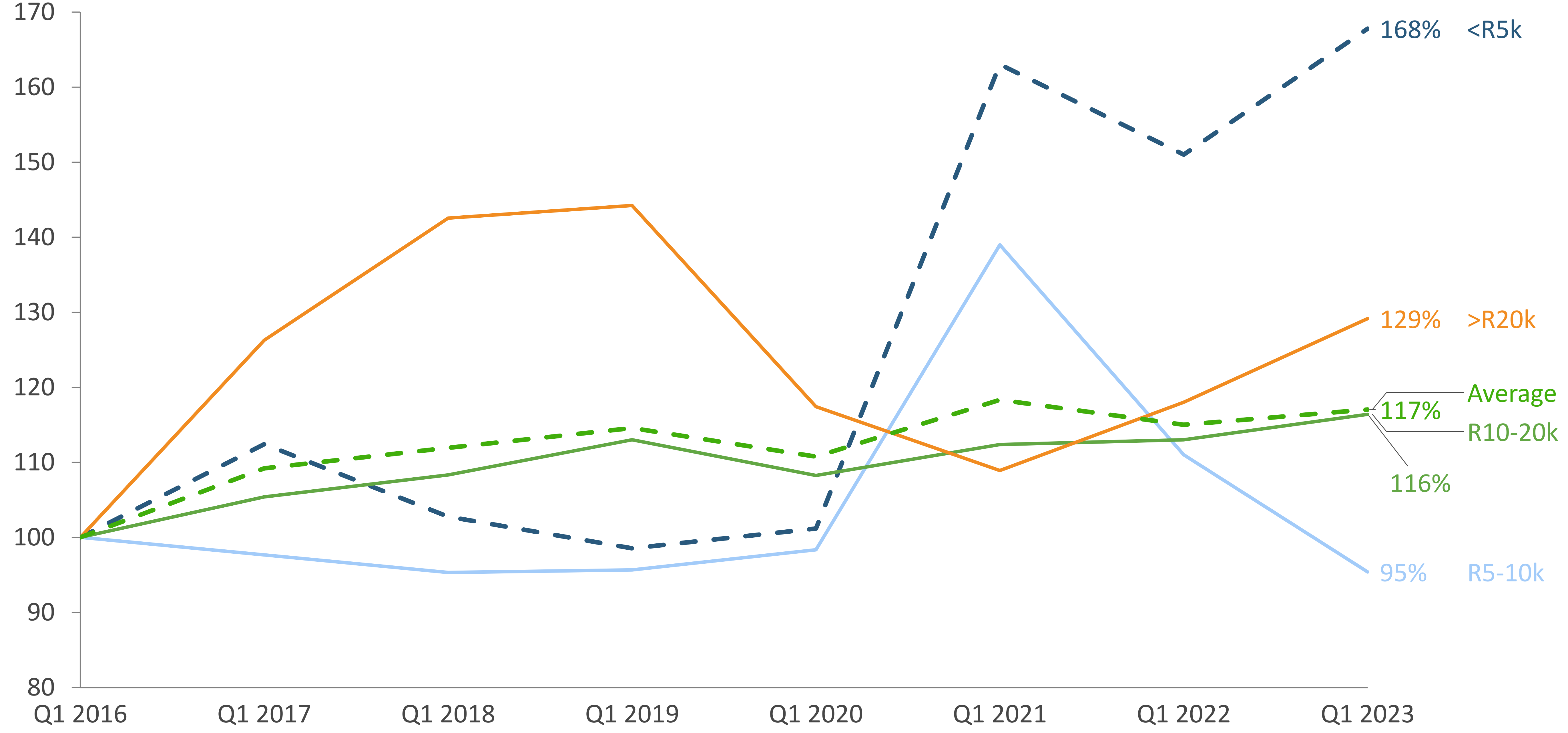


- **Unsecured debt for the average consumer is 30% higher than 2016 levels; for top earners the figure is 67%**
- **This indicates consumers continue to use unsecured credit to supplement their incomes and the situation has worsened significantly due to high inflation and interest rates**

Source: DebtBusters

Total debt levels (which include both secured and unsecured debt) have increased by 17% 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

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



- Compared to 2016, the total debt level increased by 17% on average
- Those taking home more than R20k had 29% increase in overall debt levels since 2016

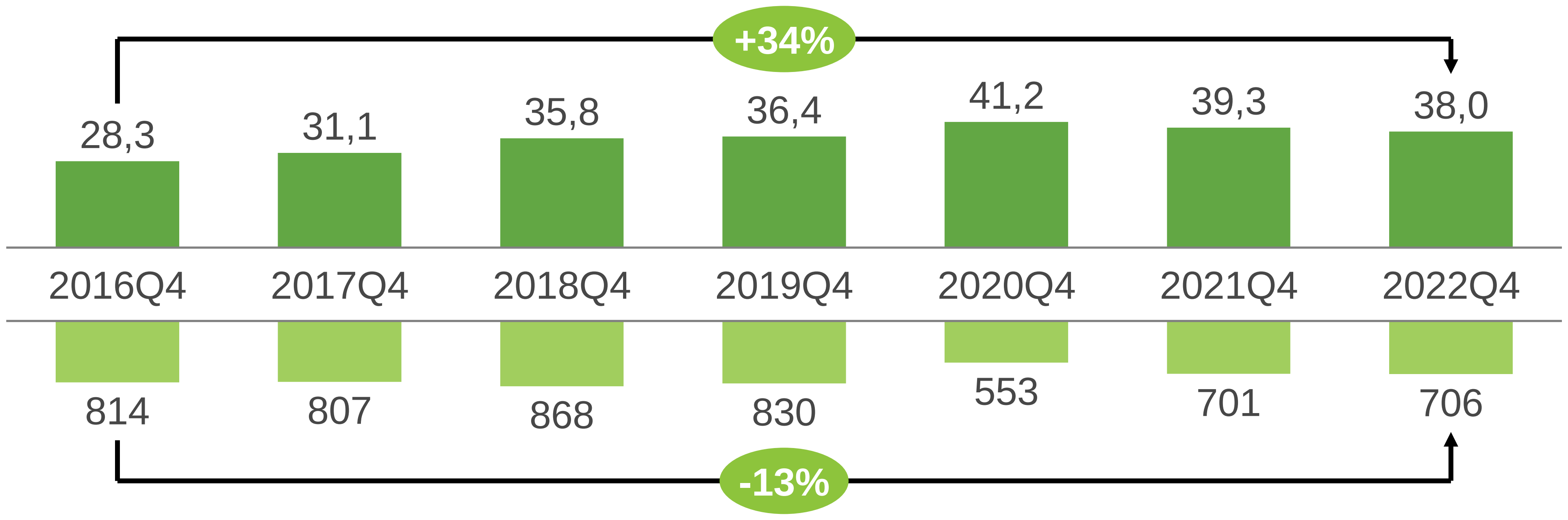
Source: DebtBusters

Since 2016, average unsecured loan size increased by 34% whereas the volume of new unsecured loans declined by 13%. This means larger loans are being granted to same number of consumers, highlighting lending risk appetite is still not back to pre-pandemic levels

Unsecured loans granted^

Average loan size
Rk

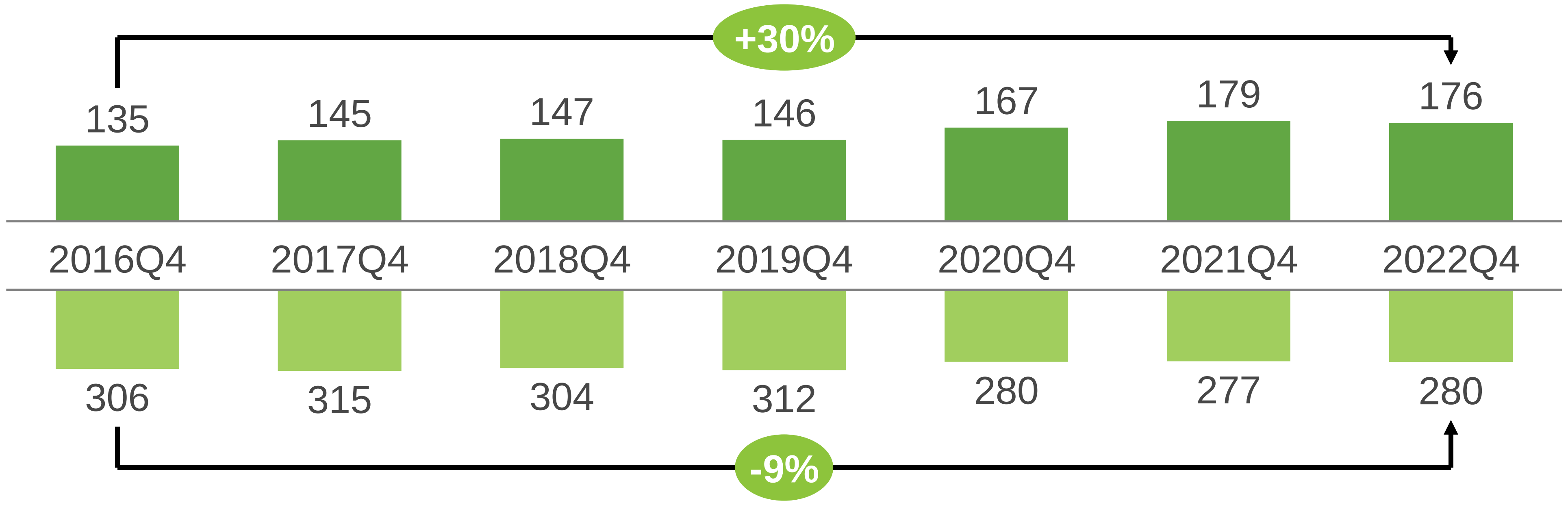
# of loans
thousands



Secured loans granted^

Average loan size
Rk

# of loans
Thousands



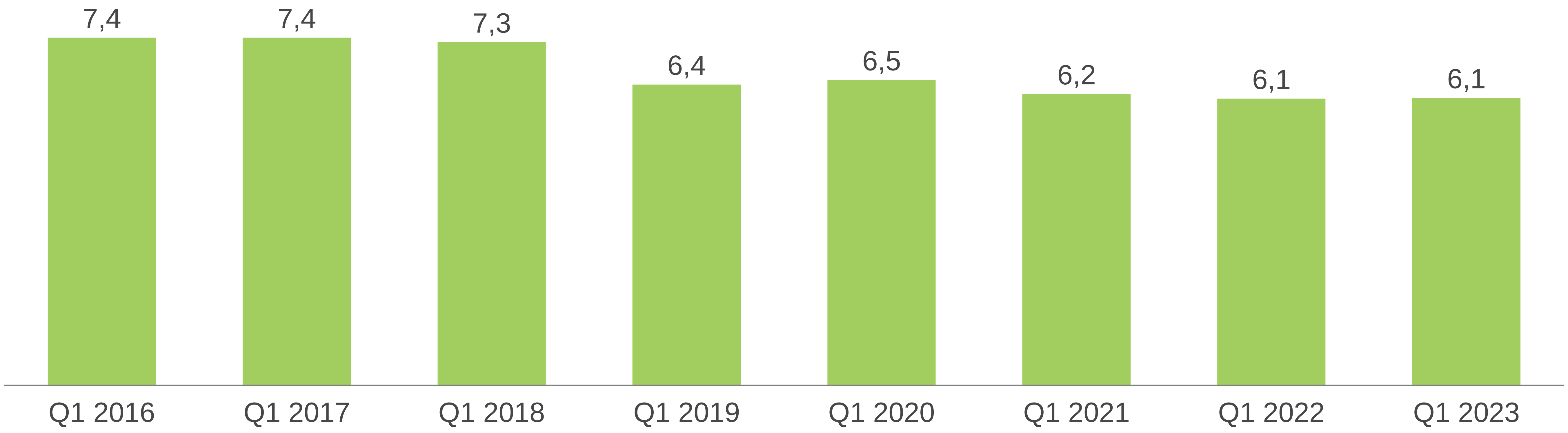
- There has been some recovery in the unsecured lending environment since lockdowns of 2020; however, volumes are not at the same levels as they were before 2020
- **Average unsecured loan size has grown by 34% since 2016, whereas the volume of new loans has shrunk by 13%, indicating an ever-smaller pool of consumers are receiving unsecured loans**
- Secured loans have also grown in size, and the number of loans, although also fewer, did not decline as much as unsecured loans

^: Q4 2022 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q4 2007 – Q4 2022

The average number of credit agreements (open trades) a consumer has continues to be at 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

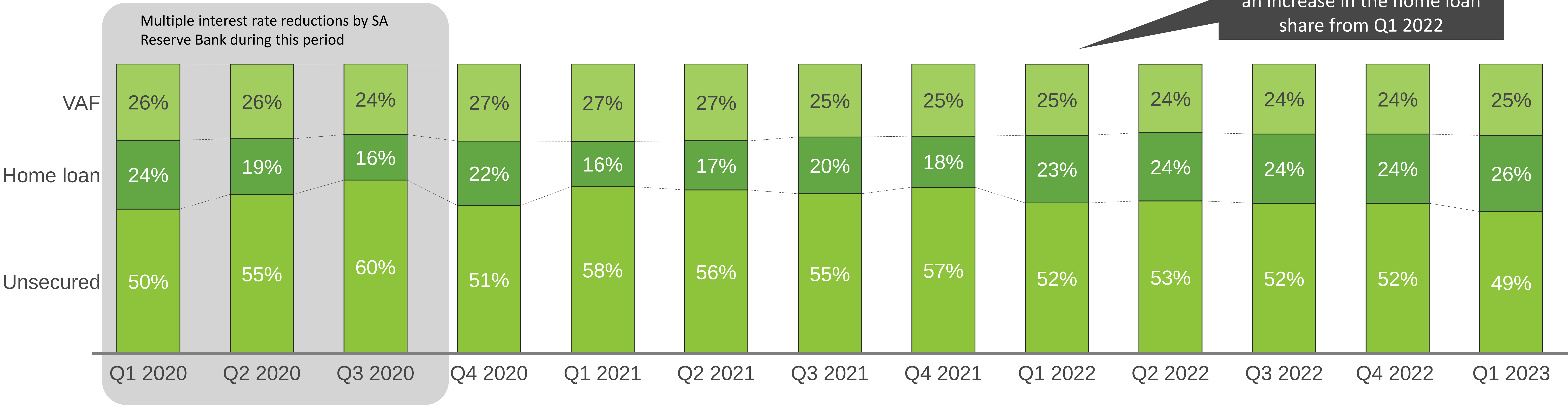
The debt mix for new applicants has shifted over the last few years driven by change in interest rates. Since early 2022, the share of home loan debt increased.

DEBT BUSTERS

Breakdown of new applicants debt

Percent by type

With interest rates starting to rise in Q4 2021, we have seen an increase in the home loan share from Q1 2022



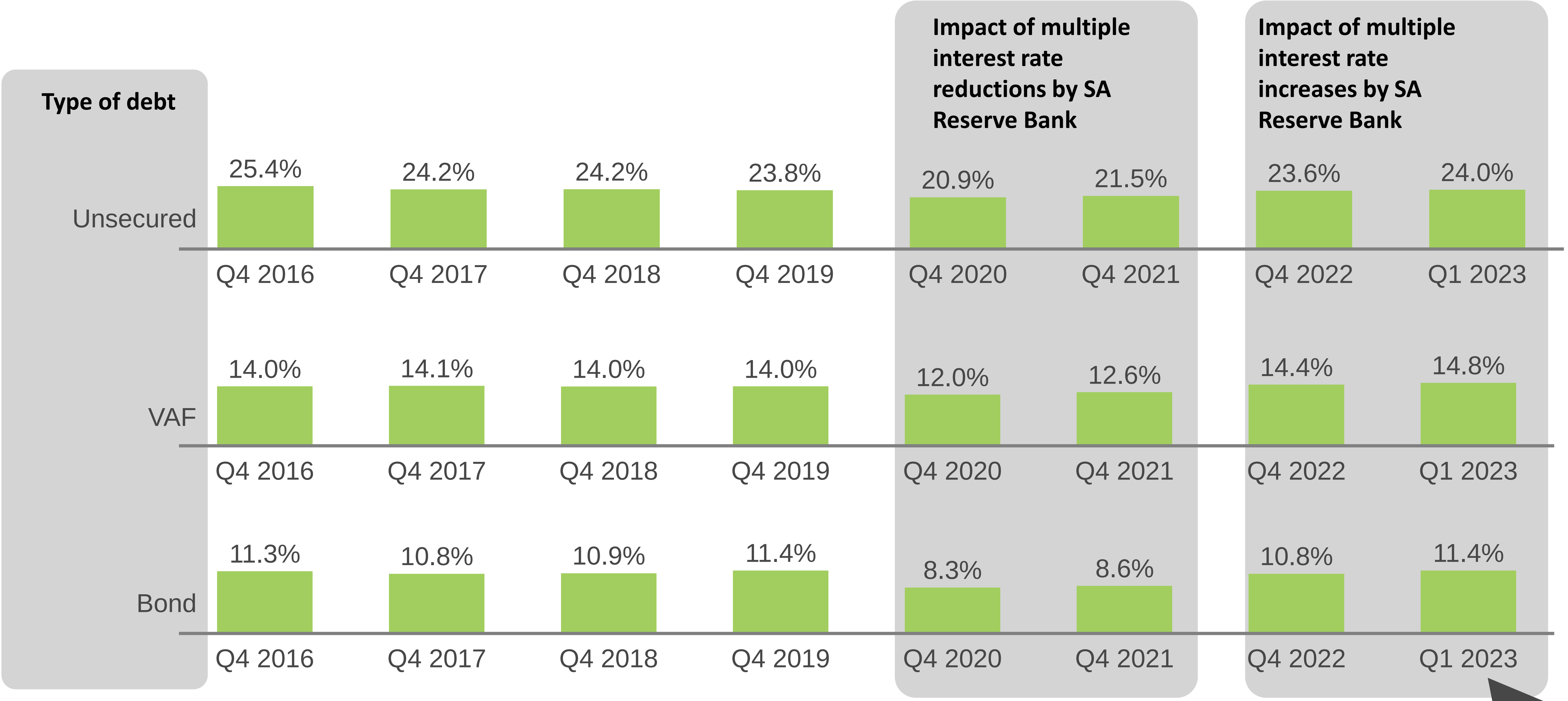
- Interest rate reduction combined with bank payment holidays in first three quarters of 2020 resulted in dip in asset debt share
- Starting from Q4 2020 (with expiry of payment holidays) more consumers with assets are seeking help; however many consumers with assets were benefitting from low interest rates
- As interest rates have started to rise in 2022, we have seen a rise in the asset share of new applicants

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

Most consumers with assets had benefited from successive interest rate reductions by the SA Reserve Bank in 2020. Since 2022, we saw the reverse: successive interest rate increases resulted in higher average interest rate of new applicants, which we expect to continue in 2023.

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 – almost back at 2018 levels
- Unsecured debt interest rate has big impact on what percent of incomes are needed to service debt

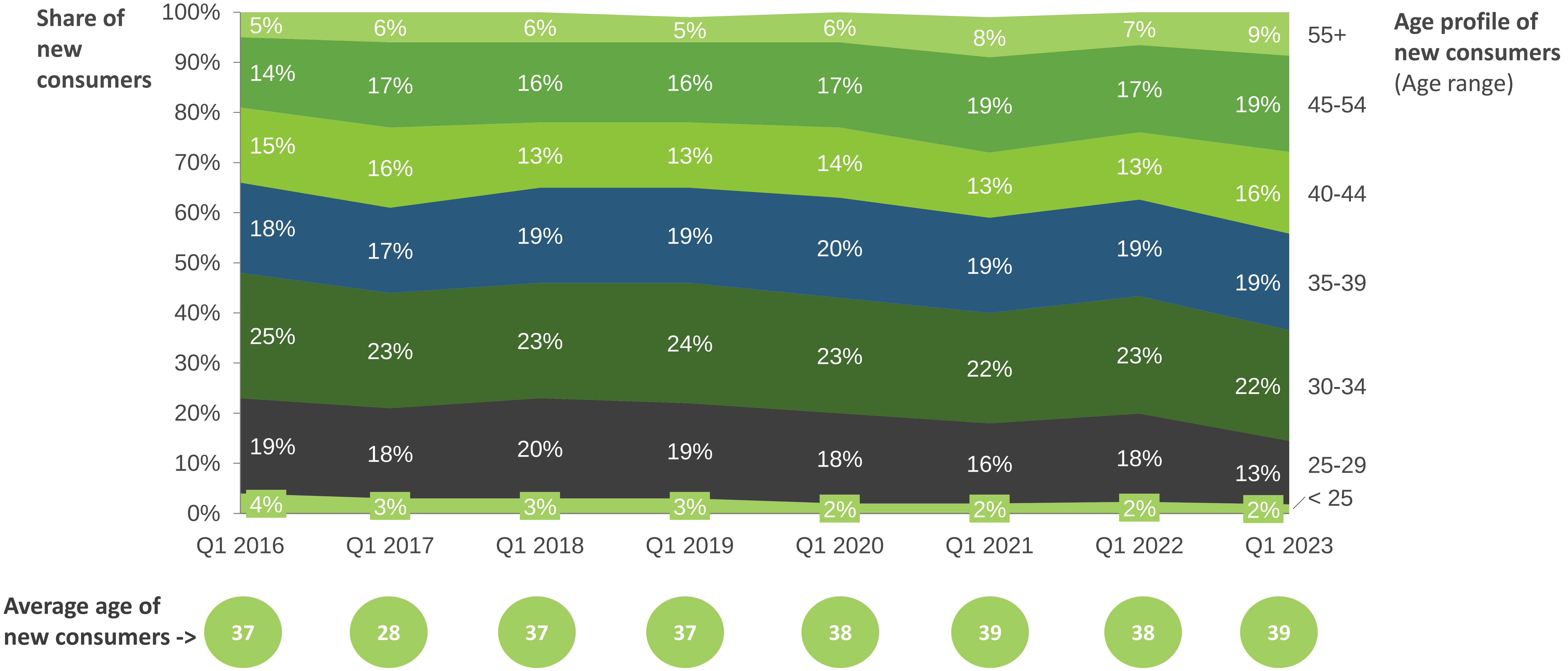
Max allowed at end of quarter:
- Unsecured: 28.25% p.a.
- VAF: 24.25% p.a.
- Bond: 19.25% p.a.

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.

Source: Debtbusters

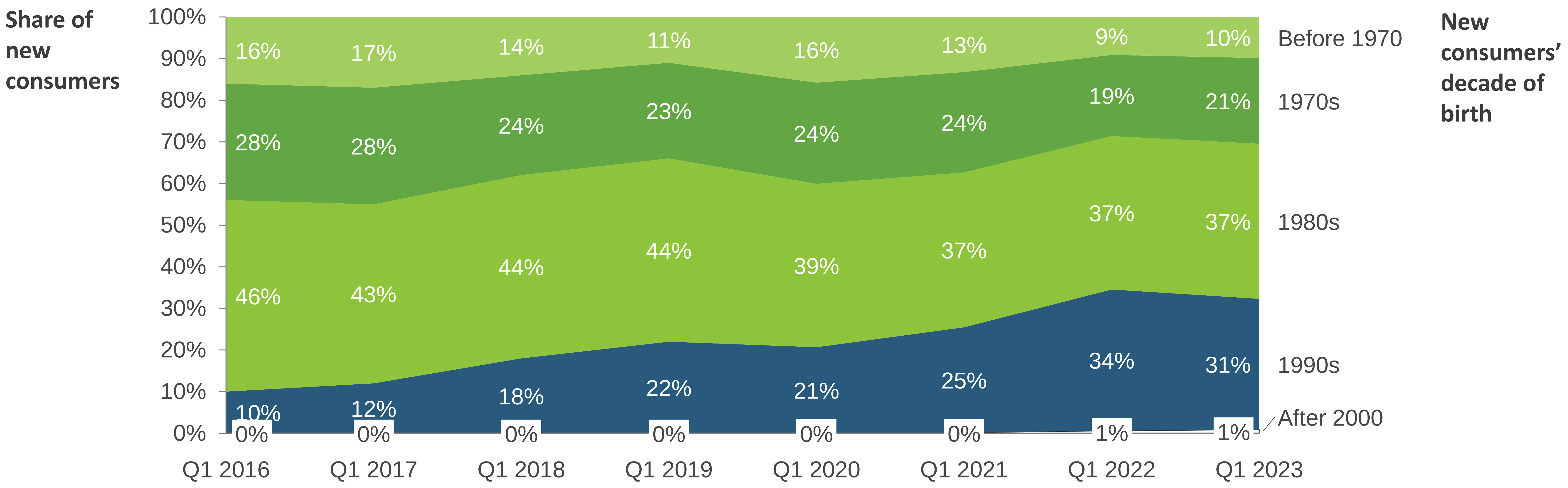
Consumer age profile indicates increasing financial stress in 45+ age group

While the average new applicant age has been consistent, the share of applicants who are 45 or older has increased from 19% to 28% over the past seven years, indicating financial stress is becoming more prevalent in this age category



Source: DebtBusters

Consistent with recent quarters, there is steady interest from male applicants, indicating men are becoming more proactive about addressing financial distress. For the most recent quarter, 55% of applicants were male

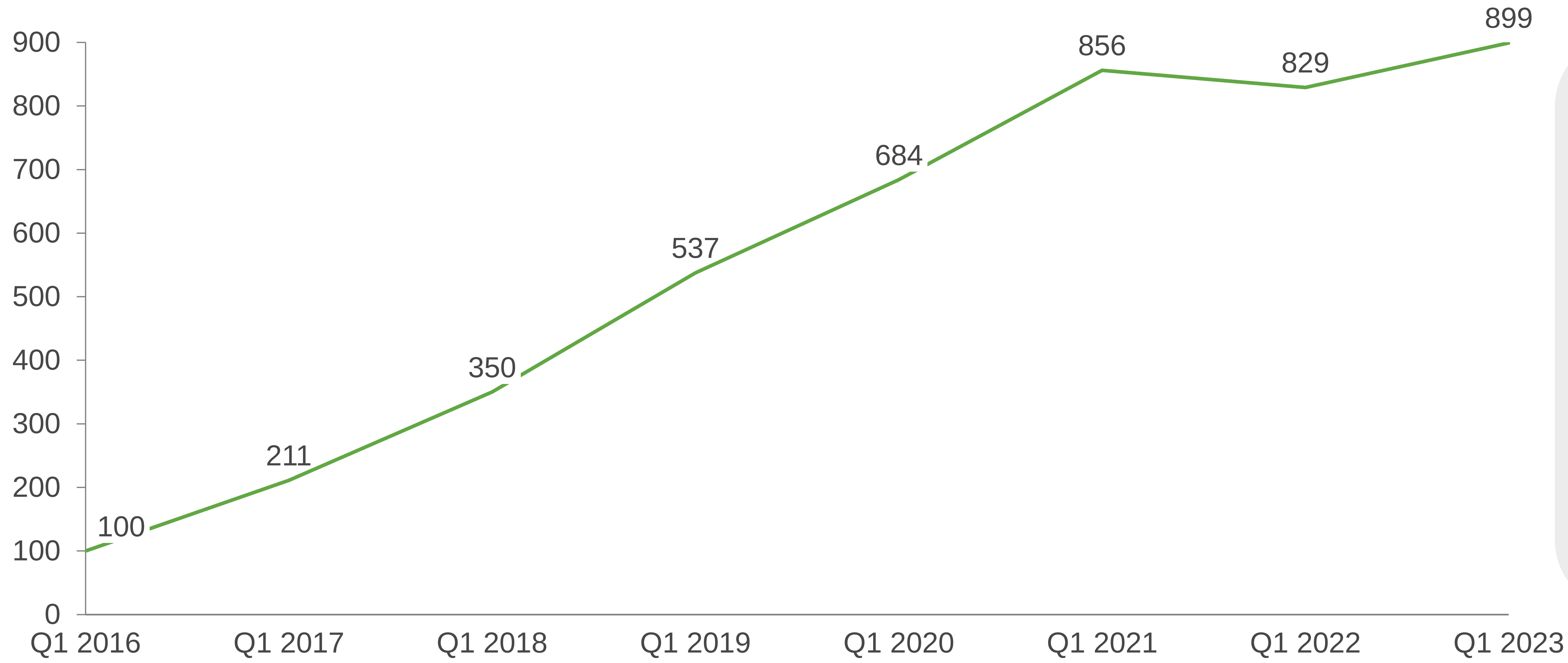


Share of consumers who are:	Q1 2016	Q1 2017	Q1 2018	Q1 2019	Q1 2020	Q1 2021	Q1 2022	Q1 2023
Male	48%	51%	55%	52%	56%	56%	57%	55%
Female	52%	49%	45%	48%	44%	44%	43%	45%

Source: DebtBusters

In the most recent quarter, the number of consumers graduating from debt counselling (successfully receiving their clearance certificates) was five times higher than the same period in 2016; consumers who graduated in Q1 2023 paid over R406m to their creditors while under debt counselling

Clearance certificates issued
Indexed to 2016 levels
2016 = 100

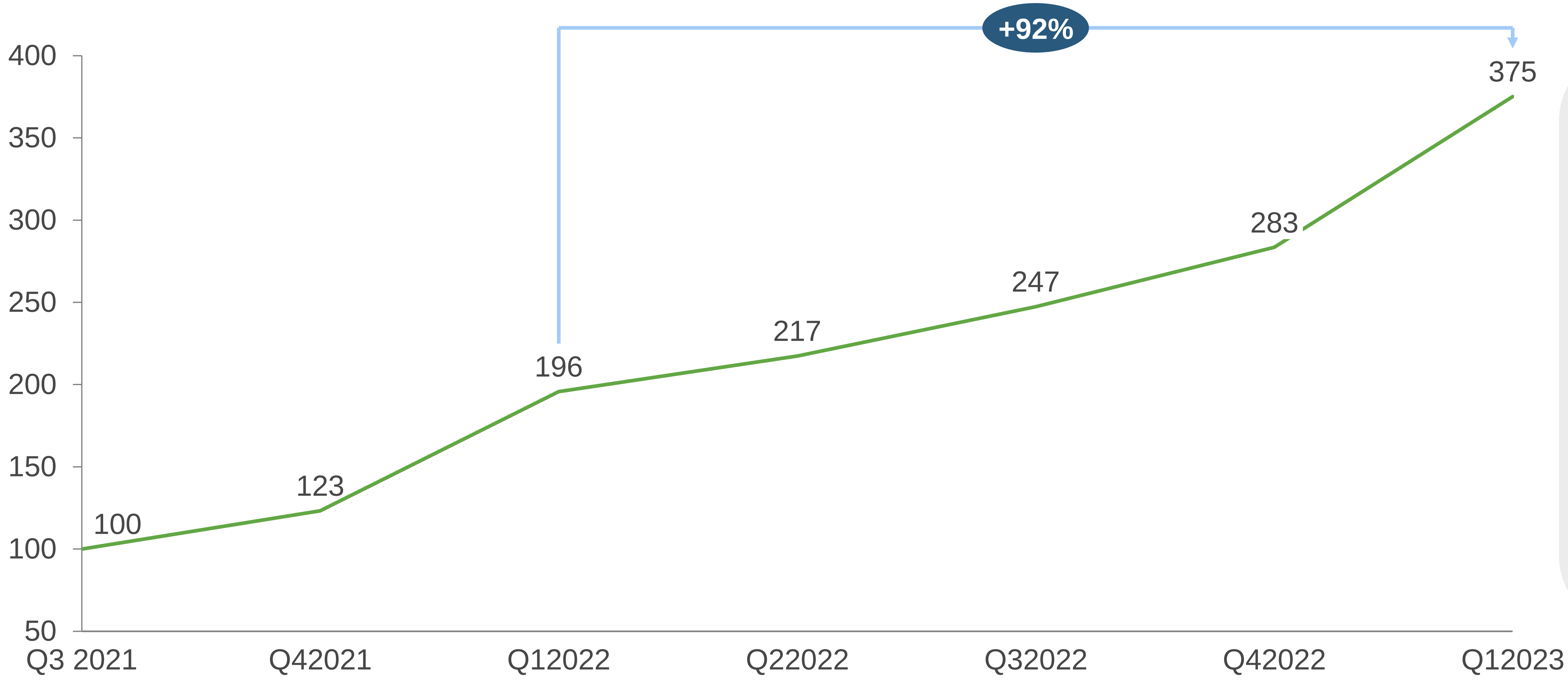


- **In Q1 2023, there were 9x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid over R406m to their creditors while under debt counselling**

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 92% over the past year

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



- **92% 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

For further information, contact our Marketing Manager Amelia de Milander at:
amelia.demilander@idmgroup.co.za.