TransUnion Industry Insights Report

Quarterly Overview of Consumer Credit Trends Released by TransUnion Financial Services

FIRST QUARTER 2023

The South African credit market exhibited significant resilience amid global economic conditions in Q1 2023. However, the impact across various product sectors was quite diverse, driven by both shifts in consumer behaviour and broader macroeconomic trends.

A strong growth of 27.1% YoY in the credit card sector was observed, primarily fuelled by younger demographics, such as Gen Z (born 1995–2010) and Millennials (1980–1994), contributing to over two-thirds of new card originations. However, lenders exhibited a cautious outlook by only marginally increasing the average credit limit on new cards despite the surge in demand. While serious delinquency rates improved overall, there was a concerning 11% YoY increase in one month overdue accounts. This underscores the need for lenders to ensure proactive credit management and maintain open lines of communication with customers to preserve the market's stability.

The non-bank personal loan market also saw significant growth in Q1 2023; origination volumes rose by nearly 25% YoY across all risk categories. Interestingly, a shift toward shorter-term loans decreased the average new loan amount by 11.2% YoY. This trend, in turn, influenced the overall financial metrics of the market — with a reduction in total outstanding balance and average balance per account. Although serious account-level delinquencies increased, the balance-level failures showed a substantial improvement, highlighting the importance of rigorous credit assessment practices and proactive loan management.

On the other hand, the vehicle asset finance market faced a decline with origination volumes down by 6.8% YoY. Influenced by rising interest rates, high inflation and a weaker currency, consumers are holding onto their vehicles for extended periods or exploring alternatives like vehicle rentals. This decline was juxtaposed by a 6.5% YoY increase in the average loan amount for those consumers who did opt for vehicle finance loans due to the rising cost of vehicle ownership. An alarming rise in first month defaults yearly points to the need for effective impairment management.

Simultaneously, the home loan market grew despite the high interest rate and inflationary environment. The change can be attributed to affluent consumers purchasing high-value properties, and ongoing semigration within the country due to the persistence of remote working conditions. However, the consecutive increases in the repo rate showed signs of potential strain on consumers' repayment abilities. Lenders must monitor these trends closely to prevent them from escalating into serious defaults.

Both the clothing accounts and retail revolving segments saw significant growth in the retail sector. The trends indicate a shift from cash to credit purchases in response to ongoing economic pressures. While the delinquency performance showed improvement in these sectors, there was an uptick in accounts missing payments by 30 days, signalling the need for early-stage delinquency monitoring.

In stark contrast, the retail instalment sector continued its downward trend; origination volumes decreased by 4.1% YoY, primarily due to some lenders switching their product offerings toward revolving facilities. Despite larger loans being taken due to inflation, a decrease in total accounts and reduction in total outstanding balances were noted. However, the sector demonstrated resilience, substantially improving serious account-level and balance-level delinquencies.

In conclusion, while the South African credit market demonstrated its resilience amid challenging global economic conditions, varying impacts across different sectors highlights the dynamic nature of the market. Shifting trends underscore the importance of lenders being adaptable, maintaining vigilant credit management practices, and continuously monitoring market dynamics to sustain the market's health.

Source:

1. TransUnion Q1 2023 VPI

Age Distribution Key:

- Gen Z (Born 1995–2010)
- Millennials (Born 1980–1994)
- Gen X (Born 1965–1979)
- Baby Boomers (Born 1946–1964)

Risk Distribution Key:

- Subprime (0–625)
- Near prime (626–655)
- Prime (656–695)
- Prime plus (696–720)
- Super prime (721–999)

Scores are based on TransUnion's CreditVision® generic scoring methodology

Credit card summary

Cardholders increasingly utilised their credit cards, as evidenced by the continual growth in outstanding card balances

CREDIT CARD METRICS	Q1 2023	QoQ change	YoY change
Number of accounts	6.9M	-0.6%	1.5%
Outstanding balance	R 154B	1.5%	9.2%
Average balance (per account)	R 22,473	2.1%	7.6%
Origination volumes (Q1 2023)	176K	-4.3%	27.1%
Average new account credit line	R 16,022	0.5%	-0.8%
Account-level delinquency rate (3+ MIA)	12.7%	10 bps	-50 bps
Balance-level delinquency rate (3+ MIA)	18.7%	10 bps	-130 bps

The South African credit card market exhibited significant resilience amid global financial volatility; robust demand and origination volumes echoed levels seen in Q1 2020. The market's growth (up 27.1% YoY) was propelled mainly by younger demographics, such as Gen Z and Millennials, contributing to 65.3% of originations in Q1 2023. Lenders, however, appeared to maintain a cautious outlook, evidenced by a marginal 0.8% YoY increase in average credit limits on new cards, even as demand surges.

The sector witnessed a steady expansion with the total number of credit card accounts growing by 1.5% YoY. Additionally, a 7.6% YoY growth in average balances was observed, fueling an overall rise of 9.2% in the total outstanding balance. This suggests an escalating trend of credit utilisation among South African consumers. Conversely, risk indicators improved with severe delinquency rates (defined as missing three or more repayments), falling by 50 and 130 basis points at account and balance levels, respectively. This decrease was primarily attributed to lenders proactively managing non-performing accounts, as evidenced by flat rolling rates.

Despite improvements in delinquency rates, a potential area of concern warrants vigilance; a marked 11% YoY increase in accounts falling into the one month overdue category. While the South African credit card market continues to grow, driven by younger consumers, lenders need to strike a balance between meeting demand and exercising caution. Ensuring proactive credit management and maintaining open lines of communication with customers will be critical in mitigating future risks and preserving the market's stability.

Personal loan — Non-bank

Non-bank personal loan origination volume rose amid decreased balances and mixed delinquency trends

PERSONAL LOAN (NON-BANK) METRICS	Q1 2023	QoQ change	YoY change
Number of accounts	5.6M	-3.1%	5.3%
Outstanding balance	R 76B	-5.9%	-8.2%
Average balance (per account)	R 13,584	-2.9%	-12.8%
Origination volumes (Q1 2023)	3.5M	-4.4%	24.9%
Average new loan amount	R 5,594	2.6%	-11.2%
Account-level delinquency rate (3+ MIA)	37.7%	130 bps	170 bps
Balance-level delinquency rate (3+ MIA)	34.1%	0 bps	-510 bps

Non-bank personal loan originations in South Africa experienced significant growth in Q1 2023; volumes rose by 24.9% year over year. This growth was fairly evenly distributed across all risk categories. Below prime originations (defined as those with a credit score below 656) accounted for 83.7% of the new loan accounts during this quarter. Interestingly, the average new loan amount for this period saw a decline of 11.2% year over year, which can be attributed to the surge in the origination of shorter-term loans (1–6 months) up 17% annually. These loans, which typically bear lower values, accounted for 91% of originations, marking a 2% increase from the prior year.

These shorter-term, lower-value loans also influenced the market's overall financial metrics. Total outstanding balance reduced by 8.2% year over year. Furthermore, the total number of loan accounts grew by 5.3%, which, coupled with the decreased loan values, resulted in the average balances per account reducing by 12.8%.

Serious account-level delinquencies increased by 170 bps year over year; with a higher number of recent accounts carrying smaller loan amounts becoming delinquent, it skewed account-level delinquency rates. However, given their lower values, these delinquencies did not impact balance-level delinquencies, which instead observed a substantial improvement, down 510 basis points year over year. This dynamic underscores the need for lenders to maintain rigorous credit assessment practices and proactive loan management to ensure the stability and health of the non-bank personal loan market.

Vehicle finance summary

Vehicle loan market navigated choppy waters as a decrease in originations was offset by loan and balance increases

VEHICLE FINANCE METRICS	Q1 2023	QoQ change	YoY change
Number of accounts	2.2M	-0.3%	0.6%
Outstanding balance	R 502B	1.2%	7.4%
Average balance (per account)	R 227,975	1.5%	6.7%
Origination volumes (Q1 2023)	123,124	-5.0%	-6.8%
Average new loan amount	R 386,116	0.3%	6.5%
Account-level delinquency rate (3+ MIA)	5.2%	50 bps	-190 bps
Balance-level delinquency rate (3+ MIA)	6.4%	60 bps	-80 bps

The South African vehicle asset finance market declined in Q1 2023; origination volumes were down by 6.8% yearly. This shift in consumer behaviour can be attributed to various macroeconomic factors, including rising interest rates, high inflation and a weaker currency, which have all contributed to a higher cost of vehicle ownership. Many consumers are holding onto their vehicles for extended periods, and some are exploring alternatives, such as vehicle rentals, as observed in the Q1 2023 TransUnion Vehicle Price Index Report.

Despite the decline in account volumes, those consumers who did opt for vehicle finance loans borrowed more significant amounts, with the average loan amount increasing by 6.5% year over year. This trend was linked to the higher cost of vehicle ownership, and further supported by the TransUnion Vehicle Price Index which shows over 50% of financed vehicles were above the R 300,000 value range. These larger loans, combined with a 50 bps increase in the repo rate, led to a 7.4% increase in outstanding balances, and a 6.7% increase in average balances year over year.

While serious account-level delinquency rates decreased by 190 bps year over year, indicating South African consumers are prioritising repayment of secured lending products, Q1 2023 saw a 650 bps increase in first month defaults year over year. This alarming increase underscores the importance for lenders to effectively managing these impairments to prevent them from rolling into more serious defaults and threatening the market's stability.

Home loan summary

South African home loan market continued to flourish amid economic challenges; strong growth recorded in volumes and balances

HOME LOAN METRICS	Q1 2023	QoQ change	YoY change
Number of accounts*	1.8M	0.5%	-0.2%
Outstanding balance	R 1.1T	0.9%	5.2%
Average balance (per account)	R 623,781	1.0%	4.8%
Origination volumes (Q1 2023)	52,223	-2.6%	9.1%
Average new loan amount	R 955,654	-2.7%	21.5%
Account-level delinquency rate (3+ MIA)	5.7%	30 bps	30 bps
Balance-level delinquency rate (3+ MIA)	4.8%	50 bps	60 bps

*Joint accounts reflected as one single account

South Africa's home loan market experienced growth in Q1 2023; loan originations increased by 9.1% year over year. This growth occurred despite the high interest rate and inflationary environment. It suggests those consumers who intended to buy a home followed through with their intent. Average new loan amounts also saw a considerable surge of 21.5% year over year, likely driven by more affluent consumers purchasing high-value properties. This growth can also be attributed to the ongoing semigration within the country as remote working conditions persist post-pandemic.

The combined impact of higher loan values and volumes led to a significant increase in outstanding balances, reaching R 1.1 trillion, a 5.2% year-over-year increase. Furthermore, the repo rate's 50 bps rise increased average balances by 4.8% yearly.

However, there were signs of potential strain on consumers' repayment abilities as consecutive increases in the repo rate impact performance. Accounts with a single month of missed payments surged by 25% year over year, and both severe account-level and balance-level delinquencies also experienced marginal increases in Q1 2023, rising by 30 bps and 60 bps, respectively. For example, the recent 50 bps hike in the repo rate in March 2023 resulted in an additional R 680 to be repaid monthly for an R 2 million home loan. Since Jan. 2022, the additional repayment value for such a home loan escalated by more than R 5,000 per month, highlighting pressure on homeowners and the need for lenders to monitor these trends closely.

Clothing account summary

New clothing accounts continued to surge, and existing users fueled balance growth

CLOTHING ACCOUNT METRICS	Q1 2023	QoQ change	YoY change
Number of accounts	15.2M	0.4%	0.7%
Outstanding balance	R 35B	1.4%	6.8%
Average balance (per account)	R 2,297	1.0%	6.1%
Origination volumes (Q1 2023)	689,138	-23.2%	36.4%
Average new account credit limit	R 4,646	31.1%	1.2%
Account-level delinquency rate (3+ MIA)	29.6%	93 bps	-197 bps
Balance-level delinquency rate (3+ MIA)	28.8%	95 bps	-246 bps

In Q1 2023, clothing account originations in South Africa saw a significant increase of 36.4% yearly, reflecting the growth experienced in the broader retail sector. The average limit on new accounts saw a marginal increase of 1.2% year over year. This slight increase was primarily attributed to the unchanged risk distribution of new clothing account holders.

Evidence of leveraging behaviour from existing clothing account holders was seen in the growth of average balances. Retailers in the market noted a recent shift from cash to credit purchases in their stores. This shift was likely a response to the harsh economic conditions within the country. This behaviour and the high growth in new business volumes contributed to a 6.8% year-over-year increase in total outstanding balances for the clothing account market.

In terms of delinquency performance, serious account-level and balance-level delinquencies experienced decreases in Q1 2023, down by 197 bps and 246 bps year over year, respectively. However, like other products in the market, Q1 2023 saw an increase in accounts with payments missed by 30 days, up 8.1% year over year. Lenders must closely monitor this early-stage delinquency to prevent future serious defaults.

Retail revolving summary

Robust retail revolving account growth and improved delinquency amid rising balances

RETAIL REVOLVING METRICS	Q1 2023	QoQ change	YoY change
Number of accounts	2.2M	-0.3%	0.6%
Outstanding balance	R 13B	2.5%	10.1%
Average balance (per account)	R 6,451	0.8%	4.8%
Origination volumes (Q1 2023)	192,283	4.7%	34.7%
Average new account credit limit	R 9,420	-6.2%	2.5%
Account-level delinquency rate (3+ MIA)	16.7%	120 bps	-20 bps
Balance-level delinquency rate (3+ MIA)	17.2%	80 bps	-60 bps

In Q1 2023, origination volumes for revolving accounts saw a marked increase — rising by 34.7% YoY. This trend was congruent with the overall growth observed in retail sales, notably in the clothing, footwear, textiles, and leather goods industry which expanded by 6.3% YoY. The high demand for new revolving accounts can be linked to the ongoing shift toward credit as the preferred financing option for retail purchases, driven by persistent economic pressures on consumers.

New account limits increased across all risk tiers. Interestingly, there was a dip in the share of new business for subprime account originations (those with credit scores below 625), down 5.4% YoY. As lower-risk account originations often come with higher limit assignments, this dynamic resulted in an overall 2.5% YoY rise in new account limits.

The total outstanding balance witnessed a 10.1% YoY growth, attributable to both the surge in new business and increased usage of existing retail revolving accounts. This behaviour was reflected in the 4.8% increase in the average balance. Regarding delinquency performance, serious account-level and balance-level delinquencies (account holders missing three or more payments) slightly decreased by 20 bps and 60 bps YoY, respectively. This underlines the need for lenders to continue employing effective credit management practices to maintain a healthy market.

Retail instalment summary

Retail instalment originations continued a downward trend, but performance improved

RETAIL INSTALMENT METRICS	Q1 2023	QoQ change	YoY change
Number of accounts	1.1M	3.2%	-2.4%
Outstanding balance	R 10.7B	5.2%	-7.0%
Average balance (per account)	R 9,208	1.9%	-4.7%
Origination volumes (Q1 2023)	130,483	-22.4%	-4.1%
Average new instalment amount	R 14,376	3.6%	15.2%
Account-level delinquency rate (3+ MIA)	30.9%	-50 bps	-240 bps
Balance-level delinquency rate (3+ MIA)	35.2%	-160 bps	-40 bps

In Q1 2023, the retail instalment sector showed a decline in origination volumes, down by 4.1% YoY, continuing the downward trend in this space. This can be attributed to specific lenders switching their product offerings toward revolving facilities rather than fixed-instalment loans. The influence of inflation on retail instalment loans is evident; the average new instalment loan amount increased by 15.2% YoY. This rise underscores the need for greater liquidity to cover the costs of larger retail purchases in an inflationary environment — which has led to opening balance growth across risk tiers.

Despite these larger loans, the decrease in volume, coupled with attrition from maturing existing loans, led to a 2.4% reduction in total accounts. This, in turn, contributed to a 7% YoY decrease in total outstanding balances.

The sector showed resilience in delinquency rates despite the challenging market conditions. Both serious account-level and balance-level delinquencies improved YoY — with a substantial 240 bps improvement in serious account-level delinquencies and a modest 40 bps improvement in balance-level delinquencies. This suggests existing accountholders in this sector are managing their debts well, and lenders are successfully mitigating risk.

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