TransUnion Industry Insights Report

Quarterly Overview of Consumer Credit Trends Released by TransUnion Financial Services

THIRD QUARTER 2023

TransUnion Industry Insights Report highlights the latest trends within the South African economic and credit industry. According to Statistics South Africa, the unemployment rate continued to decrease — having improved by 70 basis points from 32.6% in Q2 2023. With inflation, that's within the target range of 3%–6%. The South African Reserve Bank (SARB) kept the repo rate unchanged at 8.25% and lending rate at 11.75%. Moreover, retail trade sales increased by 0.9% year over year.

The South African consumer credit landscape continued to show a mixed picture of both demand and supply across all products — indicating a resilient consumer atmosphere. From an unsecured view, clothing accounts highlighted significant year-over-year growth of 11.2% in new account openings, primarily driven by younger demographics like Millennials. Credit card saw its first decline in origination year-on-year growth (-6.3%) in two years. Secured lending was still dominated by home loan originations (at 3% over vehicle finance at -7.5%). Financial institutions exercised caution as evidenced by a -9% year-over-year decrease in average credit limits for consumption products. This careful approach seemed to pay off as delinquencies showed modest improvements with an 80 basis point decrease across all products.

The third quarter of 2023 saw a balance growth of 5.6% year over year across the industry, with all financial products contributing positively except for personal loans which decreased by 1.7% year over year. This can be attributed to different factors, one being the closed accounts book increasing by 17% YoY.

With exception to secured products, all other credit products (which are mostly utilised for consumption purposes) saw a decrease in serious delinquencies. Vehicle finance saw its first share of increasing accounts in arrears (by 70 basis point YoY) since 2022. This increase in delinquencies might be attributable to high interest rates which result in larger numbers of instalments.

In summary, the South African consumer credit landscape in Q3 2023 was a study in contrasts. While some sectors, such as credit cards and personal loans, expanded their accounts in book, others like vehicle finance faced challenges. Across all sectors, risk management remains crucial, as does the need for targeted strategies to sustain growth and minimise delinquencies.

Source:

1. TransUnion Q3 2023 VPI
2. TransUnion Q3 2023 CPS
3. StatSA (Q3 2023 Unemployment Labour Force Survey)
4. StatSA (Q3 2023 Gross Domestic Product)
5. Interest Rates (South African Reserve Bank)

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 CreditVision® Generic scoring methodology.

Credit Card Summary

Credit card market holds steady amid global volatility, attracting younger users and showing improved risk.

CREDIT CARD METRICS	Q3 2023	QoQ change	YoY change
Number of accounts	6.9M	0.3%	1.3%
Outstanding balance	R 160B	1.6%	8.7%
Average balance (per account)	R 23,054	1.4%	7.4%
Origination volumes (Q3 2023)	188K	5.4%	-6.3%
Average new account credit line	R 27,821	4.2%	5.7%
Account-level delinquency rate (3+ MIA)	12.1%	-30 bps	-110 bps
Balance-level delinquency rate (3+ MIA)	17.4%	-10 bps	-110 bps

Amid ongoing global financial uncertainties, the South African credit card sector registered a significant drop of 6.3% year-over-year growth in new account openings. Younger generations, particularly Gen Z, were the only cohorts that contributed positively with 4.7% YoY growth in originations in Q3 2023. Despite the drop in originations, average credit limits went up by 5.7% YoY for newly issued cards.

In terms of market size, the total number of active credit card accounts saw a consistent uptick, growing 1.3% year over year. Concurrently, total outstanding balances and outstanding average balances per account increased by 8.7% and 7.4%, respectively. This suggests existing cardholders are increasingly utilizing their credit lines.

On the risk management front, there was improvement in account-level delinquencies, categorized as accounts with three or more missed payments. These delinquencies significantly improved, showing a decline of 110 basis points on an annual basis for both account level and balance levels.

Personal Loans

The personal loan market saw steady growth amid a shifting lender landscape — despite mixed delinquency trends and lower loan values.

PERSONAL LOAN (ALL) METRICS	Q3 2023	QoQ change	YoY change
Number of accounts	11.6M	-1.2%	2.1%
Outstanding balance	R 362.8B	-3.4%	-1.7%
Average balance (per account)	R 31,196	-2.3%	-3.7%
Origination volumes (Q3 2023)	4.8M	5.0%	7.5%
Average new loan amount	R 9,333	-8.9%	-21.5%
Account-level delinquency rate (3+ MIA)	34.2%	-80 bps	-110 bps
Balance-level delinquency rate (3+ MIA)	32.4%	-10 bps	-120 bps

In the third quarter of 2023, the South African consumer credit landscape saw a steady uptick in personal loan originations, growing 7.5% compared to last year. Interestingly, non-bank lenders have become increasingly dominant, responsible for 80% of all new personal loans extended in the quarter. This marked a 2.8% increase from the previous year in the share of loans originated by non-bank lenders. Concurrently, the average value of new loans granted declined by 21.5% year over year, a trend attributable to the decreasing share of personal loans provided by traditional banking institutions which usually carry higher opening loan amounts.

During the same period, the outstanding balance for personal loans in the South African consumer credit market modestly dropped by 1.7% year over year, while average balances per loan decreased by -3.7%. Although the growth in new loan volumes primarily drives balance increases, it was not the case for this quarter, resulting in the volume of closed accounts overshadowing new business booked.

Regarding credit risk, serious account-level delinquencies (accounts with three or more missed payments) saw an improvement of 110 basis points year over year. Furthermore, balance-level delinquencies significantly improved, declining by 120 basis points year over year. This further highlighted the decline in balances, indicating consumers were able to meet their debt obligations.

Vehicle Finance Summary

Vehicle asset finance market faced decline amid macroeconomic pressures — yet showed resilience with larger loan amounts and improved delinquency rates.

VEHICLE FINANCE METRICS	Q3 2023	QoQ change	YoY change
Number of accounts	2.2M	-0.5%	-0.6%
Outstanding balance	R 509.1B	0.7%	5.5%
Average balance (per account)	R 233,395	1.2%	6.2%
Origination volumes (Q3 2023)	118.3K	0.7%	-7.5%
Average new loan amount	R 391,703	-0.9%	4.6%
Account-level delinquency rate (3+ MIA)	5.5%	2 bps	70 bps
Balance-level delinquency rate (3+ MIA)	6.8%	100 bps	10 bps

In Q3 2023, the vehicle asset finance market experienced its fourth consecutive quarterly decline year over year, dropping by 7.5%. This downturn was primarily influenced by broader macroeconomic conditions, including a high interest rate environment and ongoing depreciation of the Rand, contributing to the rising cost of vehicle ownership. Amid all this decline, Gen Z was seen as the consistent, positive driver of originations (by 20.5%) compared to last year.

Despite the decline in new vehicle asset finance originations, the average loan amount for each financed vehicle increased by 4.6% year over year. This rise in loan amounts was likely a direct response to escalating costs of vehicles. Consequently, outstanding balances in the vehicle asset finance sector grew by 5.5% annually. This suggests while fewer consumers may be entering the market, those who do are taking on larger loans, thereby contributing to the growth in outstanding balances.

Serious account-level delinquency rates in the vehicle asset finance sector showed an increase of 70 basis points year over year since 2021. This was attributed to a 17% YoY increase of accounts that are below prime. The increase in serious delinquencies was also seen on balances by 10 basis points YoY.

Home Loan Summary

South African home loan market experienced strong growth amid high interest rates, with diverging trends in debt management and delinquency rates.

HOME LOAN METRICS	Q3 2023	QoQ change	YoY change
Number of accounts*	1.8M	0.03%	2.5%
Outstanding balance	R 1.19T	1.0%	7.4%
Average balance (per account)	R 643,472	1.0%	4.8%
Origination volumes (Q3 2023)	56.7K	0.9%	3.0%
Average new loan amount	R 904,346	-2.3%	18.1%
Account-level delinquency rate (3+ MIA)	6.9%	20 bps	150 bps
Balance-level delinquency rate (3+ MIA)	6.1%	30 bps	200 bps

*Joint accounts reflected as one single account

In the third quarter of 2023, the home loan market displayed continuous growth with loan originations rising by 3.0% year over year. This expansion occurred despite a challenging macroeconomic landscape of high interest rates and inflation. The data implies consumers committed to purchasing homes may be largely unaffected by the increased cost of credit, suggesting a more affluent demographic. This was supported by the increase in average new loan amounts — which escalated by 18.1% year over year — leading to higher values and volumes of loan originations.

This growth also led to a 7.4% year-over-year increase in outstanding balances. However, according to the Q3 2023 TransUnion Consumer Pulse Study, one in three consumers surveyed expressed intentions to accelerate their debt repayments, particularly in the current high interest rate environment. This proactive approach to debt management is likely why growth in outstanding balances remained moderate compared to the increase in average new loan amounts. It suggests consumers with extra financial resources are actively reducing the principal payments on their outstanding home loans, mitigating the impact of high interest rates.

For consumers without the luxury of additional disposable income, the escalating interest rate increased financial strain, pushing them toward delinquency. This was evidenced by a notable uptick in serious account-level and balance-level delinquencies, up 150 and 200 basis points, respectively.

Clothing Account Summary

Clothing accounts saw robust growth and credit limit expansion.

CLOTHING ACCOUNT METRICS	Q3 2023	QoQ change	YoY change
Number of accounts	15.9M	3.0%	6.6%
Outstanding balance	R 36.6B	2.7%	12.3%
Average balance (per account)	R 2,305	-0.3%	5.4%
Origination volumes (Q3 2023)	838K	8.0%	11.2%
Average new account credit limit *	5,970	-16.1%	43.5%
Account-level delinquency rate (3+ MIA)	30.2%	20 bps	-20 bps
Balance-level delinquency rate (3+ MIA)	30.5%	160 bps	-130 bps

In the third quarter of 2023, clothing accounts in South Africa maintained their upward trajectory by registering an 11.2% year-over-year increase in new account originations. This growth aligned with the broader expansion observed in the retail sector for clothing, textiles and footwear (which rose 0.9% over the same period). Notably, the average limit on new clothing accounts grew substantially, increasing 43.5% year over year. This significant rise was likely attributable to lenders implementing ‘shadow limit’ campaigns for new accounts. Shadow limits are additional credit allowances granted beyond the initial issue limit based on a consumer’s credit history, providing them greater purchasing power.

Year-over-year, outstanding and average balances for clothing accounts grew by 12.3% and 5.4%, respectively — indicating a trend of increased credit utilization among clothing account holders. This aligned with statements from various retailers noting the uptick in credit bookings impacting retail sales. The balance growth suggests consumers are increasingly leveraging credit to make purchases.

Account-level and balance-level delinquencies showed marginal improvements compared to the previous year, decreasing by 20 and 130 basis points year over year, respectively. Even with consumers’ rising trend of leveraging behaviour, lenders may need to exercise vigilance in monitoring account performance. This is particularly important amid current economic challenges affecting many South African households — as over-leveraging could lead to spikes in defaults.

Retail Revolving Summary

Retail revolving industry showed stable performance, characterized by healthy balance growth and stabilizing delinquency rates.

RETAIL REVOLVING METRICS	Q3 2023	QoQ change	YoY change
Number of accounts	2.0M	2.9%	-2.4%
Outstanding balance	R 13B	2.9%	3.2%
Average balance (per account)	R 6,431	-0.1%	5.7%
*Origination volumes (Q3 2023)	172,593	-13.9%	-10.3%
Average new account credit line	10,695	6.9%	13.4%
Account-level delinquency rate (3+ MIA)	19.1%	320 bps	-560 bps
Balance-level delinquency rate (3+ MIA)	17.6%	180 bps	-580 bps

On year-over-year comparison, new retail revolving accounts declined by 10.3% in the third quarter of 2023 — the first decline since Q1 2021. Furthermore, total accounts on book decreased by 2.4%, with outstanding balances increasing by 3.2%. This highlights existing customers are driving growth in balances with these revolving products, further indicating increases in utilizing credit over cash in response to economic pressures and resulting in the 13.4% upward growth of credit limits.

A decrease in total account volume may also be a result of lenders' ongoing efforts to close non-performing accounts to take on new business. For the period under review, serious account-level delinquency rates improved by 560 bps YoY and 580 bps on balances.

Retail Instalment Summary

New retail instalment loans continued to grow.

RETAIL INSTALMENT METRICS	Q3 2023	QoQ change	YoY change
Number of accounts	1.18M	2.3%	-2.7%
Outstanding balance	R 10.9B	3.5%	3.7%
Average balance (per account)	R 9,288	1.2%	6.6%
*Origination volumes (Q3 2023)	140,695	-14.5%	1.4%
Average new account credit line	15,802	15.0%	26.4%
Account-level delinquency rate (3+ MIA)	29.9%	20 bps	-390 bps
Balance-level delinquency rate (3+ MIA)	34.2%	70 bps	-480 bps

Retail instalment originations were up by 1.4% YoY to 140,695 in Q3 2023. From the supply level, average credit limits observed an increase of 26.4% — driven by prime and above consumers.

Outstanding and average balances both increased by 3.7% and 6.6% YoY, respectively, tallying back to the latest retail trade sales.

Lenders are being more cautious about who they lend to. This was reflected by new business being dominated by prime and above consumers, while existing books had about 75% below prime. Moreover, it was evident lenders were also effective in managing delinquencies as we observed continued decreases of serious account-level delinquencies and balances by 390 basis point and 480 basis point, respectively.