



RESEARCH BRIEFING

Understanding Recent Shifts in Wallet Composition

i BUSINESS CHALLENGE

Financial inclusion has been a critical driving force of South African consumer credit market growth. Yet, the discourse surrounding financial inclusion frequently concludes once a consumer has successfully entered the market. This leads to a critical gap in our understanding of sustained participation and engagement beyond the initial phase of financial inclusion.

Moreover, as South African consumers' needs and financial behaviours evolve, lenders must stay abreast of these changes. Identifying shifts in consumer wallets - the blend of credit products that consumers hold - can guide lenders to adapt their products and services, better catering to their customers.

The challenge, therefore, lies in understanding these dynamics in depth and transforming this knowledge into actionable strategies. The aim is to enhance the financial journey of consumers while ensuring lenders remain competitive and responsive in this diverse and changing market.

TransUnion conducted a study to help lenders solve these challenges. The aim of this research was to identify trends and shifts in the wallet composition of South African consumers over time and provide insights to lenders about how to respond to these changes with a specific focus on the graduation path from entry level products to more traditional and complex credit solutions.

The business questions we address in this study are:

- What is the wallet composition of South African borrowers?
- What does a typical borrower graduation journey look like for South African credit consumers?
- What are the potential implications for lenders to consider?
- How can lenders plan and execute a consumer graduation strategy proactively and confidently?



THE STUDY

- Our research began with segmenting credit-active South African consumers based on the products they had in their wallets as of December 2022. We analysed various demographics, such as age, gender, and risk distributions, in addition to their outstanding balances. The observed population was filtered to ensure these consumers were current on all their credit repayment obligations at the time of observation.
- We identified a total of 7.6 million credit active consumers who were current across all their credit repayment obligations at the point of observation.
- To understand how these consumers fell into their respective wallet segments, we delved into their past financial behaviour. We evaluated their starting wallet profiles from December 2018 and tracked their progress over four years. The dynamics measured to understand their graduation journey included:
 - new account openings,
 - balance-building behaviour, and
 - median score shift over this period.
- We didn't stop there. Our analysis also extended to the performance of these borrowers who graduated into more complex wallet compositions. We assessed their credit histories, looking at:
 - Their worst-performing statuses six and nine months before our study period to determine if they consistently performed well.
 - Their worst-performing status over the past two years and
 - Their frequency of missed payments over the past twelve months.
- Lastly, the study aimed to identify key credit variables that could predict good performance (i.e., no defaults on repayments):
 - We compared good performing graduate borrowers against non-performing graduate borrowers.
- The ultimate goal of our research was to enable lenders to devise strategies for the proactive and confident execution of a consumer graduation strategy.



KEY FINDINGS

→ Drawing on TransUnion’s consumer credit database, we identified several distinct wallet profiles at the end of December 2022:

Wallet Type	Consumer Count	Share of Consumers
Retail Only	2.1 million	27.1%
Retail and Unsecured	1.2 million	16.1%
Unsecured Only	1.9 million	25.3%
Unsecured and Secured	0.9 million	12.4%
Full Suite	0.8 million	10.7%
Retail and Secured	0.2 million	3.1%
Secured Only	0.4 million	5.4%

- Our initial findings reveal that age, gender, and risk dynamics influence wallet profiles. Younger consumers have less exposure to secured lending wallets, leading to a riskier representation in less complex wallets. Female borrowers had greater exposure to retail products than their male counterparts.
- Over the four years ending in December 2022, we found that 13% of consumers (1.1 million individuals), who were current on all their repayment obligations within their wallets in December 2018, graduated from simple product wallet profiles to more complex and sophisticated wallets.
- Unsecured personal loans and vehicle asset finance emerged as the products of choice for most graduating borrowers. Of the Retail Only borrowers, 36% graduated to Retail and Unsecured wallets by taking a bank-issued personal loan.
- Interestingly, borrowers who graduated grew their balances significantly. Among those who initially only had retail products in their wallets, 42% increased their balances by more than ten times upon graduation into more complex wallets. For consumers initially holding only unsecured lending products, 52% did the same upon graduation.

- Graduating borrowers also improved their credit scores over time. Consumers who initially had only unsecured products in their wallets increased their scores by 60 and 114 points upon graduating into Full Suite and Unsecured with Secured wallets, respectively.
- Finally, almost half of the graduating consumers (44.7%) avoided serious delinquencies, demonstrating the potential for successful graduation journeys in the credit market.
- However, a concern is associated with those consumers who graduate into more complex wallet profiles but fall into serious delinquency. This may suggest that these consumers needed more time to be ready to handle additional debt despite a consistent history of keeping up with payments before graduation. The impact of graduation is also dependent on the nature of the journey. For example, borrowers graduating into Unsecured and Secured wallets performed significantly better than other segments, with 57.4% maintaining current on all repayment obligations over two years.
- To provide lenders with more confidence in implementing a graduation strategy, we identified several credit variables, leveraging TransUnion’s CreditVision attributes, that can help predict and distinguish between performing and non-performing graduates:
 1. Lower Enquiries
 2. More extensive Credit History
 3. Lower Non-Mortgage and Revolving Balance Magnitude
 4. Lower Revolving Credit Utilisation Rates
- These findings underscore the importance of thorough, data-driven assessment when determining consumers’ readiness to graduate to more complex credit products. Such an approach helps mitigate risk for lenders while supporting a healthy credit journey for consumers.

TransUnion identified the seven distinctive wallet profiles at the end of December 2022

Wallet Profiles of South African Credit Active Consumers

Retail Only	Retail and Unsecured	Unsecured Only	Unsecured and Secured	Full Suite	Retail and Secured	Secured Only
Totalling 7.6 million consumers at the end of 31 December 2022						
2.1 M 27.1%	1.2 M 16.1%	1.9 M 25.3%	944 K 12.4%	815 K 10.7%	238 K 3.1%	409 K 5.4%
Shift in Volume from 4 Years Ago						
↓-3.2%	↑0.5%	↑1.8%	↑1.5%	↑0.1%	↓-0.2%	↓-0.3%

Source: TransUnion SA consumer credit database

Consumer Graduation Journey Example

Amanda's starting wallet was that of a Retail Only consumer as she had a single clothing account. Amanda graduated into a Retail and Unsecured wallet over a four-year period with two clothing accounts and a credit card in wallet.



In 2018

- 23 Years Old (*Age*)
- Female (*Gender*)
- Subprime (Credit Score 620) (*Risk*)
- Retail Only Consumer (*Wallet Composition*)
- Her overall outstanding balance was R 4,128
- Current on her accounts

A Retail Only Borrower

Graduated

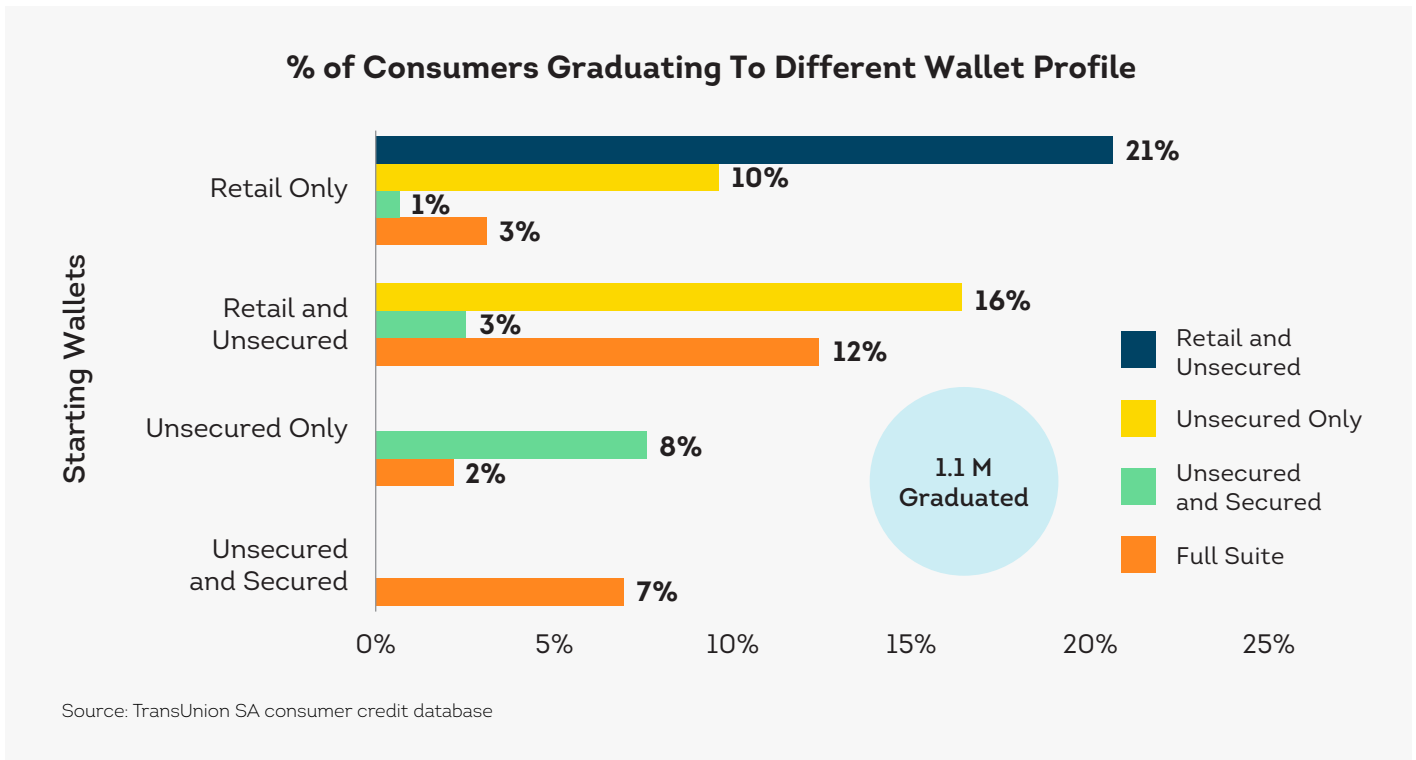
In 2022

- 27 Years Old
- Female
- Prime (Credit Score 700) +80
- Card and Personal Loan holder
- Her overall outstanding balance was R 35,872
- Amanda is current on all her credit products at the end of the year 2022, her worst ever status was 2 MIA since 2018 December.

An Unsecured Only Borrower

Source: TransUnion SA consumer credit database

On an average, 13% of consumers have graduated their wallet profiles over a four-year period



Nearly half of graduating consumers avoided serious delinquencies, with more than half avoiding further missed payments

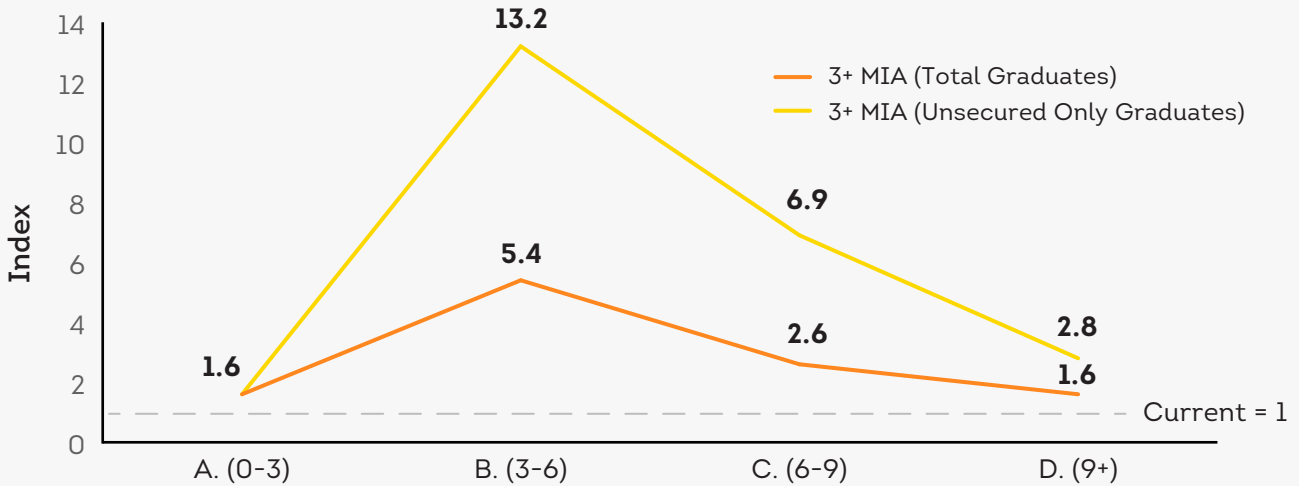
Total Graduating Consumer Performance

		Current	1-2 MIA	3+ MIA
Number of Missed Payments at Consumer Wallet Level past 12 Months	% of consumers	22.7%	22.0%	55.2%
	0 Missed Payment	100%	24.21%	39.85%
	1 to 4 Missed Payments	None	66.74%	28.48%
	5 or More Missed Payments	None	9.05%	31.67%

Source: TransUnion SA consumer credit database

Higher delinquency rates seen in graduates with shorter credit histories, indicates the need to invest in credit education as a preventative tool

Number of Years On File By Graduating Consumers Indexed To Performing Graduates



Values indexed to performing graduating consumers

Source: TransUnion South Africa consumer credit database

CONCLUSIONS

Through this research piece, TransUnion was able to thoroughly examine the South African consumer credit market and its implications for both lenders and borrowers. Importantly, it underscores that a successful graduation strategy isn't simply about getting consumers into the credit market but supporting them throughout their financial journey.

- We've identified several distinctive wallet profiles and found that over four years, 13% of consumers graduated from simpler product profiles to more complex ones. This graduation, marked by considerable balance growth and improved credit scores, offers lenders clear opportunities for product cross-selling and up-selling.
- However, the journey isn't without risks. Some graduates fell into serious delinquency, which may indicate they were unprepared to manage the additional debt. This highlights the

importance of a careful and considered approach to cross-selling and up-selling. While these strategies can drive growth, they must be balanced with responsible lending practices to ensure consumers are not overwhelmed by the additional debt.

- Our study further provides key credit variables that predict graduation outcomes. These data-driven insights can guide lenders in identifying when and where to cross-sell or up-sell, supporting a successful graduation strategy.
- In conclusion, lenders should consider a dynamic and tailored approach to cross-selling, and up-selling based on each consumer's readiness and ability to manage more complex credit products. By doing so, lenders can drive growth while promoting a healthier, more inclusive credit market that delivers lifetime value for both parties.