TransUnion Industry Insights Report

Quarterly Overview of Consumer Credit Trends Released by TransUnion Financial Services

SECOND QUARTER 2023

TransUnion's latest Industry Insights Report observed the South African economy experienced modest growth of 0.6% in real gross domestic product (GDP) during the second quarter of 2023. The unemployment rate showed improvement, decreasing by 130 basis points year over year to 32.6%. Inflationary pressures eased as the Consumer Price Index (CPI) dropped to 5.4% in June, down from 7.1% in March and below the upper threshold of 6% set by the South African Reserve Bank (SARB). However, the repo rate still increased by 50 basis points in May, leading to a prime lending rate of 11.75%.

Against this backdrop, the South African consumer credit landscape presented a mixed but largely resilient picture. The credit card market experienced strong year-over-year growth of 10.2% in new account openings, primarily driven by younger demographics like Gen Z and Millennials. Financial institutions are exercising caution, evidenced by a 1.8% year-over-year decrease in average credit limits for new cards. This careful approach seemed to pay off as delinquencies have shown modest improvements.

The personal loan market experienced an 8% year-over-year growth in loan originations. Non-bank lenders have become more dominant, accounting for 81% of newly granted personal loans. Despite this growth, the average loan value decreased by 7.6%. This trend can be attributed to the rise of non-bank lenders offering smaller loans. While account-level delinquencies slightly increased, balance-level delinquencies improved. This highlights the importance of strict credit assessment processes.

Contrastingly, the vehicle asset finance market faced headwinds, registering a 4.5% year-over-year decline. This downturn is primarily attributed to broader macroeconomic conditions, such as high interest rates and the rand's depreciation. Despite fewer new loans, the average loan amount increased by 7%, suggesting consumers entering the market are taking on more significant debts. Encouragingly, delinquency rates in this product vertical improved significantly.

Despite the challenging macroeconomic environment characterised by high interest rates, the home loan market grew 11.2% year over year in loan originations. Although delinquencies have increased, many consumers may be actively managing their debt, lessening the impact of high interest rates on outstanding balances.

Lastly, the clothing accounts sector saw 11.2% year-over-year growth in new accounts, with a significant 62.7% increase in average credit limits. While delinquencies have improved, the trend of increased credit utilisation calls for vigilant monitoring by lenders.

In summary, the South African consumer credit landscape in Q2 2023 is a study in contrasts. While some sectors, such as credit cards and personal loans, are expanding, others like vehicle finance face challenges. Across all sectors, risk management remains crucial, as does the need for targeted strategies to sustain growth and minimise delinquencies.

Source:

1. TransUnion Q2 2023 VPI
2. TransUnion Q2 2023 CPS
3. StatSA (Q2 2023 Unemployment Labour Force Survey)
4. StatSA (Q2 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's 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	Q2 2023	QoQ change	YoY change
Number of accounts	6.9M	0.8%	5.1%
Outstanding balance	R 157B	2.0%	12.8%
Average balance (per account)	R 22,745	1.2%	7.3%
Origination volumes (Q2 2023)	178K	1.4%	10.2%
Average new account credit line	R 26,706	-3.6%	-1.8%
Account-level delinquency rate (3+ MIA)	12.4%	-30 bps	-60 bps
Balance-level delinquency rate (3+ MIA)	17.4%	-130 bps	-180 bps

Despite ongoing global financial uncertainties, the South African credit card sector demonstrated remarkable resilience, registering 10.2% year-over-year growth in new account openings. This surge was primarily driven by younger age groups, specifically Gen Z and Millennials, who accounted for 65.4% of new credit card accounts in the second quarter of 2023. However, lenders are exercising prudence, as indicated by a 1.8% year-over-year reduction in average credit limits set for newly issued cards.

In terms of market size, the total number of active credit card accounts saw a consistent uptick, growing 5.1% year over year. Concurrently, outstanding and average balances per account increased by 12.8% and 7.3%, respectively. This suggests existing cardholders are increasingly utilising their credit lines.

On the risk management front, there was a modest improvement in account-level delinquencies, categorised as accounts with three or more missed payments. These delinquencies have decreased by 60 basis points on an annual basis. Furthermore, balance-level delinquencies have significantly improved, declining by 180 basis points year over year.

Personal Loans

Personal loan market sees steady growth and shifting lender landscape despite mixed delinquency trends and lower loan values

PERSONAL LOAN (NON-BANK) METRICS	Q2 2023	QoQ change	YoY change
Number of accounts	11.7M	0.2%	1.5%
Outstanding balance	R 375.7B	-0.3%	3.9%
Average balance (per account)	R 31,934	-0.5%	2.4%
Origination volumes (Q2 2023)	4.6M	6.3%	8.0%
Average new loan amount	R 18,054	-5.8%	-7.6%
Account-level delinquency rate (3+ MIA)	35.0%	110 bps	30 bps
Balance-level delinquency rate (3+ MIA)	32.5%	-10 bps	-210 bps

In the second quarter of 2023, the South African consumer credit landscape saw a steady uptick in personal loan originations, growing 8% compared to last year. Interestingly, non-bank lenders have become increasingly dominant, responsible for 81% of all new personal loans extended in the quarter. This marks a 4.2% increase from the previous year in the share of loans originated by non-bank lenders. Concurrently, the average value of new loans granted declined 7.6% 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 grew by 3.9% year over year, while average balances per loan increased by 2.4%. Although the growth in new loan volumes primarily drives these increases, the balance rise was insignificant. This muted growth can be attributed to the lower value of loans originated, mainly as non-bank lenders' shares of new loans grow.

Regarding credit risk, serious account-level delinquencies-accounts with three or more missed payments-saw an uptick of 30 basis points year over year. Notably, these delinquencies predominantly involved loan accounts with lower values. Despite this, the overall balance-level delinquencies markedly improved, declining by 210 basis points year over year. This contrasting trend highlights non-bank lenders' importance in upholding stringent credit assessment processes and proactive loan management strategies. Doing so is crucial for maintaining the stability and overall health of the burgeoning non-bank personal loan market in South Africa.

Vehicle Finance Summary

Vehicle asset finance market faces decline amid macroeconomic pressures — yet shows resilience with larger loan amounts and improved delinquency rates

VEHICLE FINANCE METRICS	Q2 2023	QoQ change	YoY change
Number of accounts	2.2M	-0.4%	-0.3%
Outstanding balance	R 505.5B	0.7%	5.5%
Average balance (per account)	R 230,525	1.1%	5.8%
Origination volumes (Q2 2023)	117K	-4.6%	-4.5%
Average new loan amount	R 395,292	2.4%	7.0%
Account-level delinquency rate (3+ MIA)	5.5%	30 bps	-160 bps
Balance-level delinquency rate (3+ MIA)	6.7%	-60 bps	-30 bps

In Q2 2023, the vehicle asset finance market experienced its third consecutive quarterly decline year over year, dropping by 4.5%. This downturn was primarily influenced by broader macroeconomic conditions, including a high interest rate environment and the ongoing depreciation of the rand, contributing to the rising cost of vehicle ownership. According to the Q2 2023 TransUnion Vehicle Price Index Report, these factors encourage consumers to retain their existing vehicles for longer or explore alternative options like vehicle rentals.

Despite the decline in new vehicle asset finance originations, the average loan amount for each financed vehicle increased by 7.0% year over year. This rise in loan amounts is likely a direct response to the 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 talking on larger loans, thereby contributing to the growth in outstanding balances.

In a positive development for credit risk, serious account-level delinquency rates in the vehicle asset finance sector showed a significant improvement, decreasing by 160 basis points year over year. This trend suggests consumers are placing a higher priority on repaying their secured loans, likely to maintain uninterrupted access to their vehicles as essential mobility solutions. This improvement in delinquency rates may reflect a heightened sense of financial responsibility among borrowers, even as they take on more significant loan amounts.

Home Loan Summary

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

HOME LOAN METRICS	Q2 2023	QoQ change	YoY change
Number of accounts*	1.8M	2.7%	3.1%
Outstanding balance	R 1.18B	4.9%	8.1%
Average balance (per account)	R 637,113	2.1%	4.9%
Origination volumes (Q2 2023)	56K	6.3%	11.2%
Average new loan amount	R 925,355	-3.2%	16.9%
Account-level delinquency rate (3+ MIA)	6.7%	100 bps	120 bps
Balance-level delinquency rate (3+ MIA)	5.8%	100 bps	160 bps

*Joint accounts reflected as one single account

In the second quarter of 2023, the home loan market displayed robust growth with loan originations rising 11.2% 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 is supported by the increase in average new loan amounts, which have escalated by 16.9% year over year, leading to higher values and volumes of loan originations.

This growth also led to an 8.1% year-over-year increase in outstanding balances. However, according to the Q2 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 exerts financial strain, pushing them toward delinquency. This is evidenced by a notable uptick in serious account-level and balance-level delinquencies, up 120 and 160 basis points, respectively.

Clothing Account Summary

Clothing accounts see robust growth and credit limit expansion

CLOTHING ACCOUNT METRICS	Q2 2023	QoQ change	YoY change
Number of accounts	15.4M	1.3%	4.3%
Outstanding balance	R 36.7B	2.0%	8.6%
Average balance (per account)	R 2,312	0.7%	4.1%
Origination volumes (Q2 2023)	776K	12.6%	17.8%
Average new account credit limit*	7,119	53.2%	62.7%
Account-level delinquency rate (3+ MIA)	30.0%	30 bps	-80 bps
Balance-level delinquency rate (3+ MIA)	28.9%	10 bps	-60 bps

In the second quarter of 2023, clothing accounts in South Africa maintained their upward trajectory, registering an 11.2% year-over-year increase in new account originations. This growth aligns with the broader expansion observed in the retail sector for clothing, textiles and footwear — which rose 5.7% over the same period. Notably, the average limit on new clothing accounts grew substantially, increasing 62.7% year over year. This significant rise is 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 8.6% and 4.1%, respectively. This indicates a trend of increased credit utilisation among clothing account holders. This aligns with statements from various retailers that have noted 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 80 and 60 basis points year over year, respectively. However, given 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.