



Understanding Recent Shifts in Wallet Composition

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Unraveling the details of credit consumer journey is key to comprehending their needs and enhancing the value we offer over time

Exhibit A

Amanda



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



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.

To answer this question, we will investigate the following:

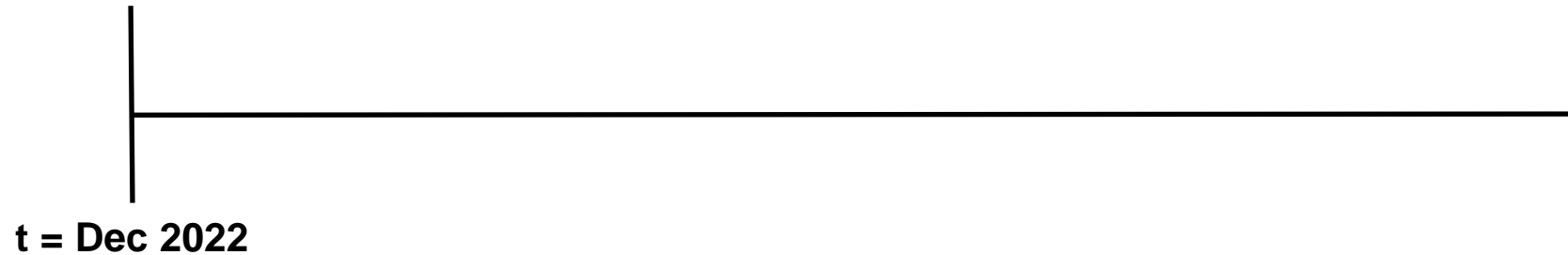
- ✔ What is the wallet composition of South African borrowers?
- ✔ What does a typical borrower graduation journey look like for South African credit consumers?
- ✔ What are the potential implications for lenders to consider?
- ✔ How can lenders plan and execute a consumer graduation strategy proactively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



Consumer Wallet Profiles

Understanding the primary wallet compositions within the South African Consumer Credit Market

To begin, we will assess the state of the consumer wallet profile that exists today in South Africa



Measured at t

Age

Risk Scores

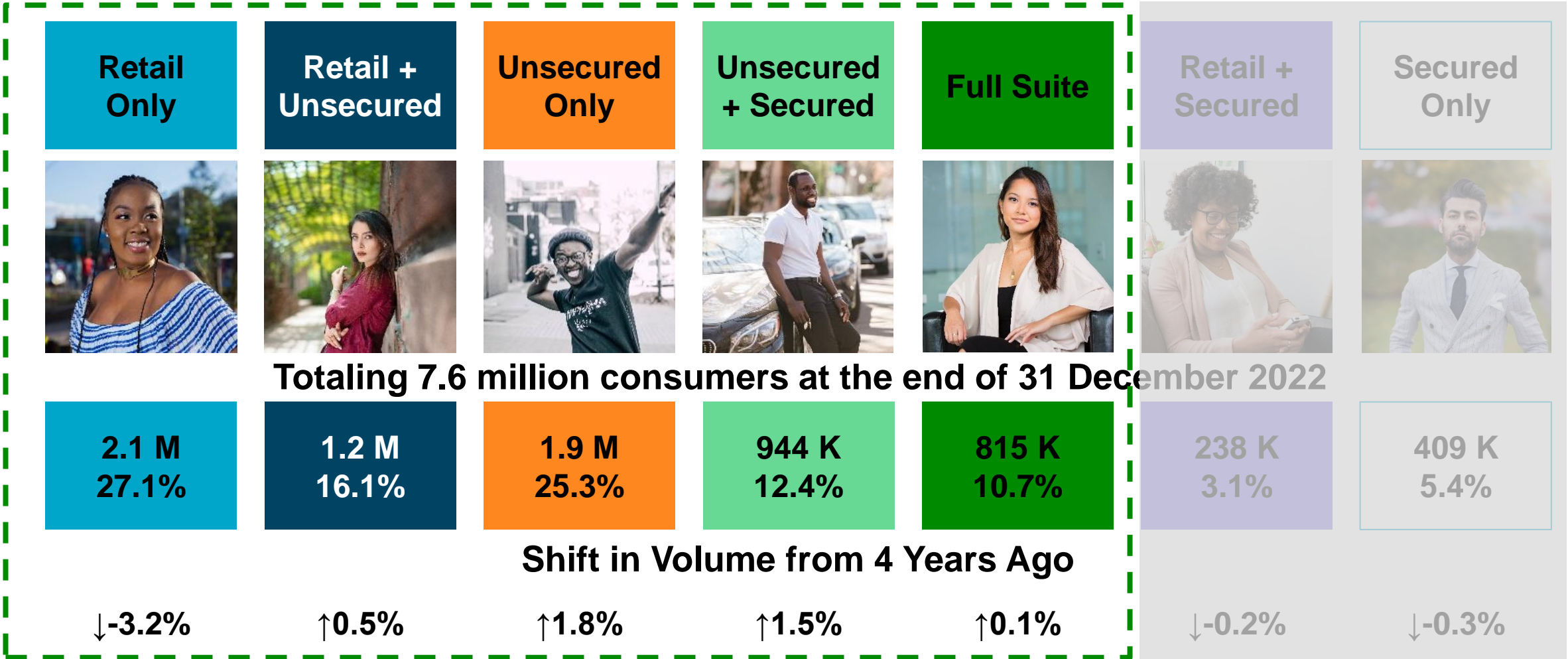
Products in Wallet

Consumer Outstanding Balance

Delinquency Status = Current

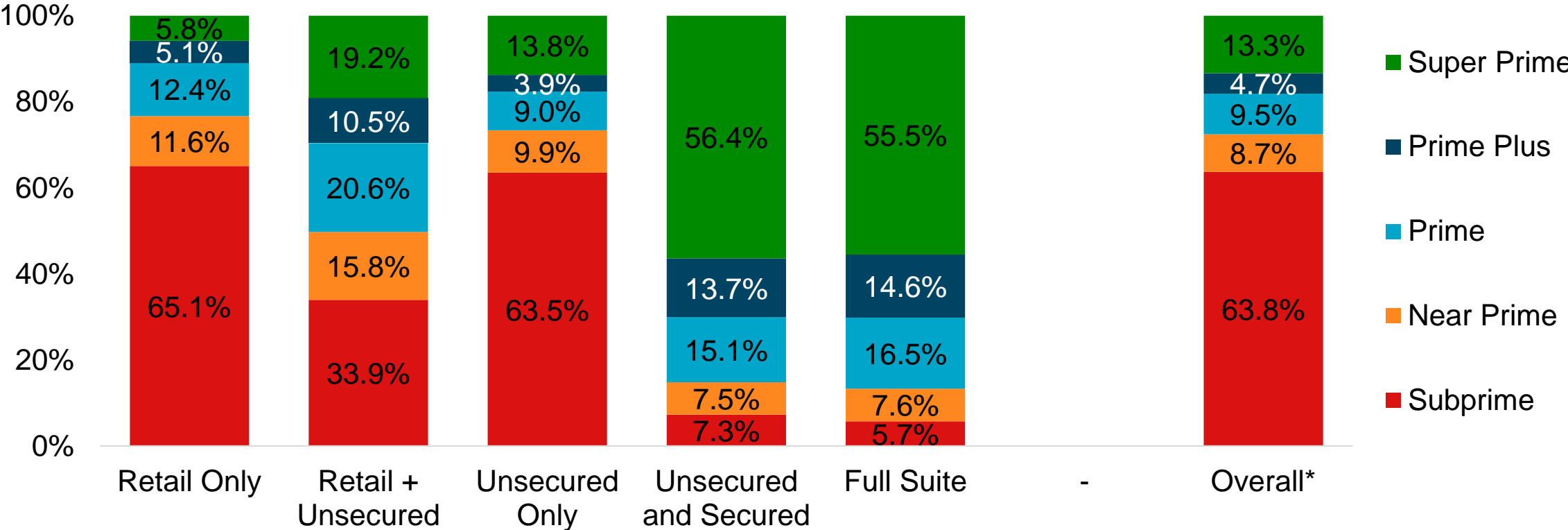
Studying consumers at a point in time will allow us to segment based on their
current² wallet profiles

Leveraging TransUnion’s consumer credit database, we identified the following distinctive wallet profiles at the end of December 2022



The overall risk distribution of South African consumers is weighted towards borrowers holding retail only and unsecured only products in wallet

Risk Distribution of Current Consumers by Wallet Composition vs Market

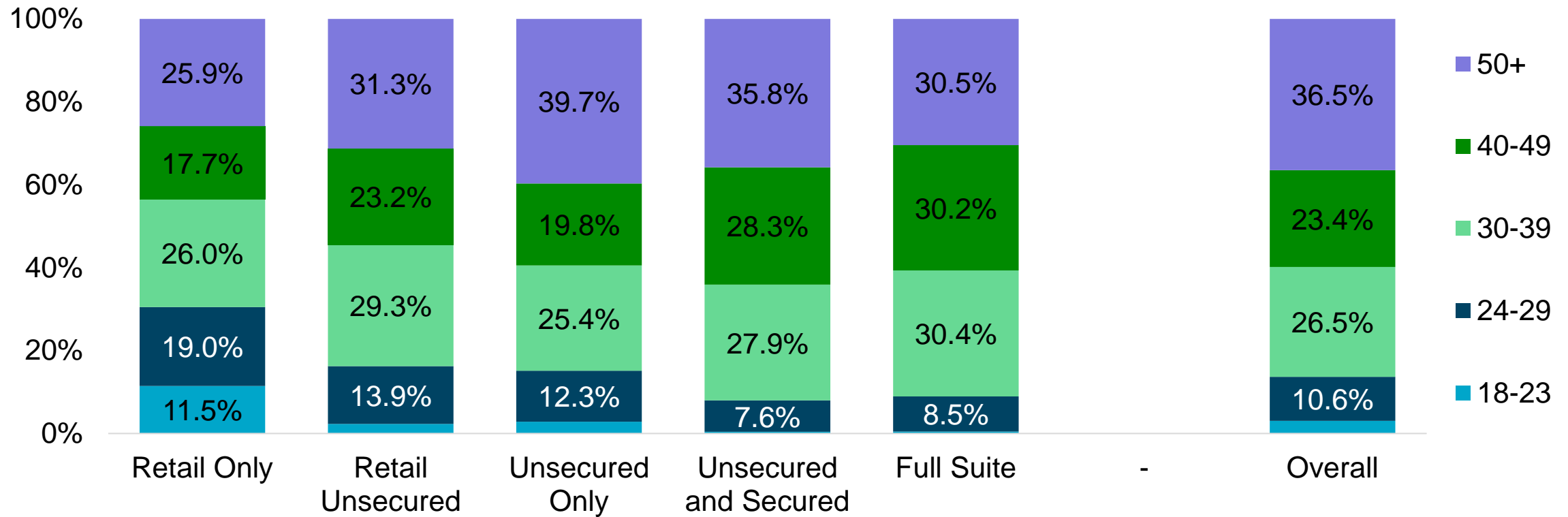


CreditVision™ risk score:
Subprime 0-625; Near prime 626-655; Prime 656-695; Prime plus 696-720; Super prime 721-999



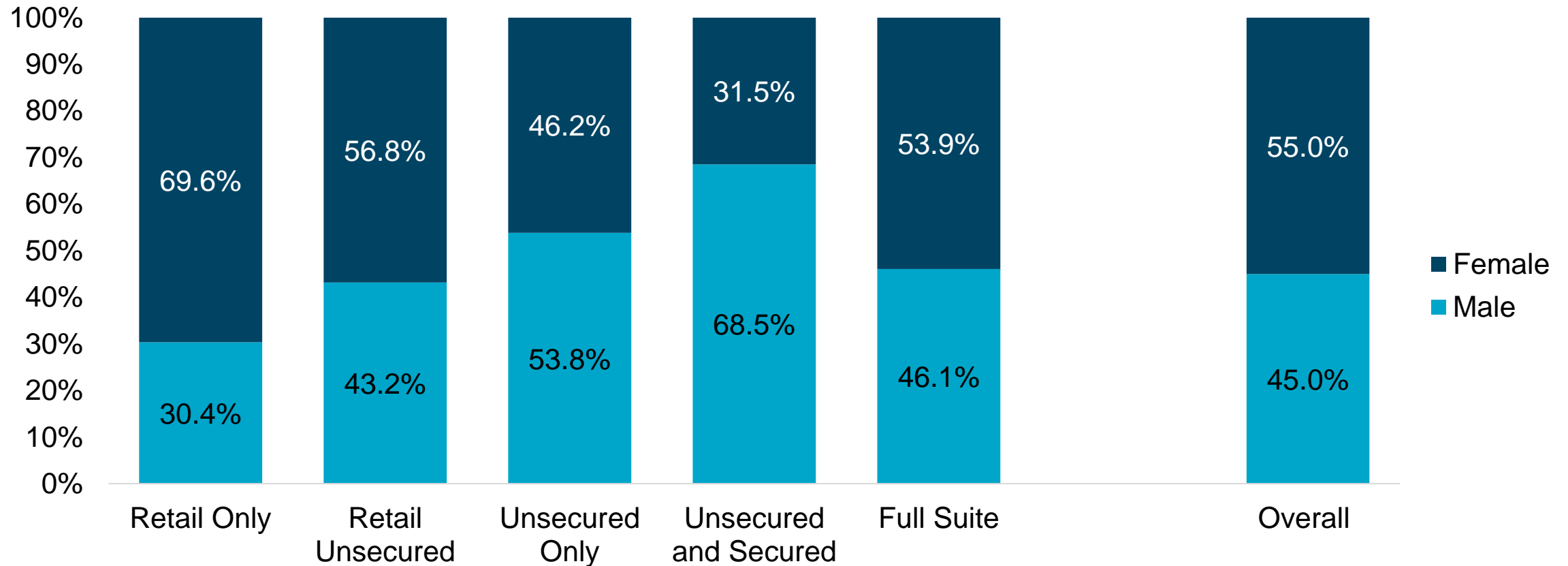
Consumers below the age of 30 mostly carried retail only products – an opportunity for graduating to more complex and traditional products

Age Distribution of Current Consumers by Wallet Composition vs Market








Female borrowers are well represented in segments with retail products and will likely retain their retail products throughout their credit

Gender Distribution by Wallet Composition



The wallet compositions we identified account for two-thirds of the overall market

	Average Balance per Consumer	Outstanding Portfolio Balances	% of overall (current market)
 Retail Only	R 4,419	R 9.2 Bn	0.4%
 Retail + Unsecured	R 63,650	R 78 Bn	3.5%
 Unsecured Only	R 36,798	R 71 Bn	3.2%
 Unsecured + Secured	R 824,686	R 779 Bn	35.4%
 Full Suite	R 665,622	R 543 Bn	24.7%



*Retail is the path of entry for NTCs (Largest path)

Now that we've explored the **landscape** of the consumer credit wallet.

How can we utilise these insights to better guide and **empower consumers** on their graduation journeys?



Graduation Journeys

Analysing how consumers graduated from one wallet profile to the next

We assessed consumer graduation journey over a four-year period



Metrics measured from t to t+48 months

New account openings between split t to t+48

Balance Build Behaviour

Median Score Shift between t and t+48



Do you remember Amanda?

Amanda



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A Retail Only Borrower

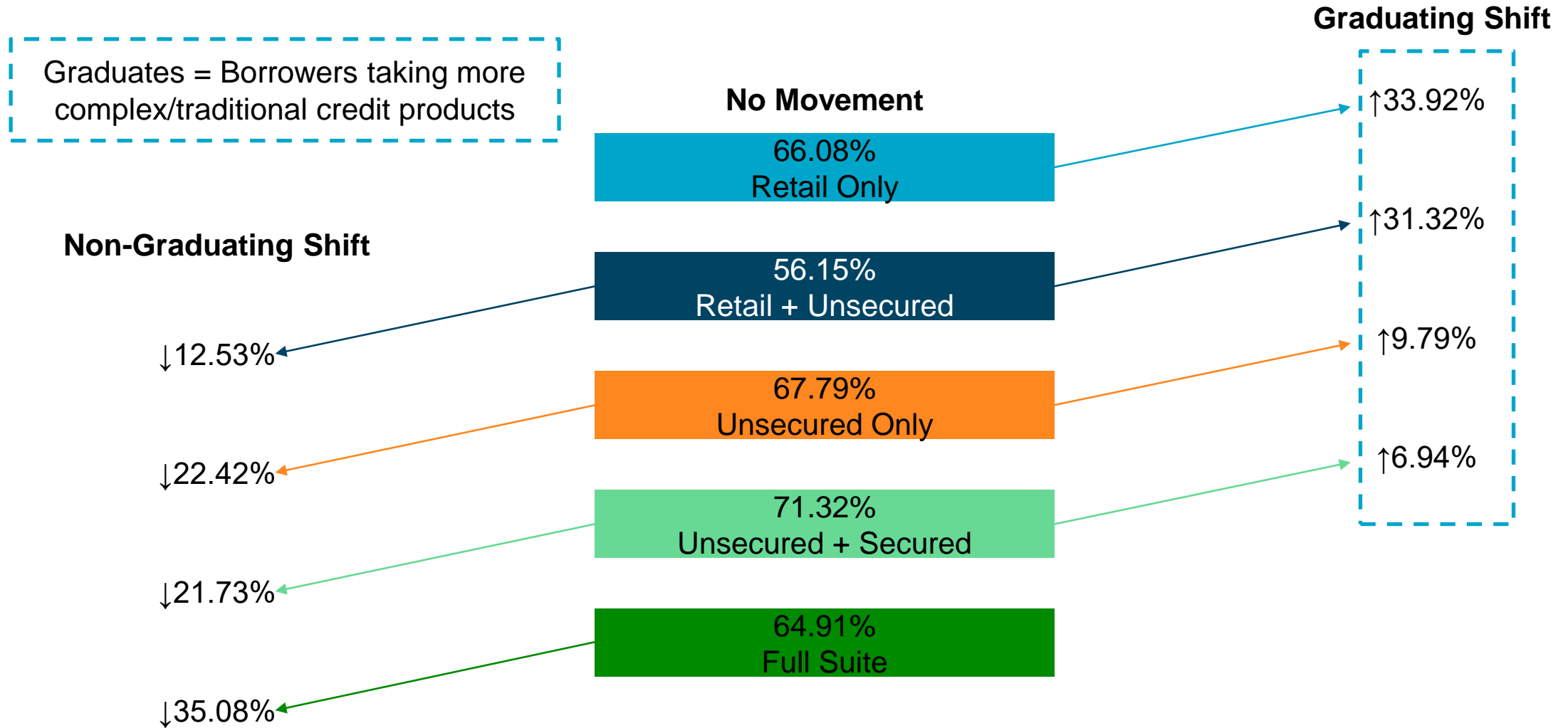
Graduated

In 2022

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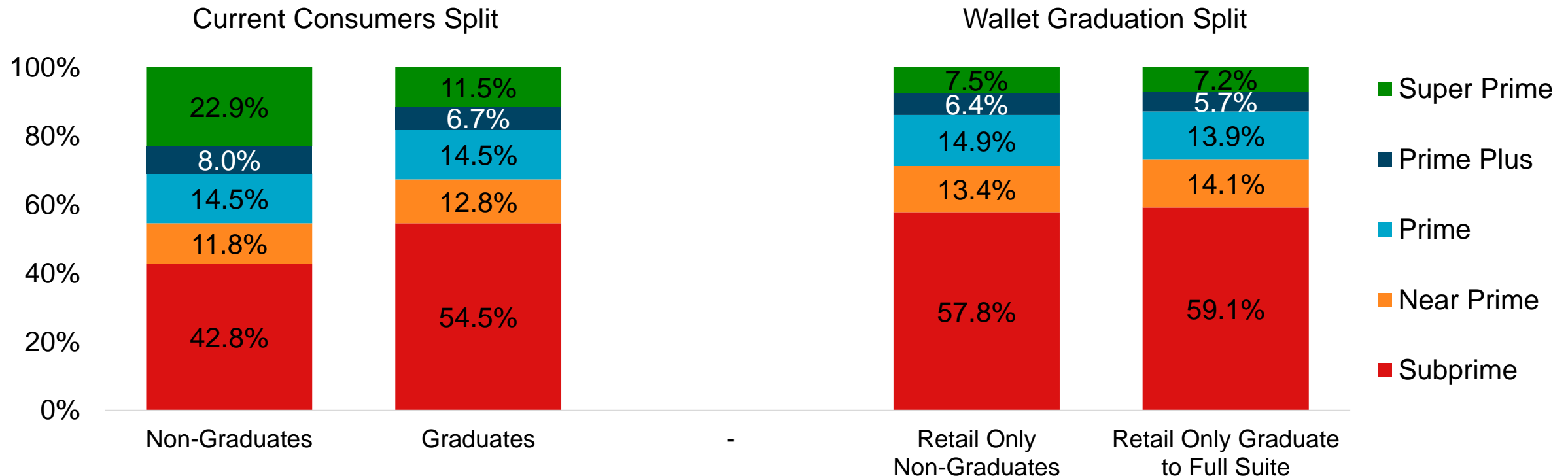
An Unsecured Only Borrower

A sizeable portion of consumers graduated across wallet profiles over time, indicating changes in the liquidity needs of SA consumers



Overall, graduates tend to be riskier compared to non-graduates

2018 Risk Distribution of Graduates vs Non-Graduates

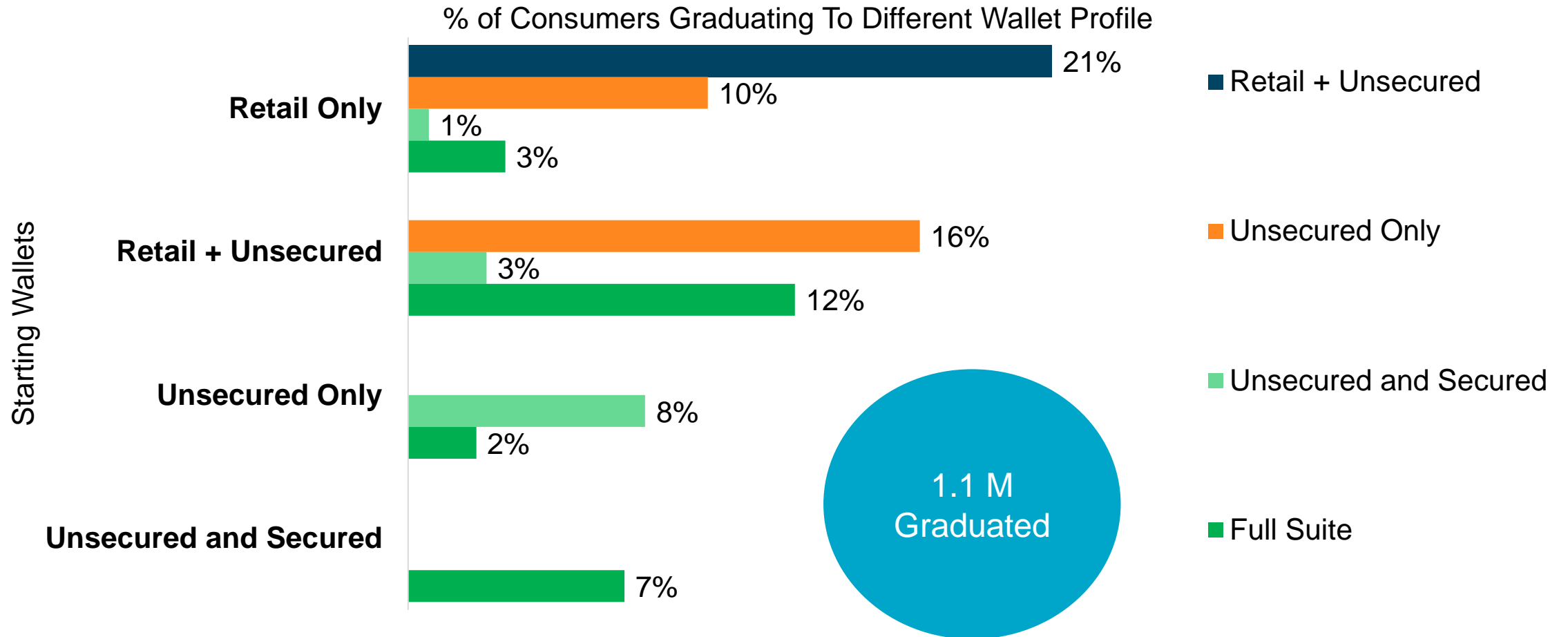


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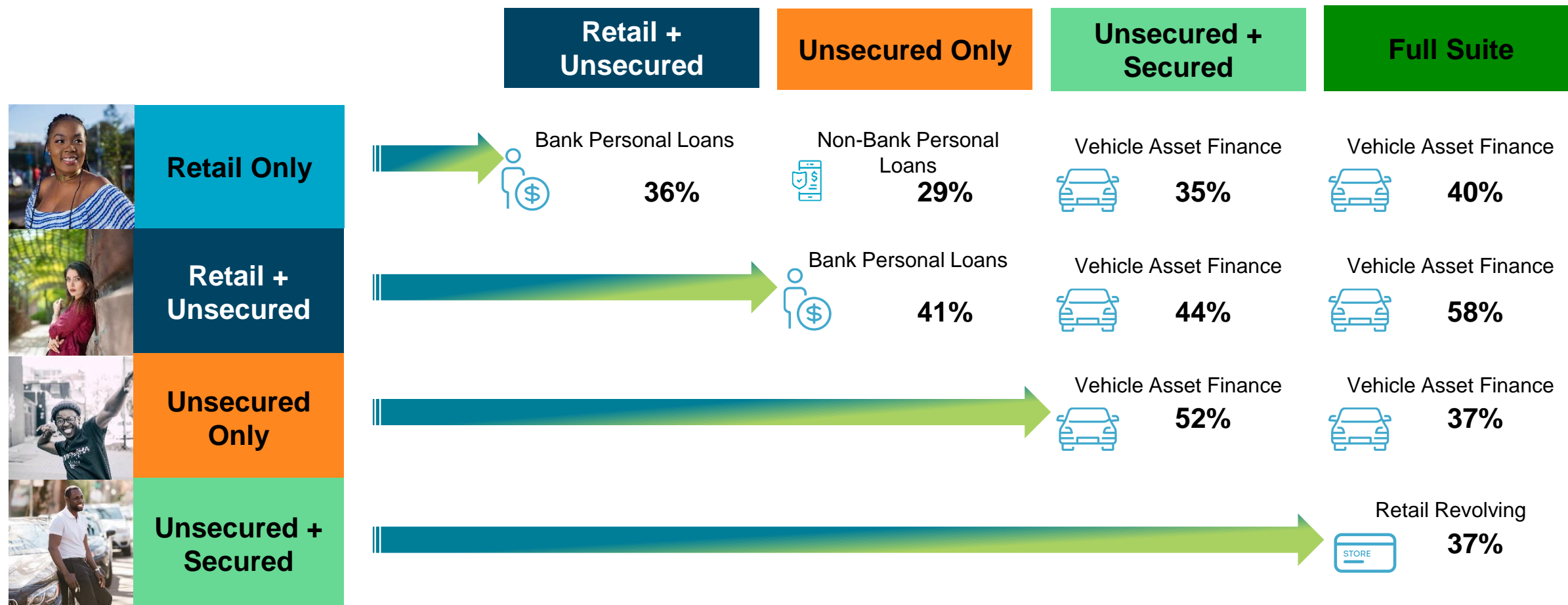


On an average, 13% of consumers have the opportunity to graduate their wallet profiles over a four-year period



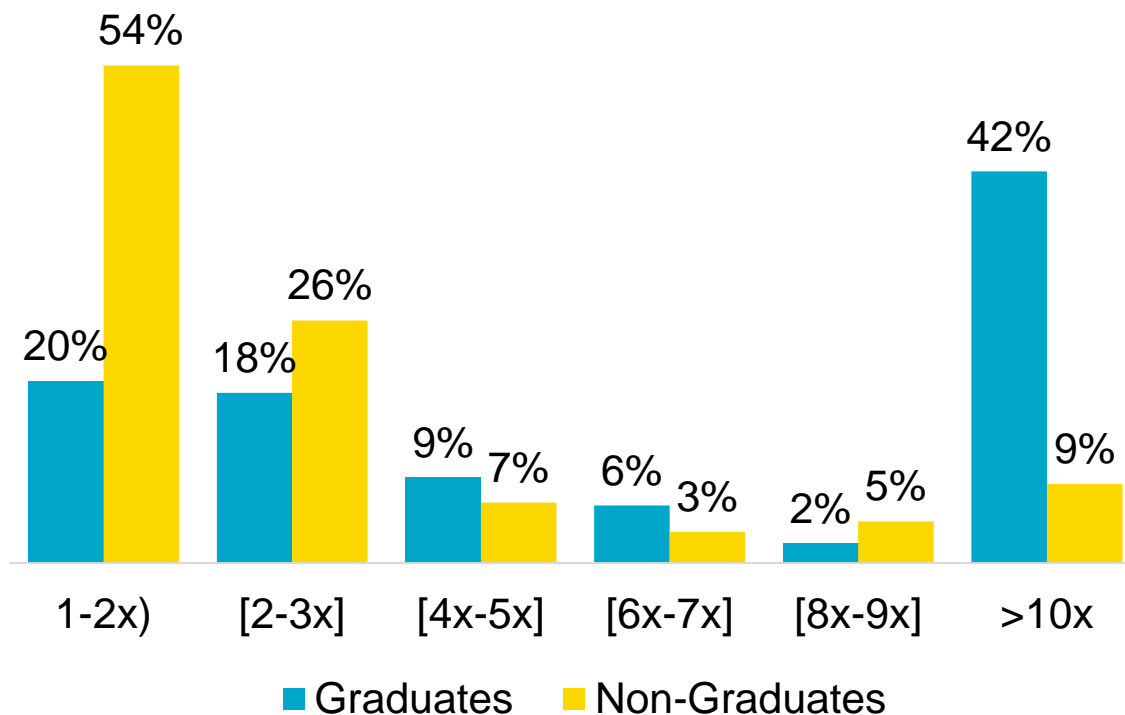
Graduating consumers prioritised personal loans and vehicle finance products for upward mobility

Originating Product That Enabled Consumers To Graduate

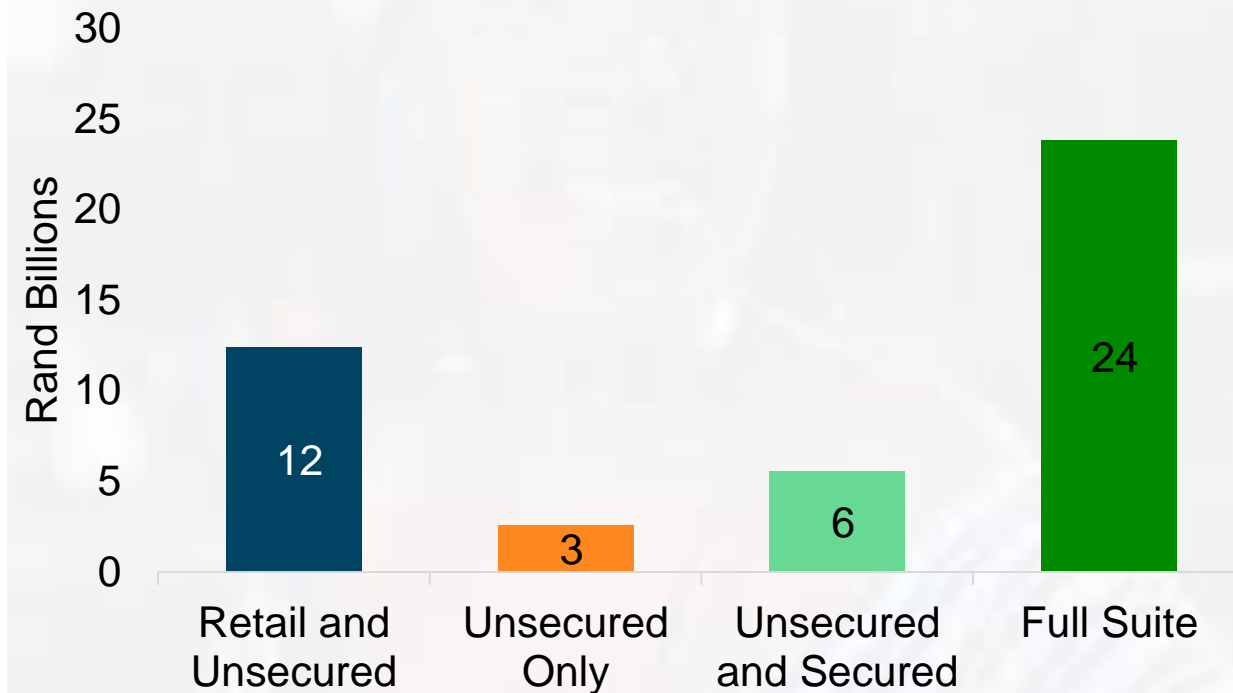


Graduating retail only consumers present a tremendous opportunity for asset growth compared to their counterparts

Balance Build Distribution



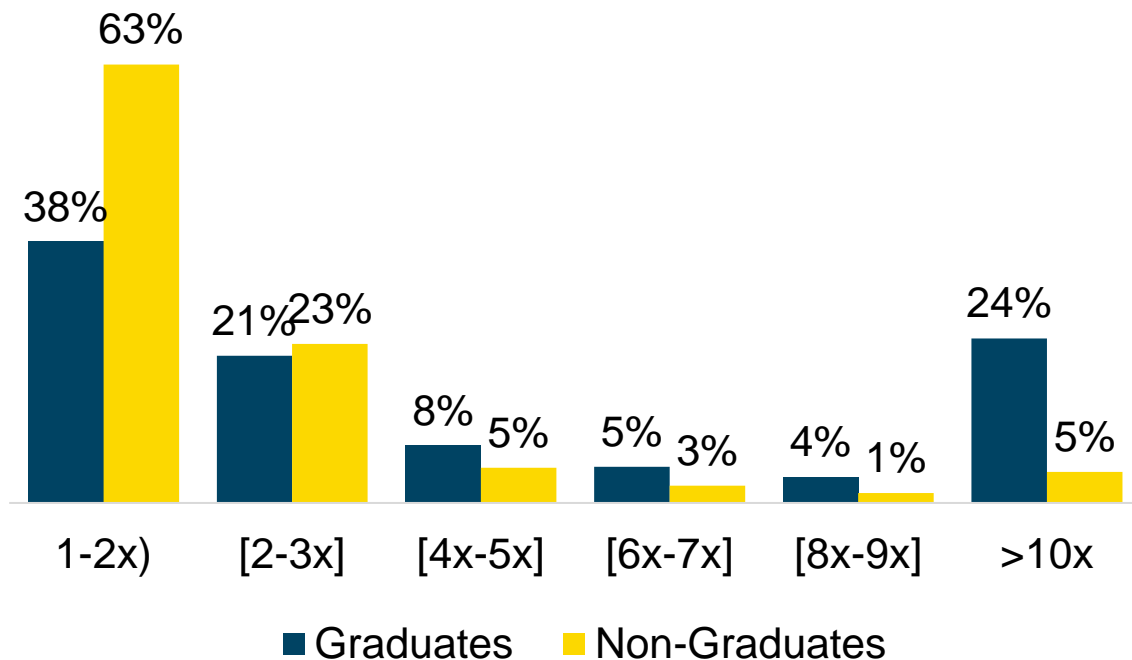
Consumers Balance Shift Multiples By Bracket



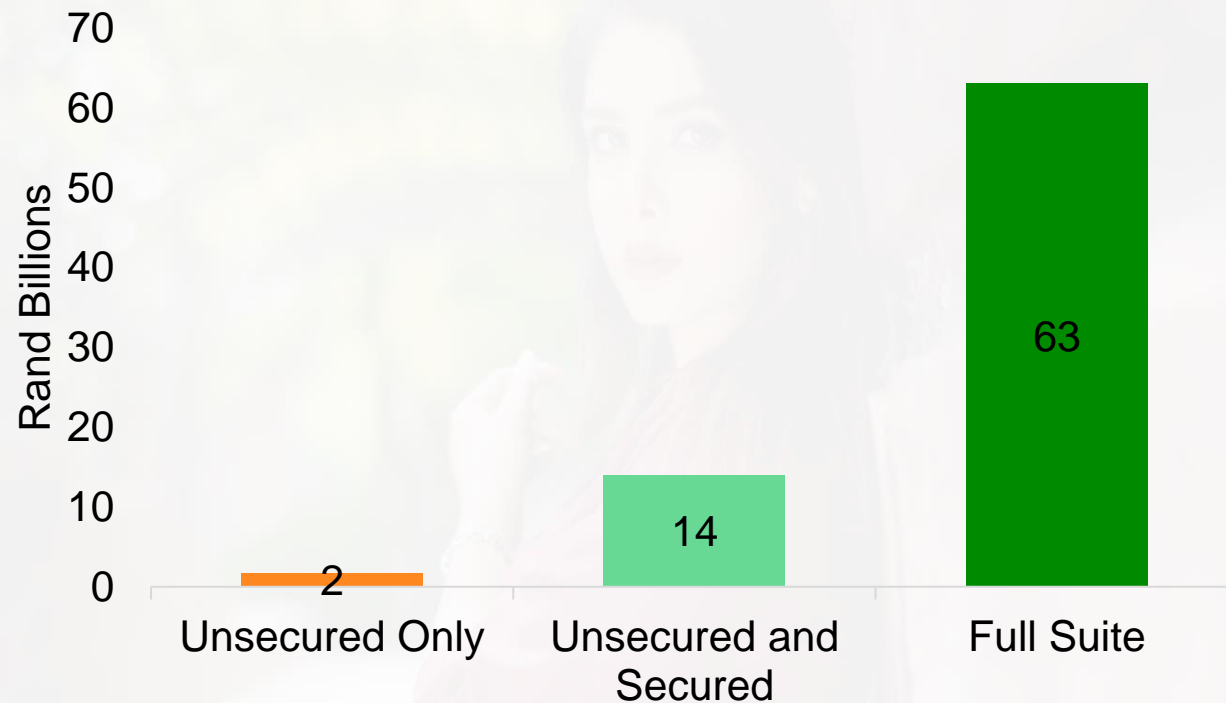
Uplift in Outstanding Balances Per Graduation Bucket

Those graduating from retail and unsecured wallet profile seem to be more focused on growth in equity

Balance Build Distribution



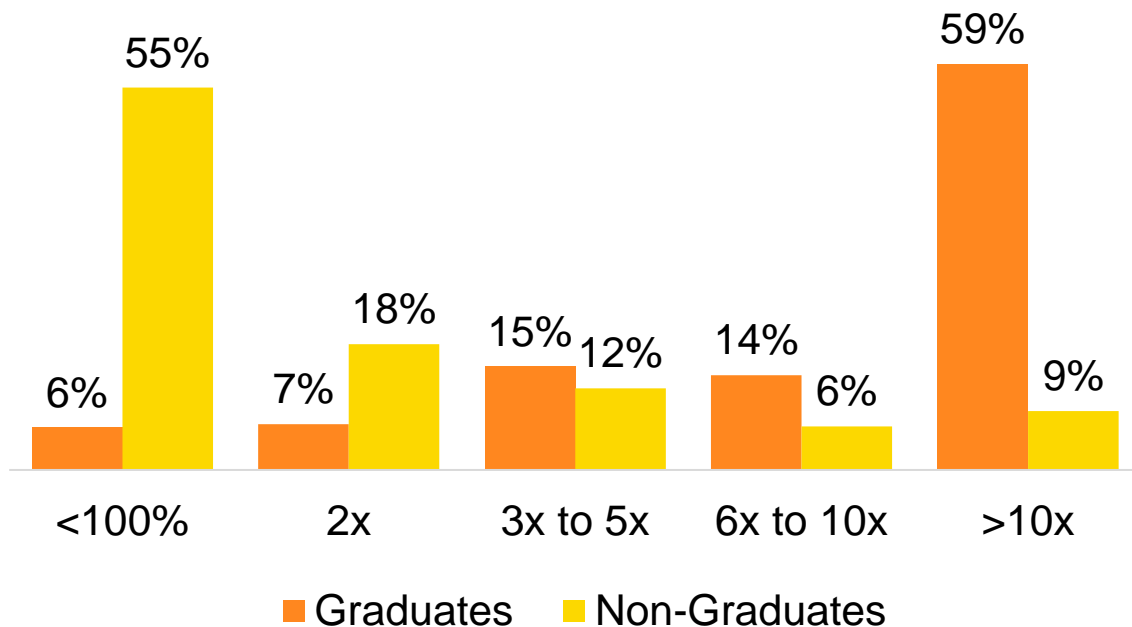
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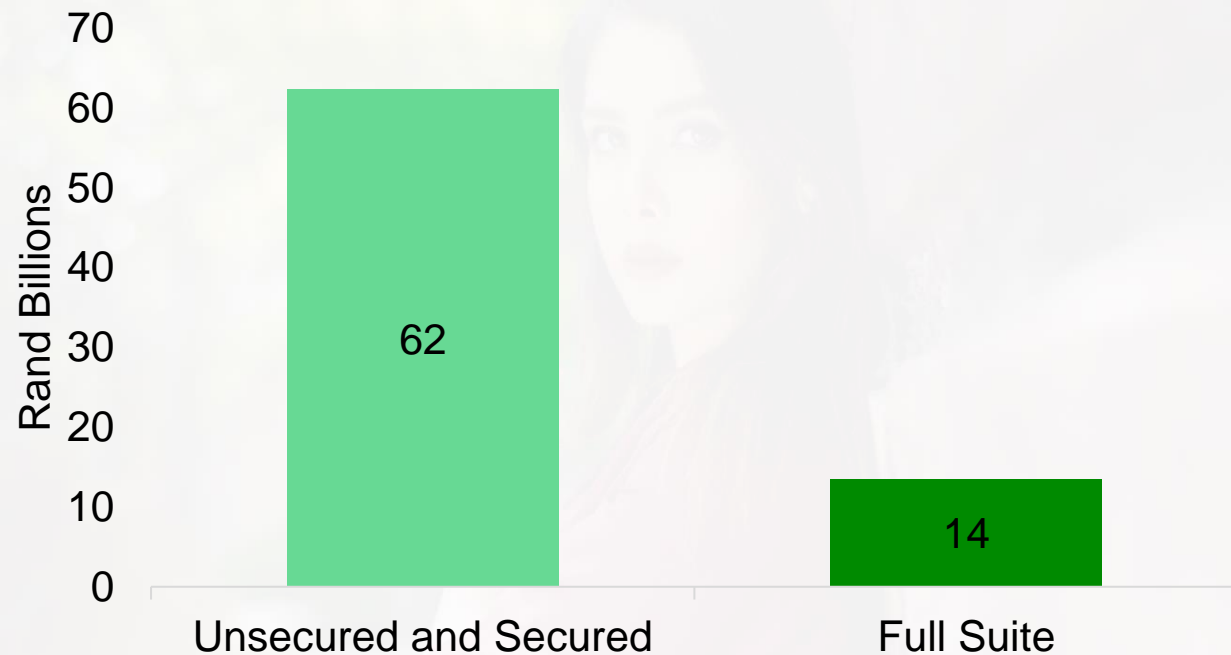
Uplift in Outstanding Balances Per Graduation Bucket

Taking on new responsibilities by building secured assets, consumers tend to broaden their credit experience and enable financial goals

Balance Build Distribution



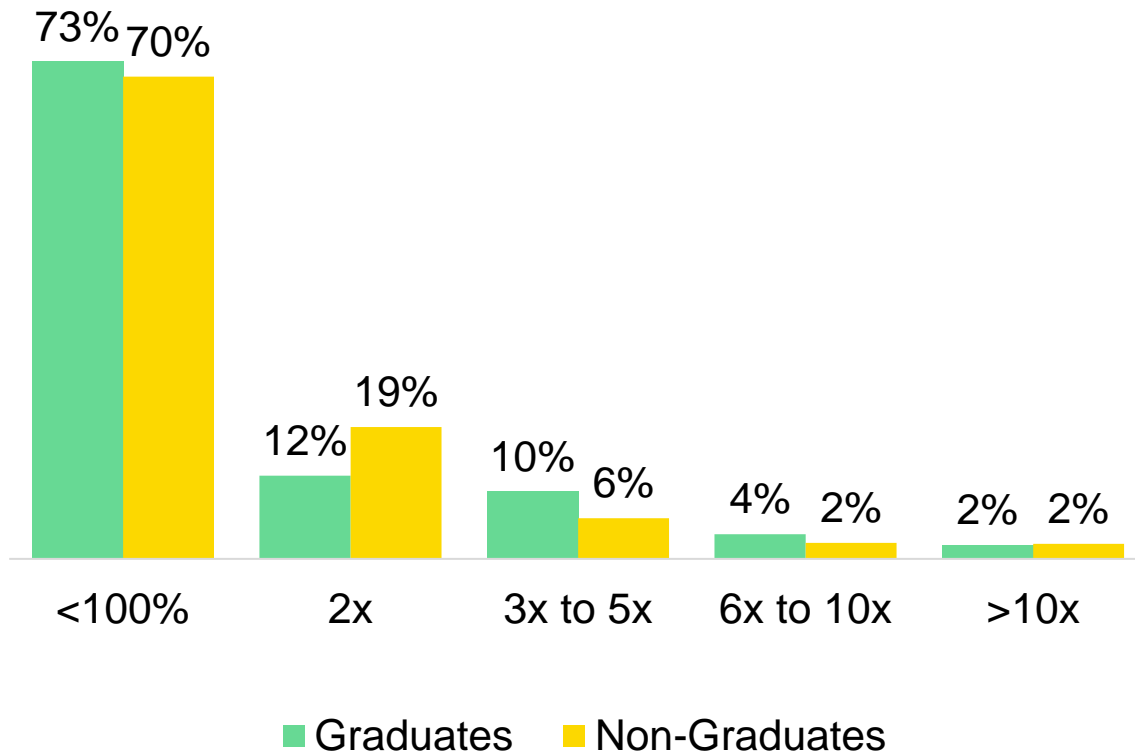
Consumers Balance Shift Multiples By Bracket



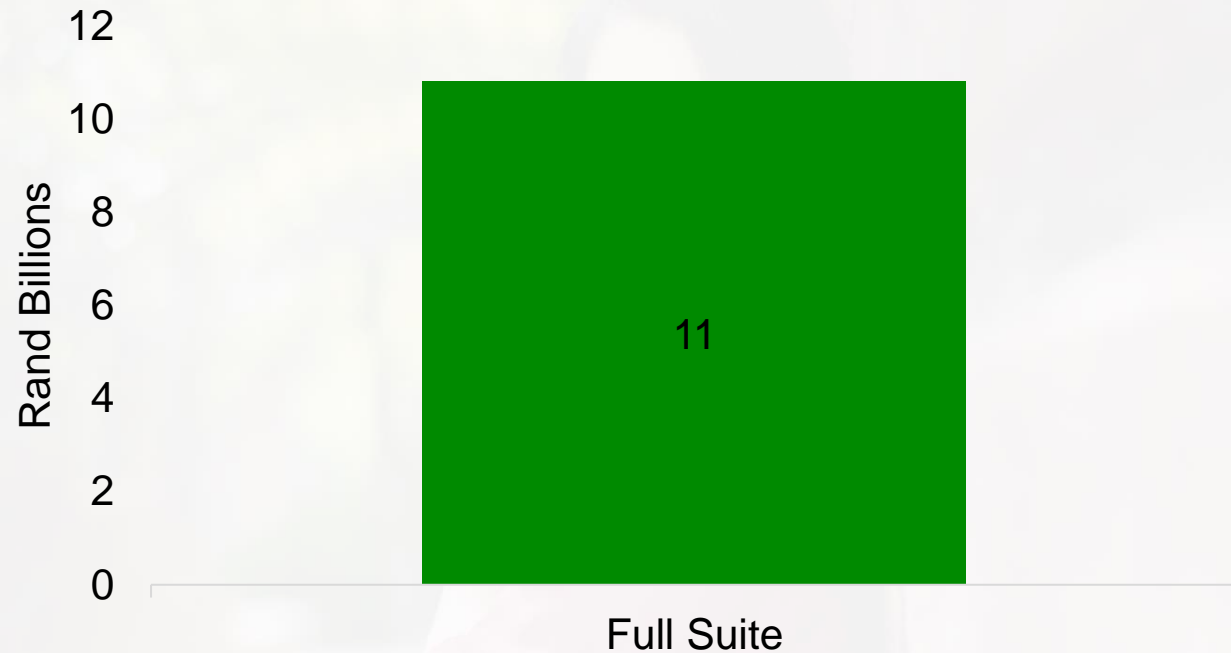
Uplift in Outstanding Balances Per Graduation Bucket

Consumers with both unsecured and secured products seem to be seeking convenience when opening new credit than growth in balances

Balance Build Distribution

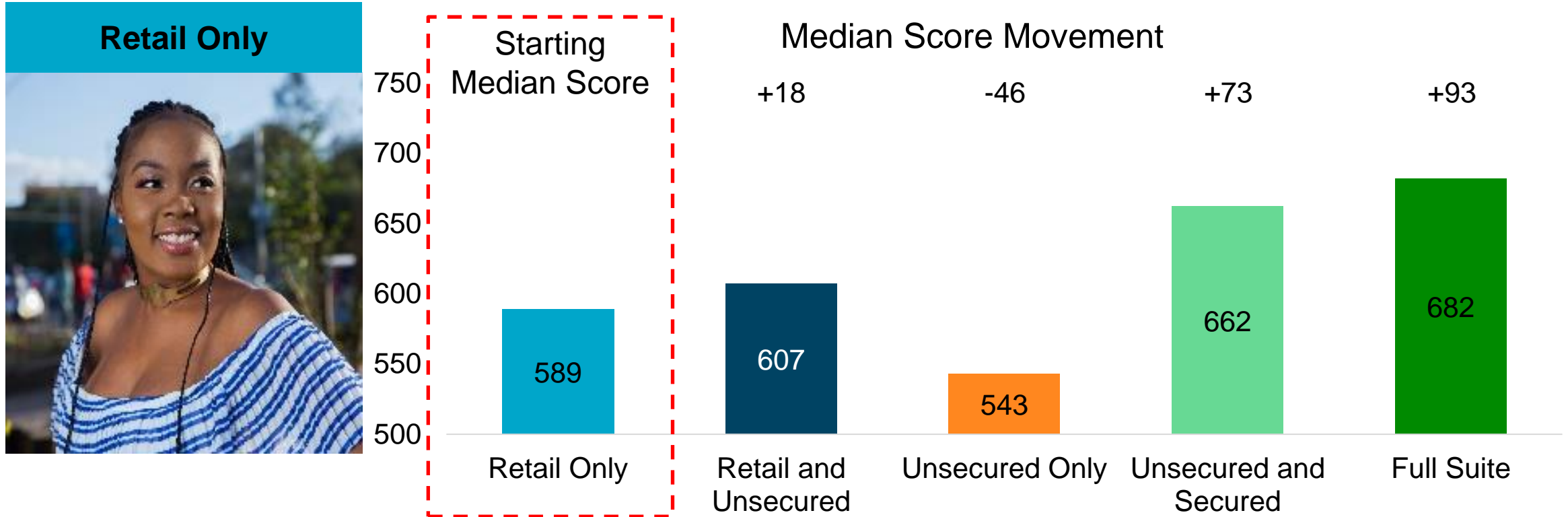


% of Consumers Balance Shifted By Bracket

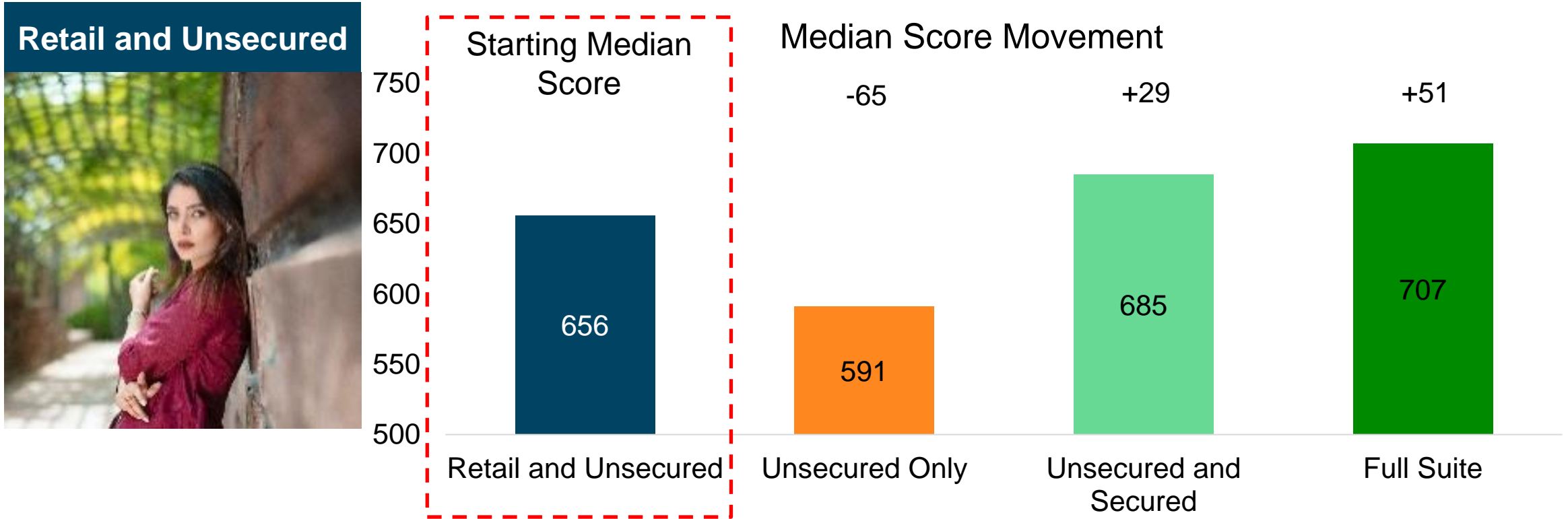


Uplift in Outstanding Balances Per Graduation Bucket

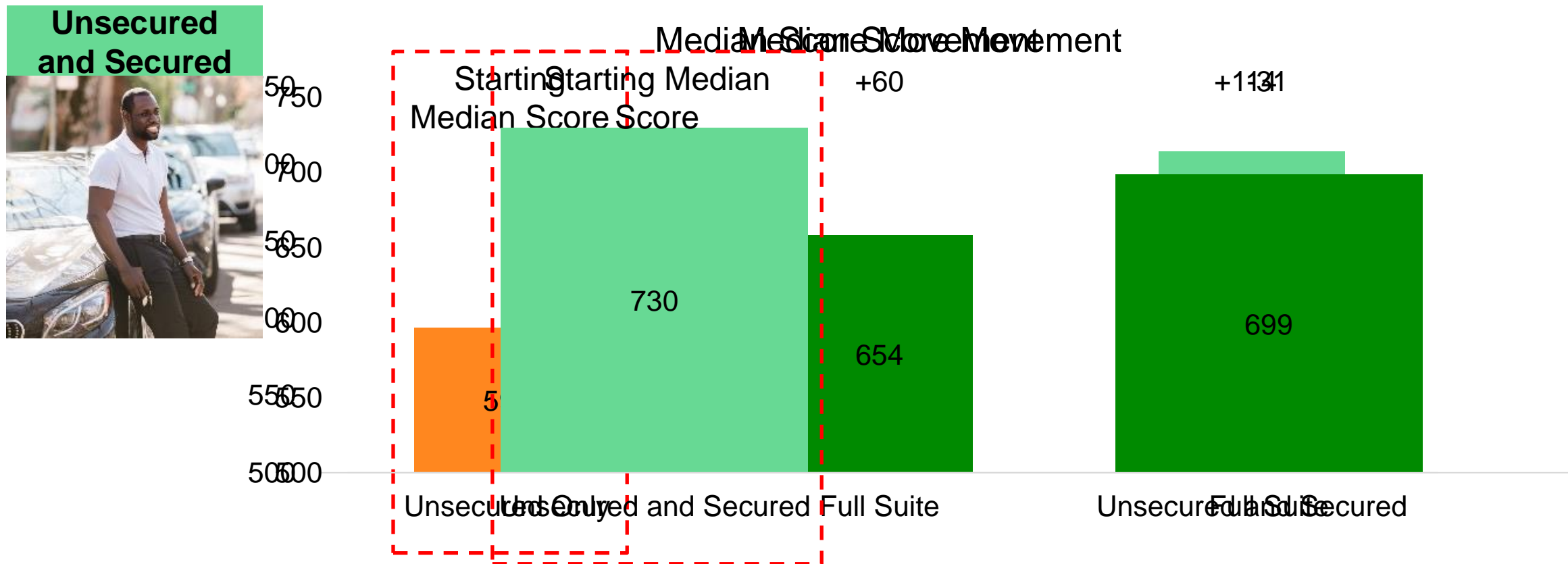
Graduating consumers have the opportunity to improve credit scores as they take on new payment obligations



Graduating retail and unsecured consumers demonstrate score improvements



Graduating unsecured only consumers experienced increases in consumer credit scores, payment priorities may have impacted full suite graduates



How did consumers graduate and what impact did graduation have on consumer behaviour and their risk ratings?



Consumer Preference

1 in 3 consumers who graduated into unsecured wallet profiles opened a personal loan



Consumer Behaviour

Exponential Balance growth was observed across all graduating journeys



Consumer Score Improvements

Consumers graduating to more complex wallets recorded significant score improvements

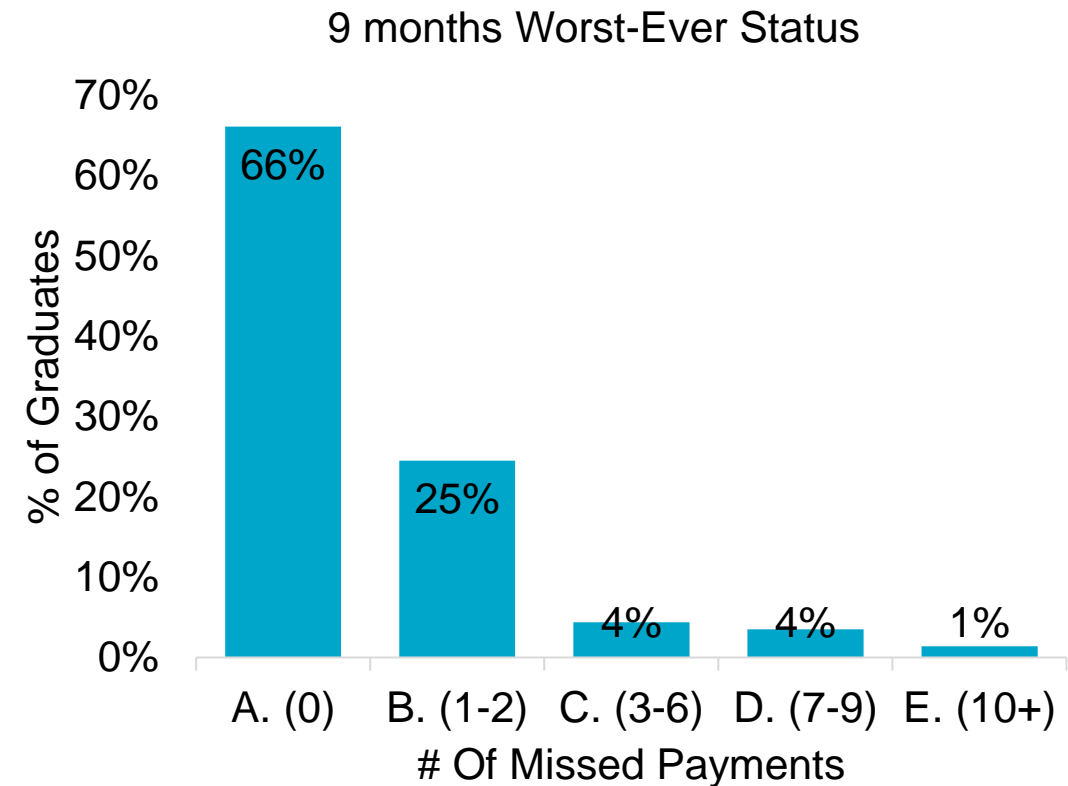
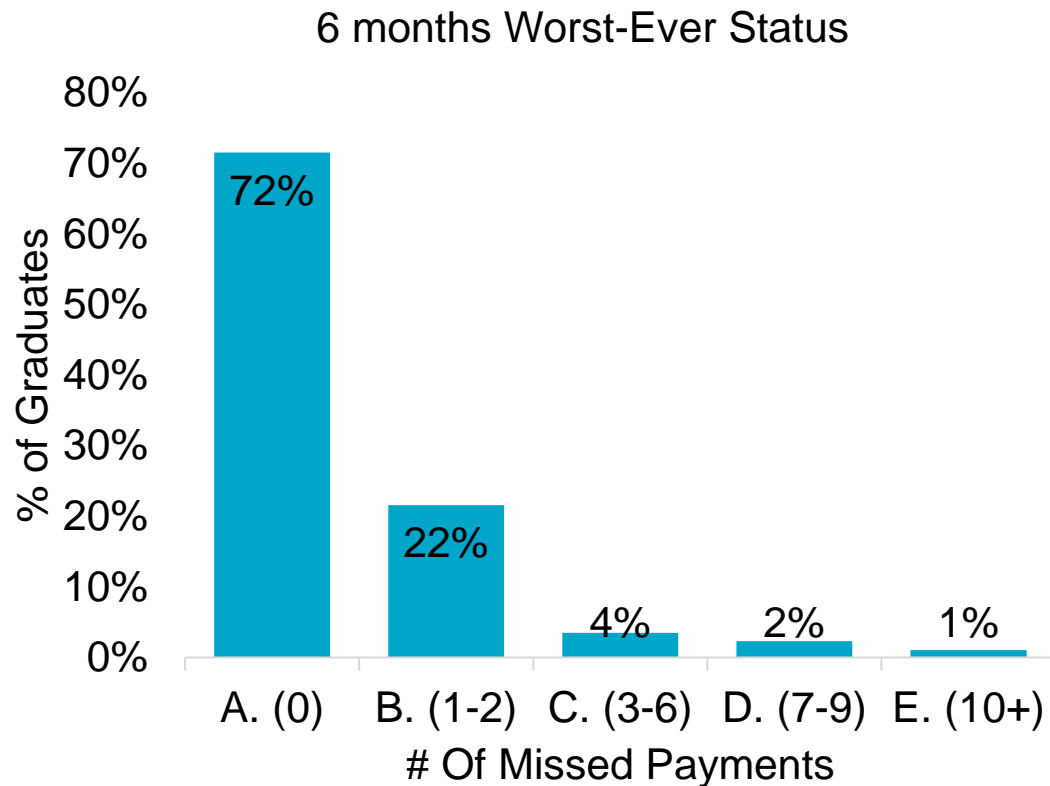


Performance of Graduates

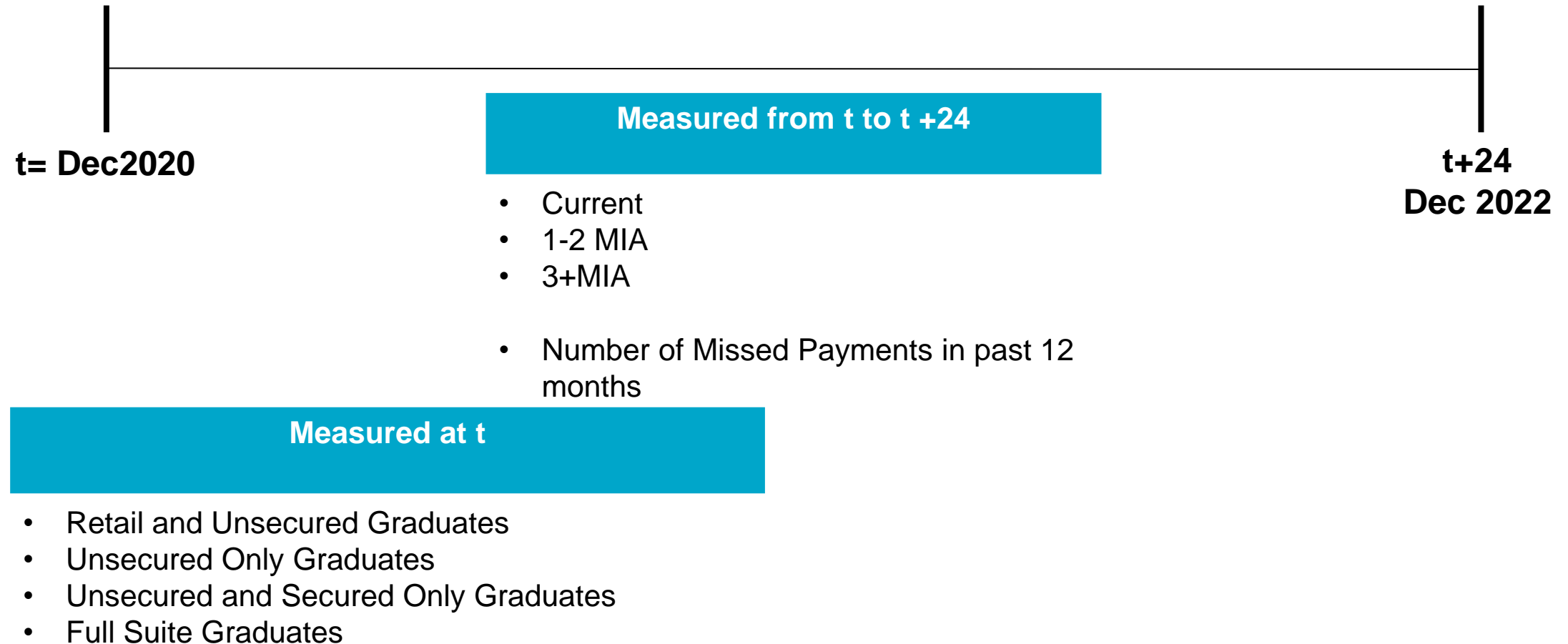
Analysing the performance since graduation to assess whether borrowers can handle the added credit obligations

By definition of our study, graduating consumers tend to be generally good performers, which enables their credit journey

Worst Performing Status Of Graduates 6- 9 Months Prior To Study Period

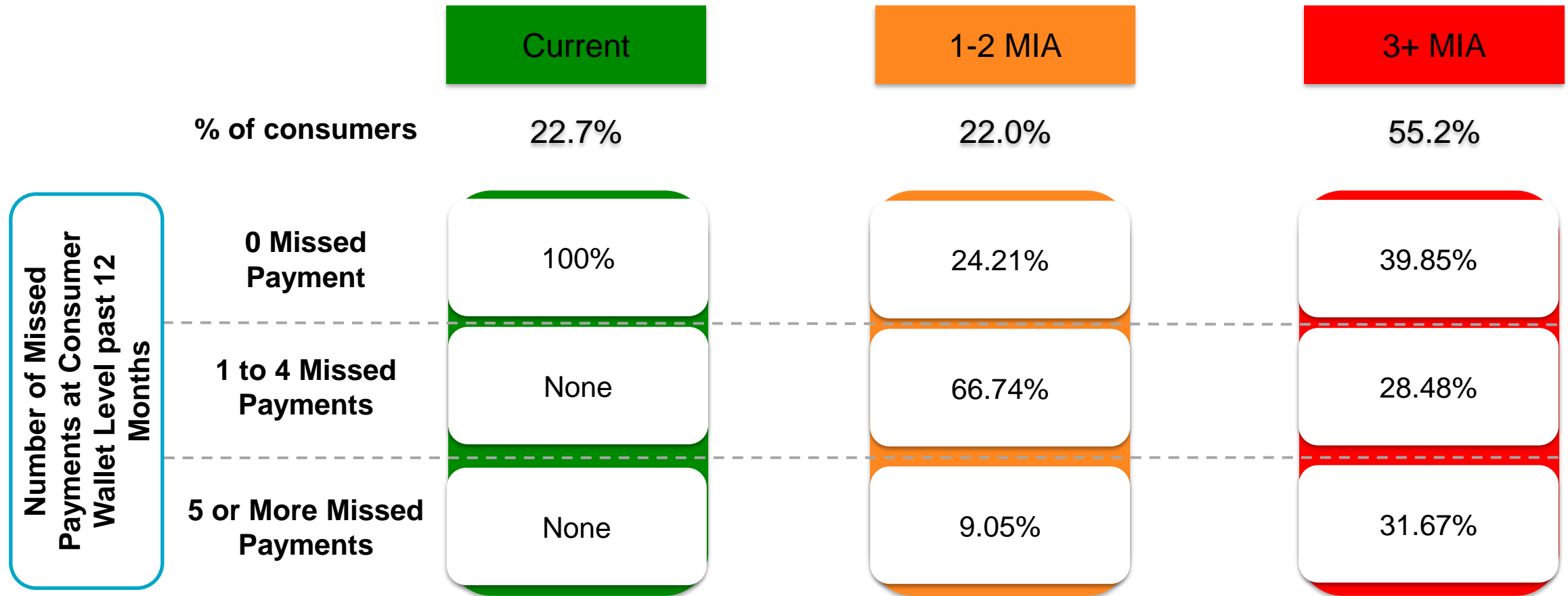


We assessed the consumer performance to identify and predict the good performing graduates



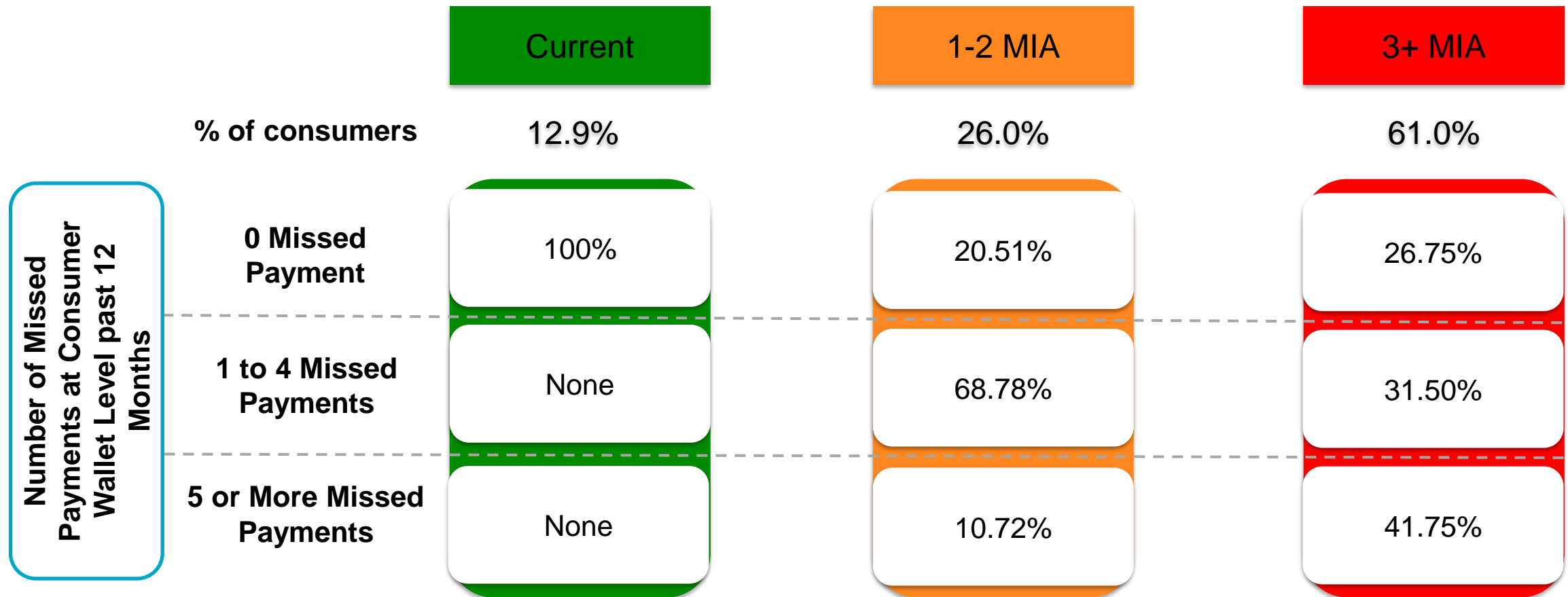
Nearly half of graduating consumers avoided serious delinquencies, with more than half avoiding further missed payments

Total Graduating Consumer Performance



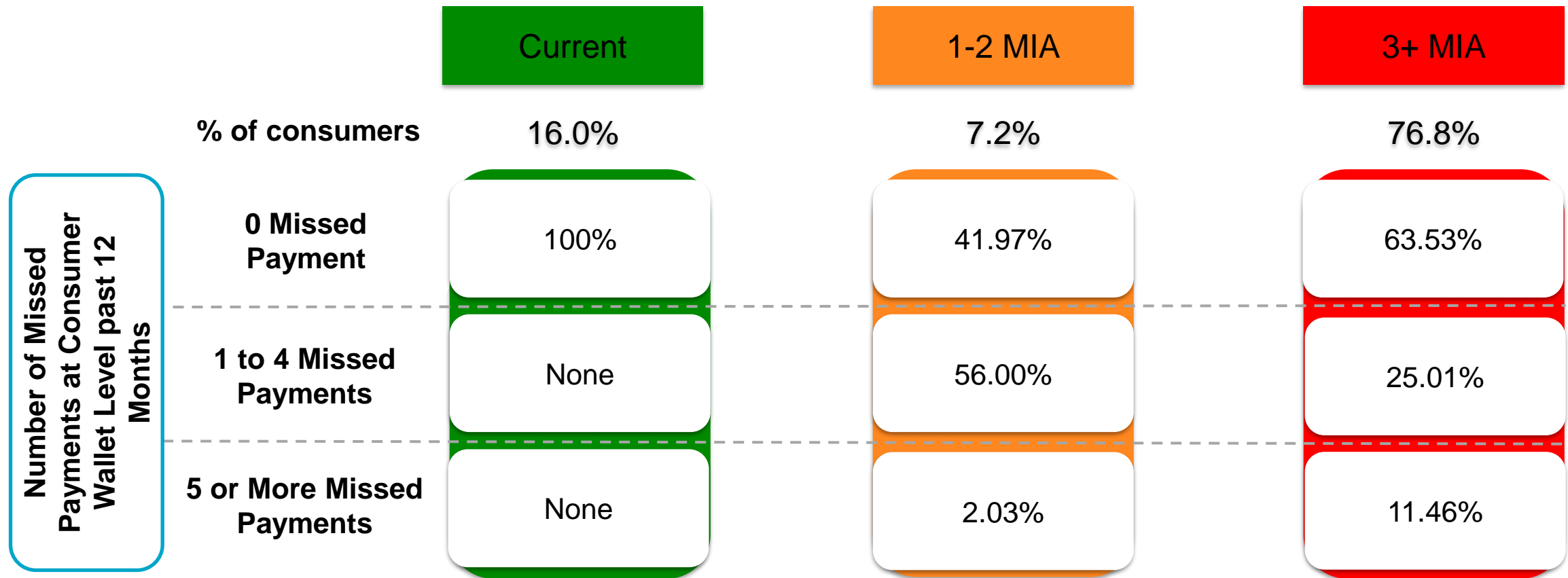
About one-third of consumers who graduated into the retail unsecured wallet profile avoided going into serious delinquency

Total Graduating Consumer Performance



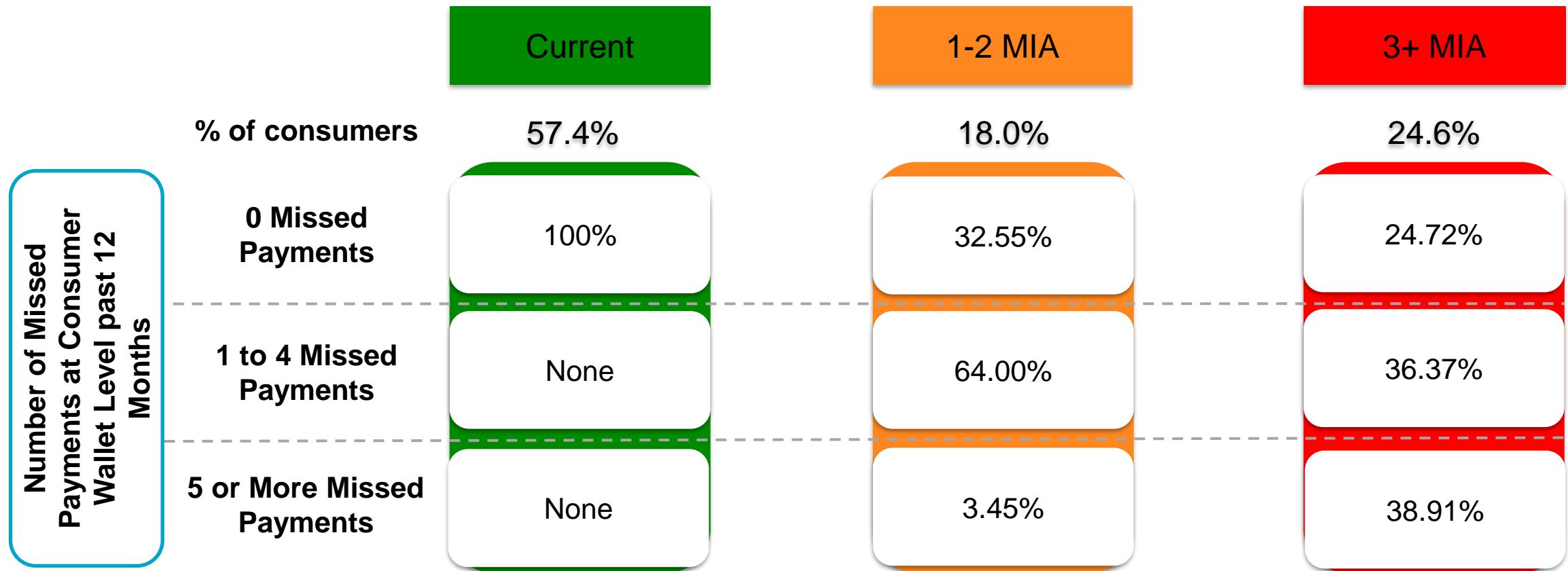
Majority of consumers who graduated to unsecured only wallet tipped into serious delinquency, making credit education a crucial tool

Total Graduating Consumer Performance



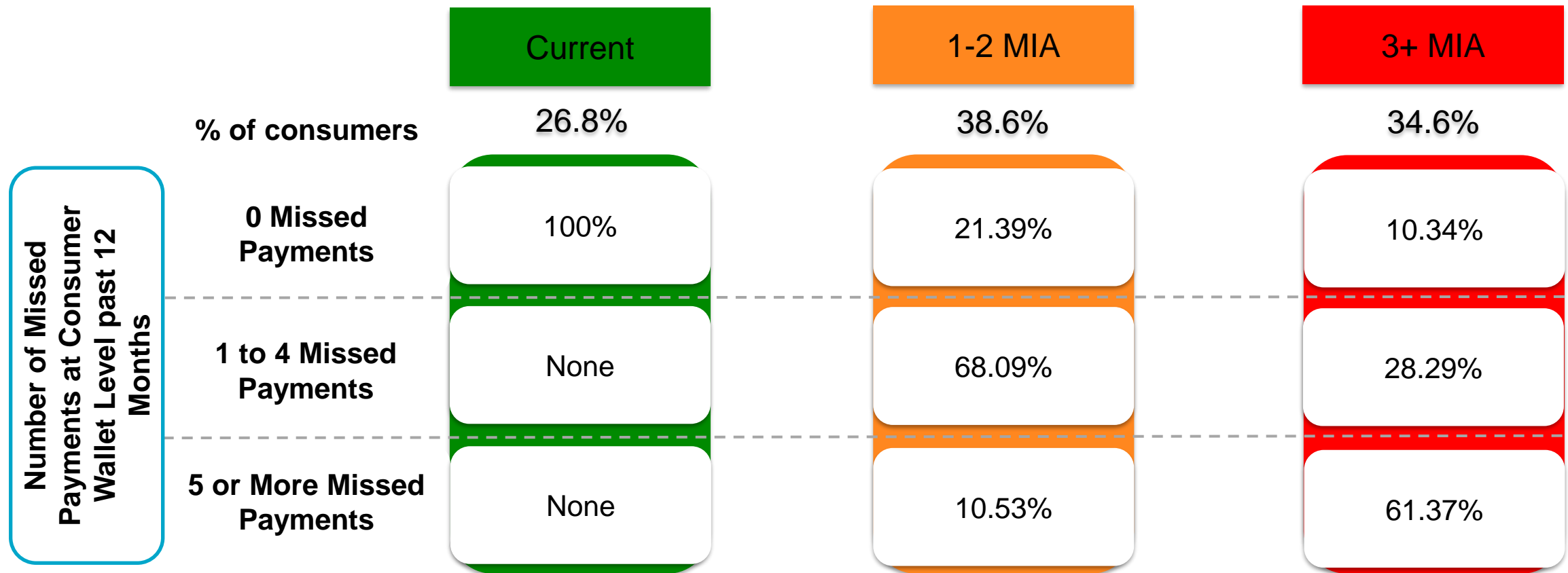
Majority of consumers who graduated to unsecured and secured wallets remained current over the past 24 months

Total Graduating Consumer Performance



Majority of the full suite graduates performed well, with payment hierarchy likely affecting performance for unsecured products

Total Graduating Consumer Performance



How can we predict and manage the performance of graduates better?



Credit Education

- **Prioritise financial literacy to help graduates understand the impact of their financial habits on their credit performance.**



Risk Identification

- **Continuously track and analyse credit behaviours and payment patterns of graduates.**
- **Early detection of poor credit management habits can allow for prompt intervention and prevent small issues from escalating to bigger problems.**



Flexi Pay

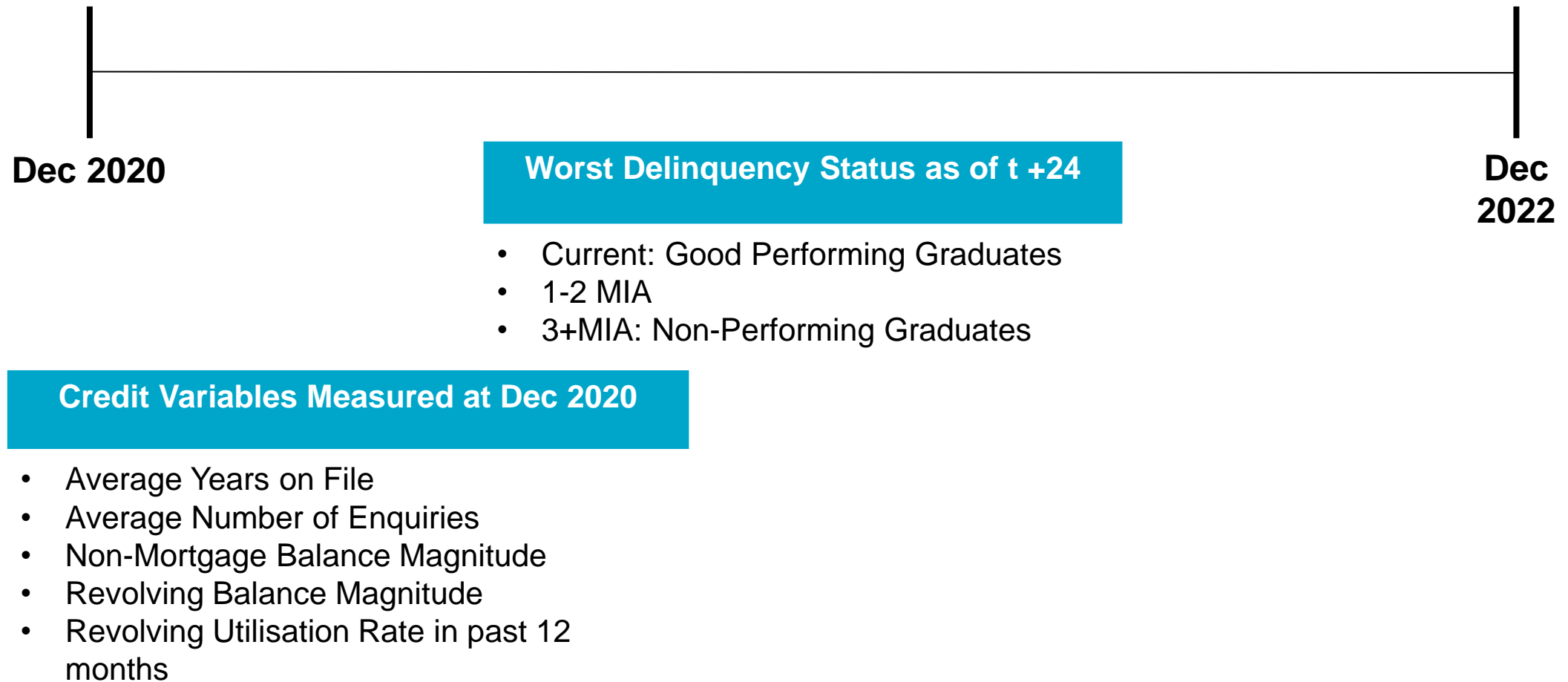
- **Offer more flexible repayment options for those struggling with their repayments.**
- **Tailored plans can help accommodate individual financial situations, providing relief and making repayments more manageable.**



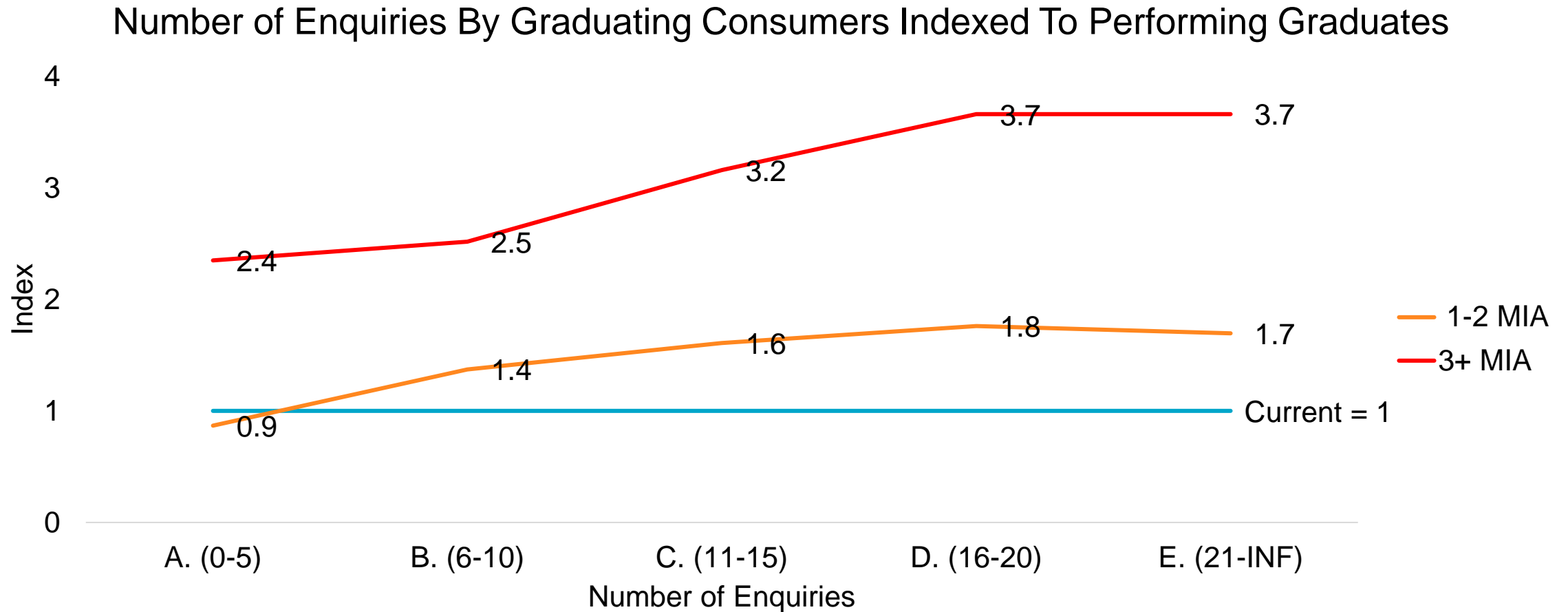
Predicting Good Performing Graduates

Understanding the differences that lead to performing
vs non-performing graduates

We assessed the consumer performance to identify and predict the good performing graduates



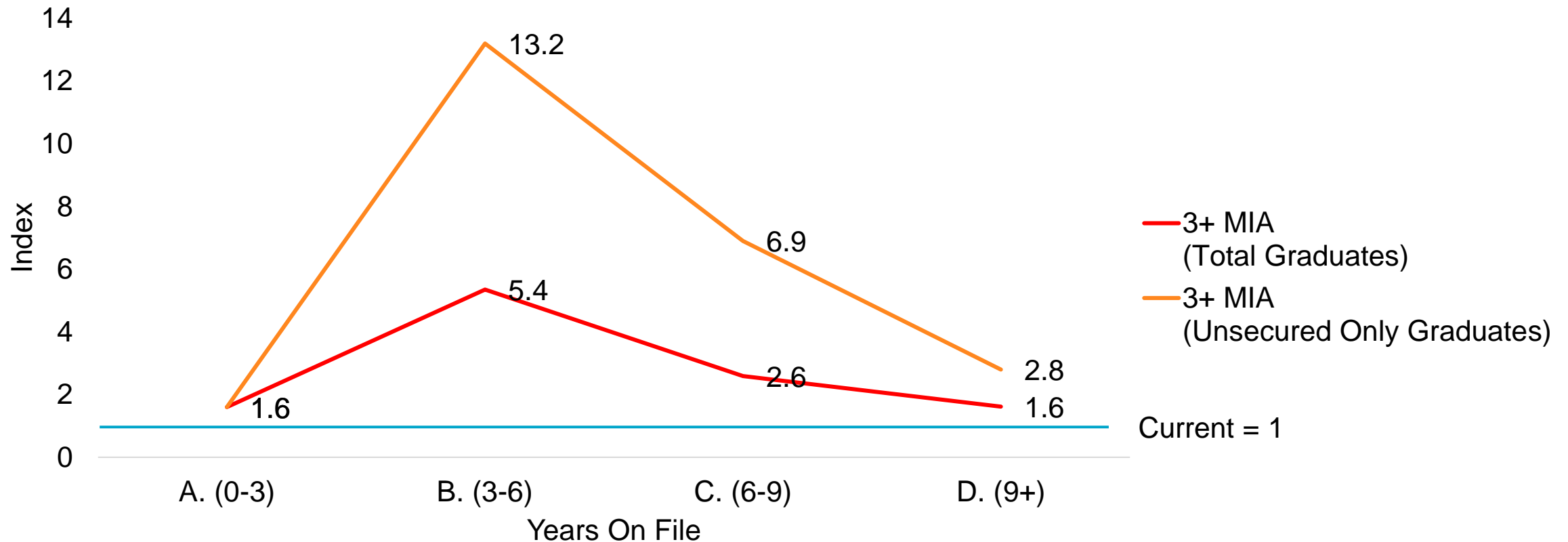
Performing graduates have lower enquiries than those who perform worse



*Values indexed to performing graduating consumers

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

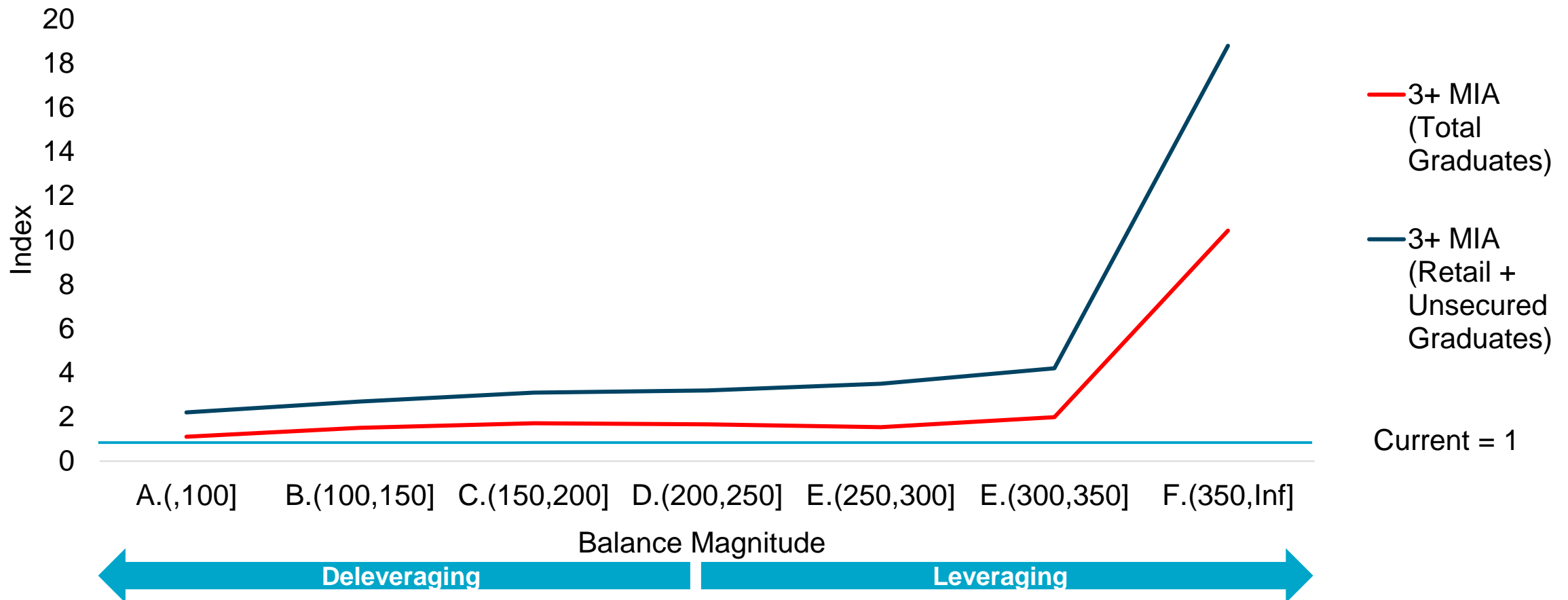
Number of Years On File By Graduating Consumers Indexed To Performing Graduates



*Values indexed to performing graduating consumers

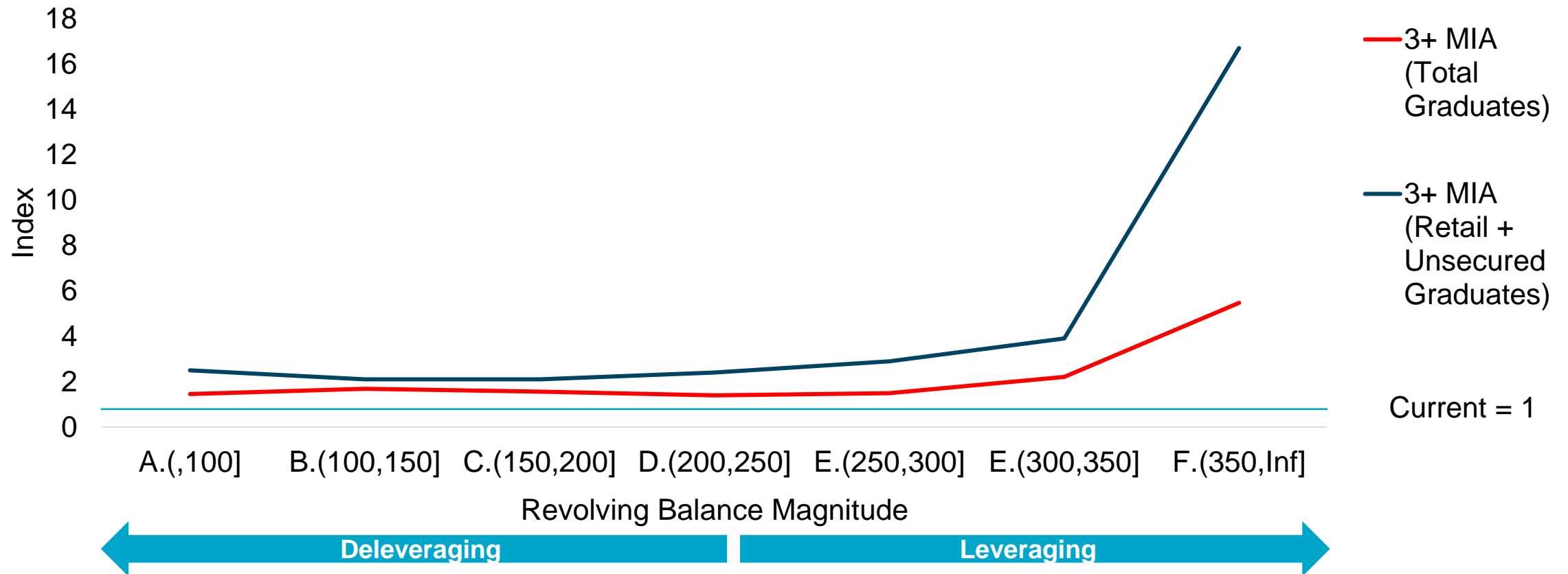
Higher non-mortgage balance magnitude indicates an increased probability of poor performance

Balance Magnitude Of Graduating Consumers Indexed to Performing Graduates



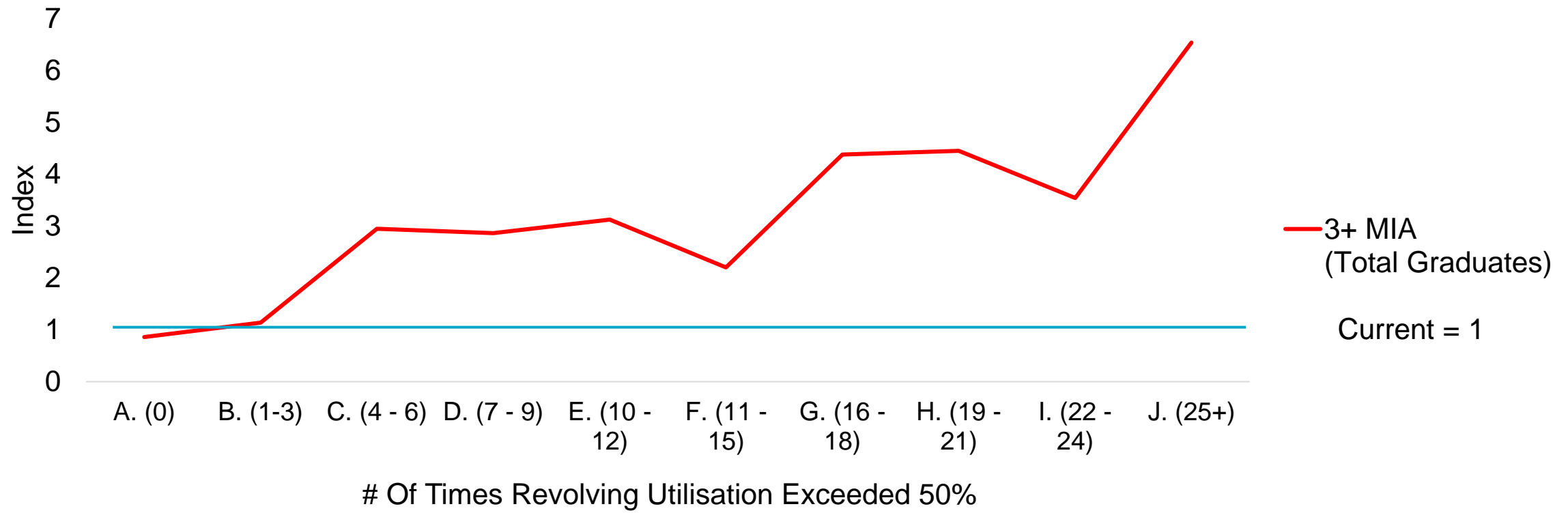
Higher revolving balance magnitude can help predict poor performing graduates

Revolving Balance Magnitude Of Graduating Consumers Indexed to Performing Graduates



Higher frequency of revolving credit utilisation rates exceeding 50% is a great indicator for graduates who are likely to perform worse

Revolving Utilisation Rate Exceeding 50% Indexed to Performing Graduates

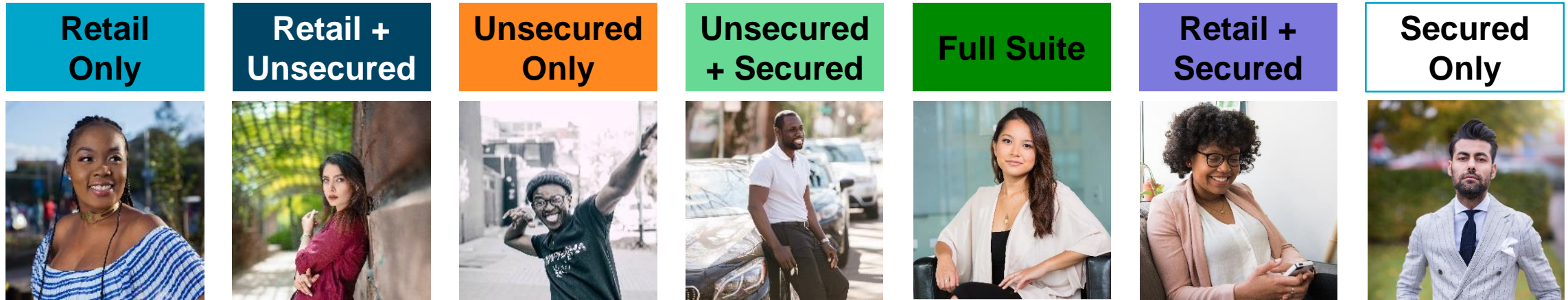


To summarize, enhanced consumer attributes can help predict good performing graduates so you can target them effectively.

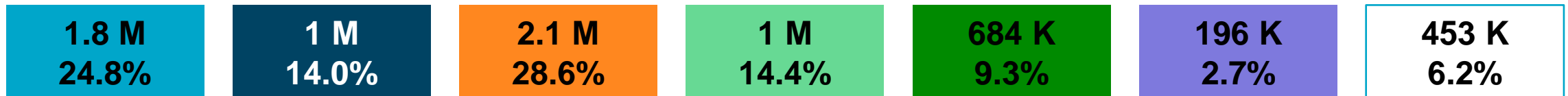


Implications for Lenders to Consider

Empowering consumers to graduate enables sustainable smart growth within the South African Consumer Credit Market



At The End Of 31 March 2023 There Were 7.3 Million Consumers Who Were Current Across Wallet Profiles



At Current Graduation Rate 13%

of Graduates: 950 K

O/S Balance Growth: R 181 Billion

Graduation at 15%

of Graduates: 1.1 M

O/S Balance Growth: R 209 Billion

Graduation at 17%

of Graduates: 1.24 M

O/S Balance Growth: R 237 Billion

Cross-selling and upselling opportunities emerge as wallet profiles change, promoting the need for proactive lender strategies

Market Potential

- ✓ Lenders within South Africa's consumer credit market have an opportunity to propel existing consumers from entry-level products to more complex, traditional credit offerings, fostering consumer empowerment and market progression.

Healthy Credit Demand and Performance

- ✓ The graduation of active consumers to more complex credit products signifies a healthy appetite for credit and a purposeful selection process.
- ✓ Performance differences among these consumers are influenced by their unique credit portfolios. Transunion has identified specific credit attributes that can predict better performance.

Opportunities to Consider

- ✓ The study highlights the evolving nature of consumers' financial needs, suggesting untapped opportunities for lenders.
- ✓ By employing proactive strategies, particularly in cross-selling and upselling, lenders could more effectively cater to consumers' changing needs, strengthening relationships and fostering sustainable growth.