



2023 South Africa Financial Services Summit

The Importance of An Industry Point of View

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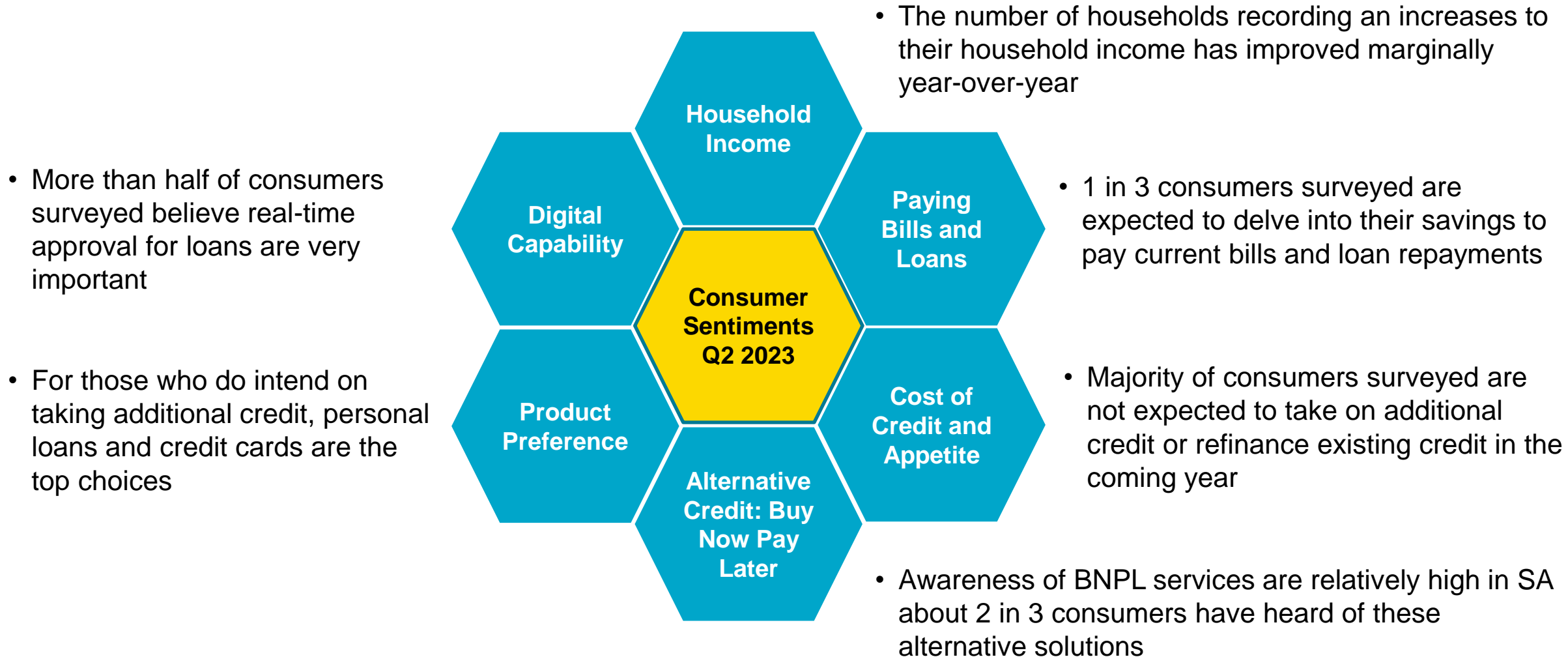
In this session, we will:

- Provide an overview to consumer credit health
- Discuss the overarching themes driving market dynamics across product sets
- Highlight the implications for lenders to consider



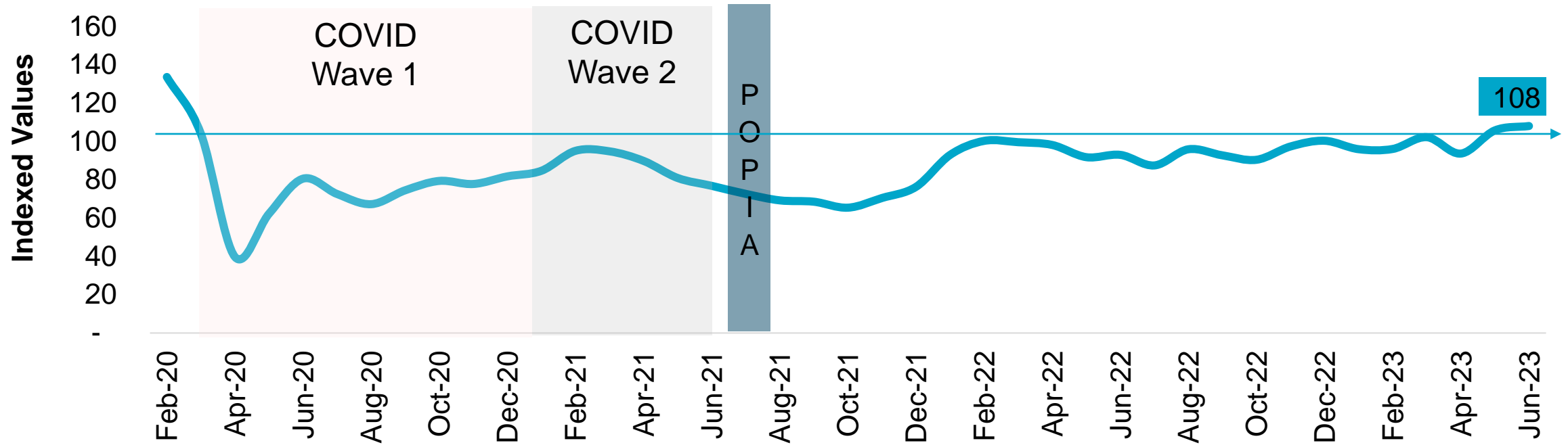
Consumer Credit Health

Voice of the Customer (Q2 2023 vs Q2 2022)



Consumer demand for new credit is at pre-pandemic levels (pending)

Credit Enquiry Volume – All Financial Services products

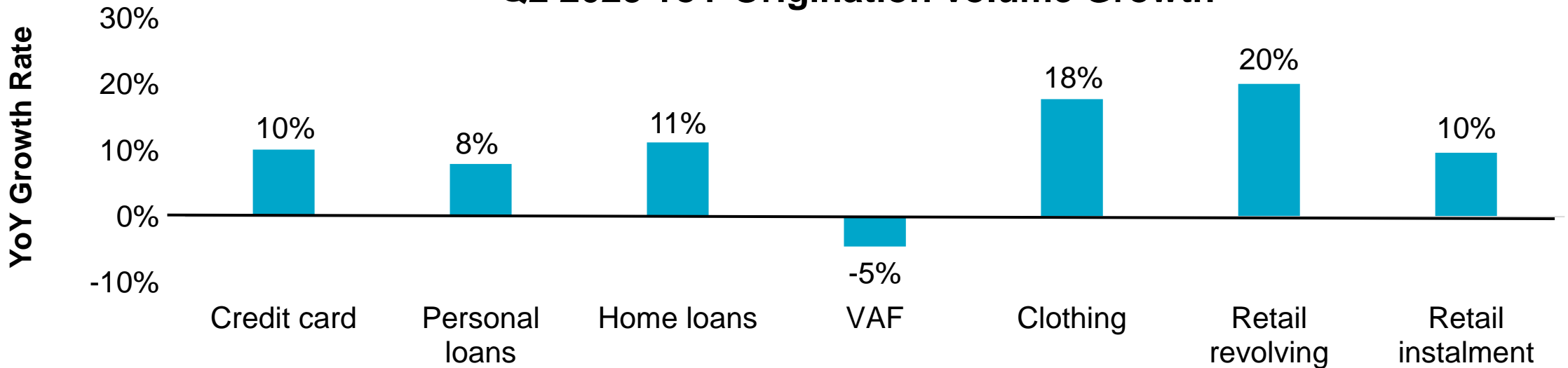


Indexed to 2019 Monthly Average Enquiry Volume

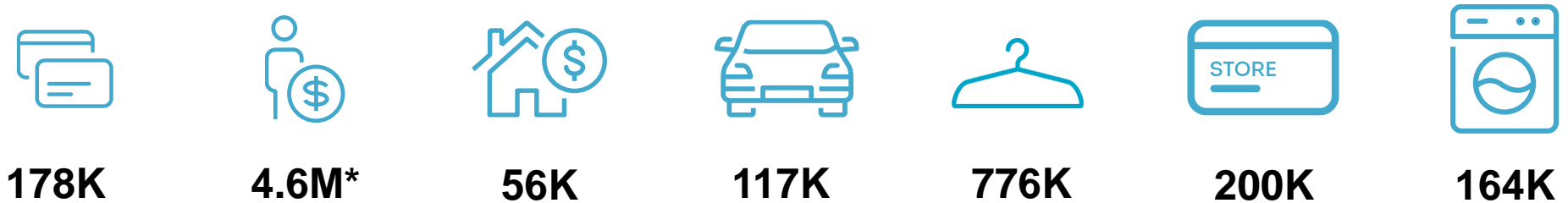
Lenders are meeting the rise in demand for new credit, especially for consumption-led products

Total new accounts Q2 2023 6.09M (up 18% yoy)

Q2 2023 YoY Origination Volume Growth



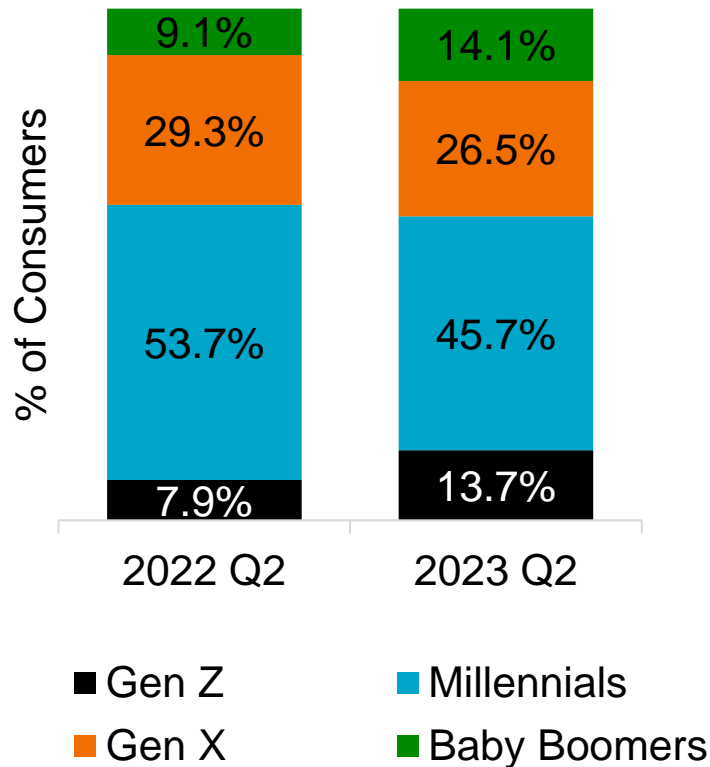
Q2 2023 Origination Volume



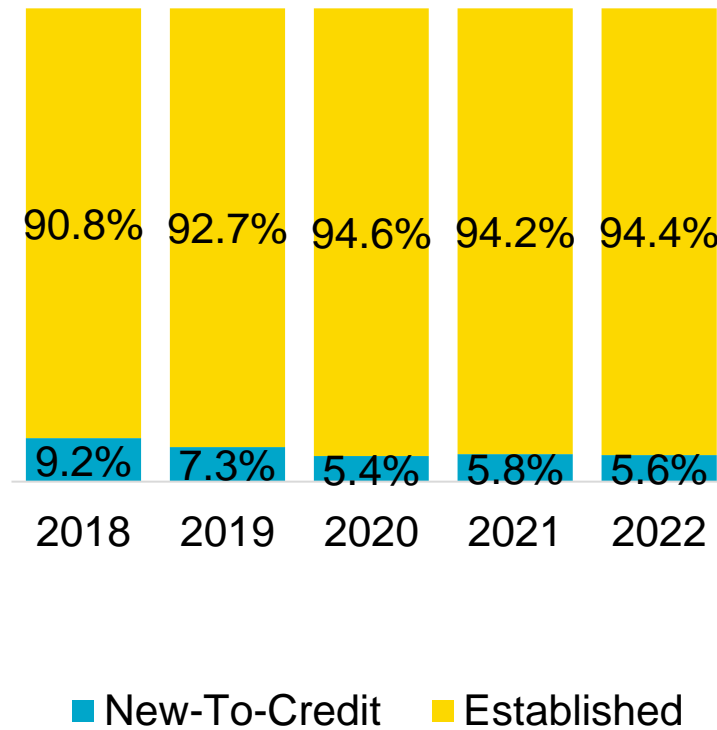
*Includes Unsecured Personal Loans issued by Banks and Non-Bank Providers

Growth in originations primarily driven by younger consumers, new-to-credit participation remains laggard

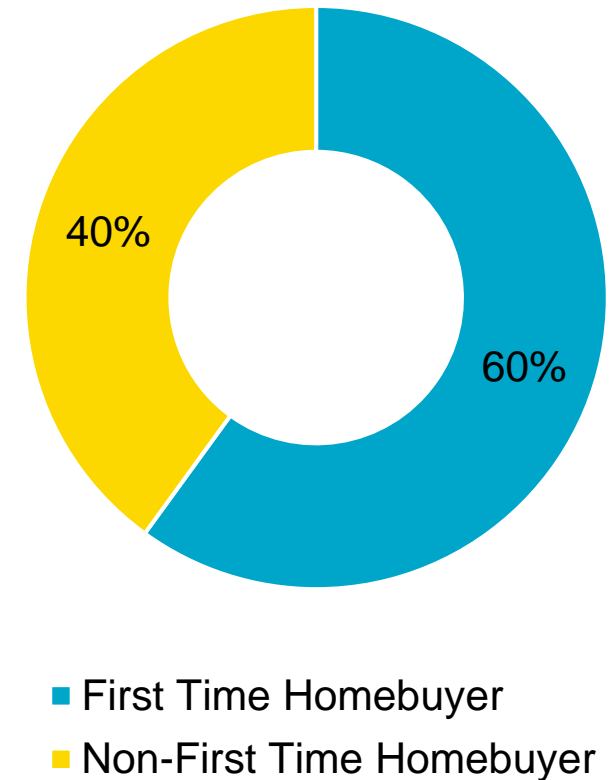
Origination Distribution By Age



Origination Distribution New-To-Credit vs Established



Home Loan Origination Split

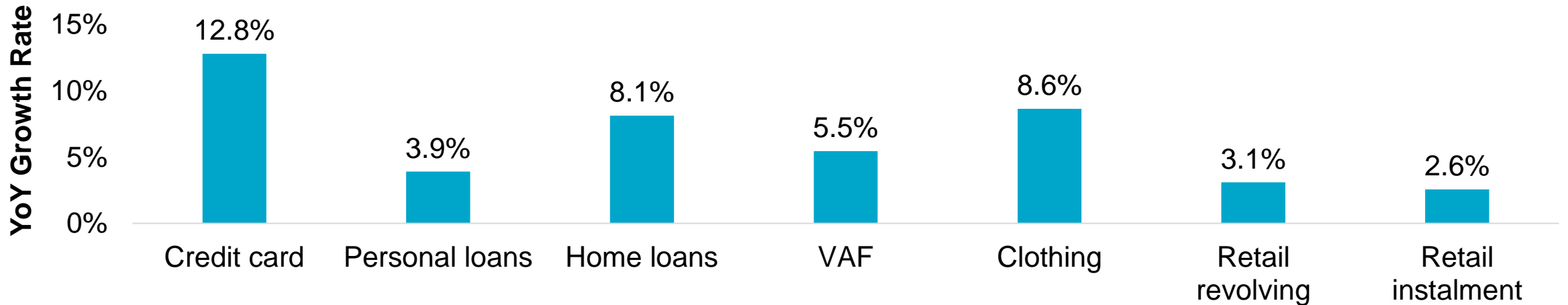


*Based on forecasted New-To-Credit volumes and annualised origination volumes

Consumers are leveraging credit and hence overall balances have seen significant growth

Total consumer debt Q2 2023 R 2.3T (up 7% yoy)

Q2 2023 YoY Balance Growth



Q2 2023
O/S
Balance



R157B



R375B*



R1.2T



R505B



R 35.7B



R12.7B

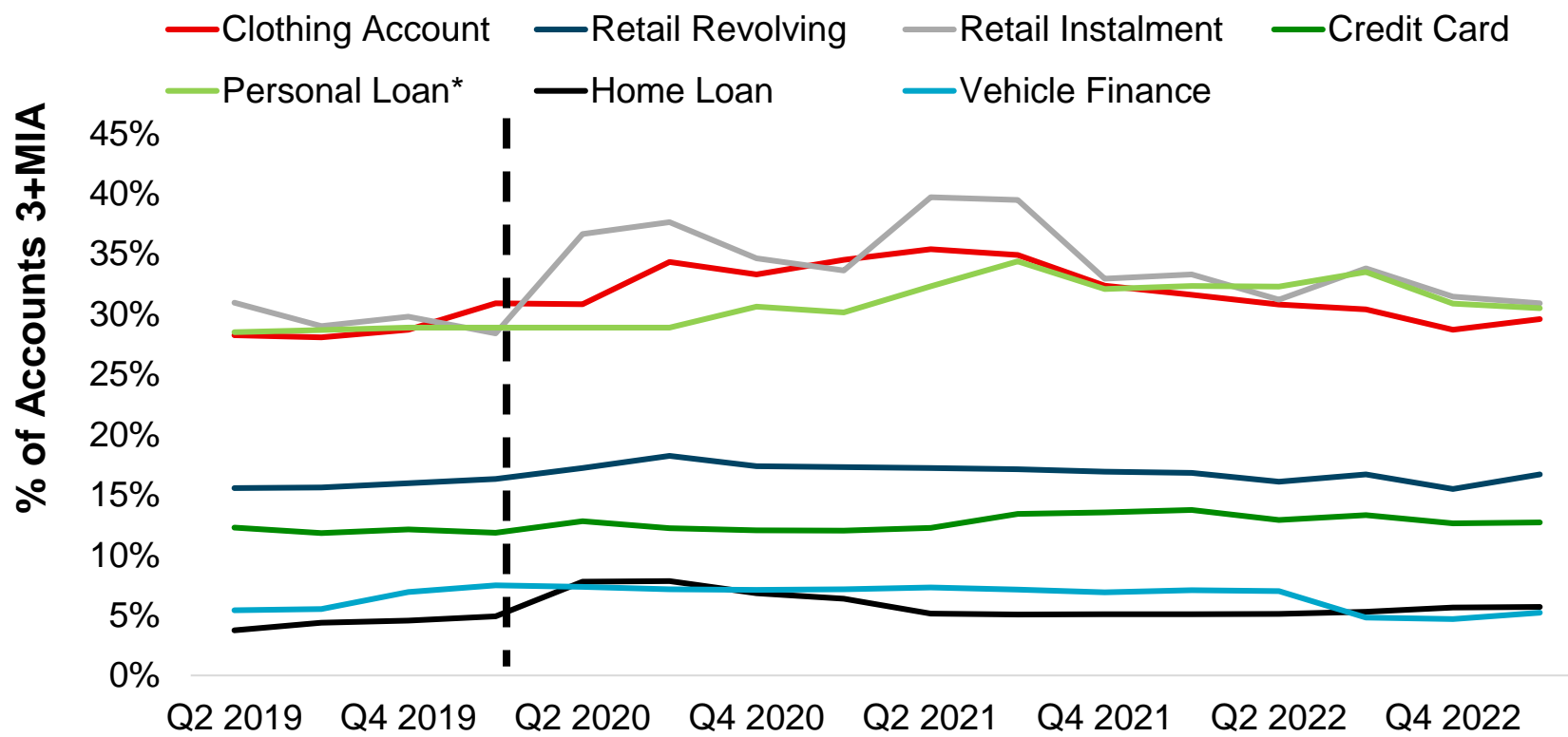


R10.5B

*Includes Unsecured Personal Loans issued by Banks and Non-Bank Providers

While overall performance indicates marginal improvement, recent growth in credit activity is potentially muting the delinquency picture

Q1 2023 Account-Level Delinquency (3+MIA)



Product	Q2 2023	YoY BPS
Clothing Account	30.0%	-80bps
Credit Card	12.4%	-60bps
Personal Loan	35.0%	30bps
Vehicle Finance	5.5%	-160bps
Home Loan	6.7%	120bps

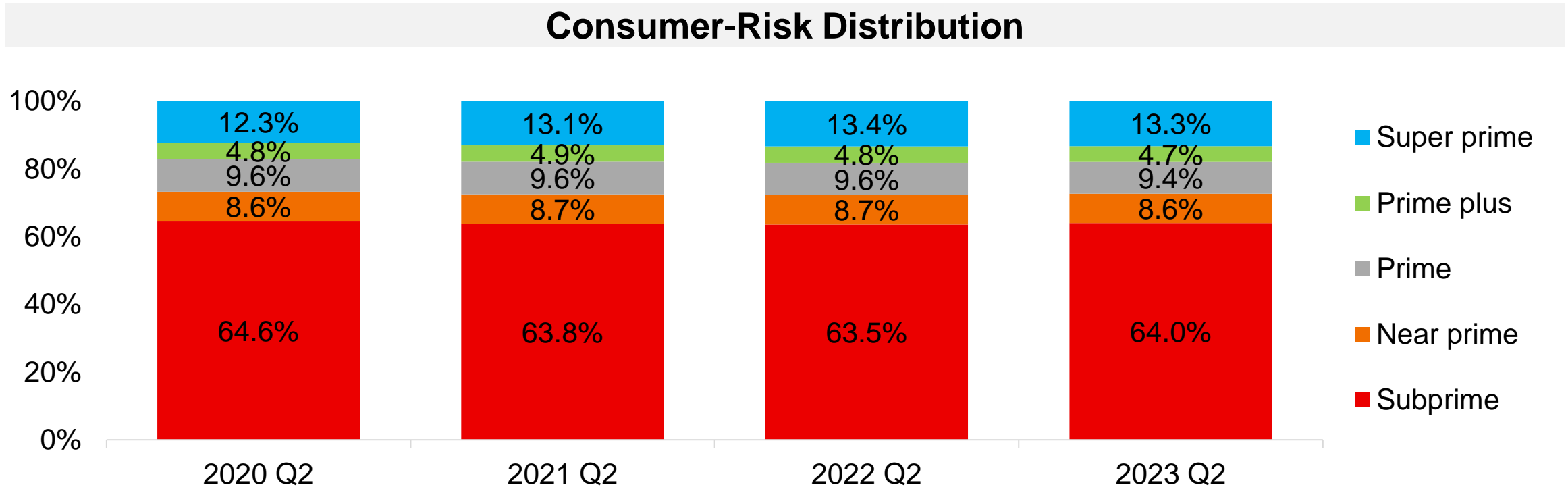
--- COVID-19 Pandemic Start

*Does not include Personal Loans extended by Non-Bank Institutions



Consumer scores remained steady— signs of a resilient market

Q2 Risk Distribution of Credit Active South African Consumers






*Reflective of credit active population with a credit score

CreditVision™ risk score:

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



To summarise consumer credit health trends:

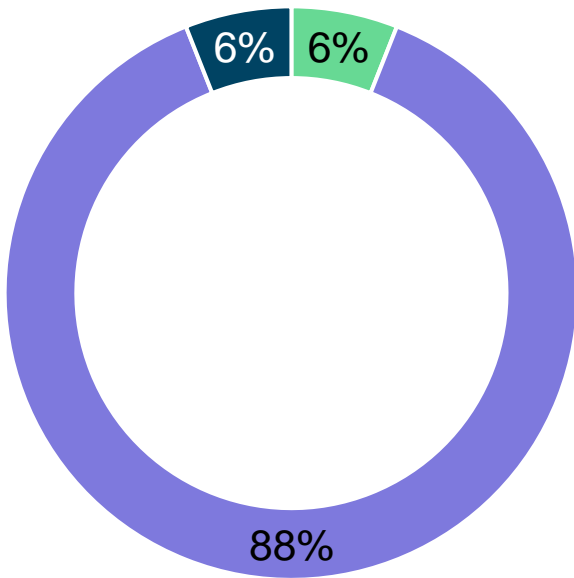
Trend	Indicator	Insights
Consumer demand and supply		<ul style="list-style-type: none">• Consumer demand has recovered to pre-pandemic levels• Originations showed an improved picture, with some verticals remaining below pre-pandemic levels, however lender appetite has widened over recent quarters.
Consumer behaviour and performance		<ul style="list-style-type: none">• Continued interest rate hikes are impacting secured lending balances.• Credit performance improved compared to the prior year due to significant growth in the denominator (i.e. total accounts)
Consumer scores		<ul style="list-style-type: none">• Consumer credit scores remained relatively consistent to the prior year, which reflects the continued resilience amongst the credit active population.

Clothing Accounts

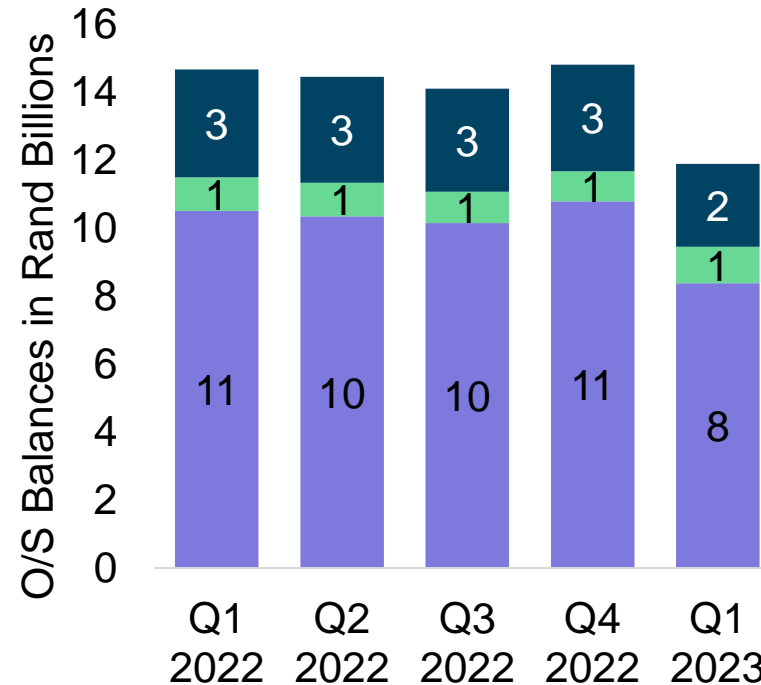
	Q1 2023	YoY Growth	Q2 2023	YoY Growth
Origination Limit (New)	R3.2B	38%	R5.5B	92%
Origination Volume	689,138	36%	776,211	18%
Average Balances	R2,297	6%	R2,312	4%
No. of Consumers	15.6M	0.1%	15.8M	4%
Performance 3+MIA Accounts	4.5M	-2%	4.6M	-0.8%
Performance 3+ MIA Balance	R10.1B	-3%	R10.3B	-0.6%

Majority of consumers with a retail account have limited access to the breadth of products. Cross-sell and upsell opportunities exist

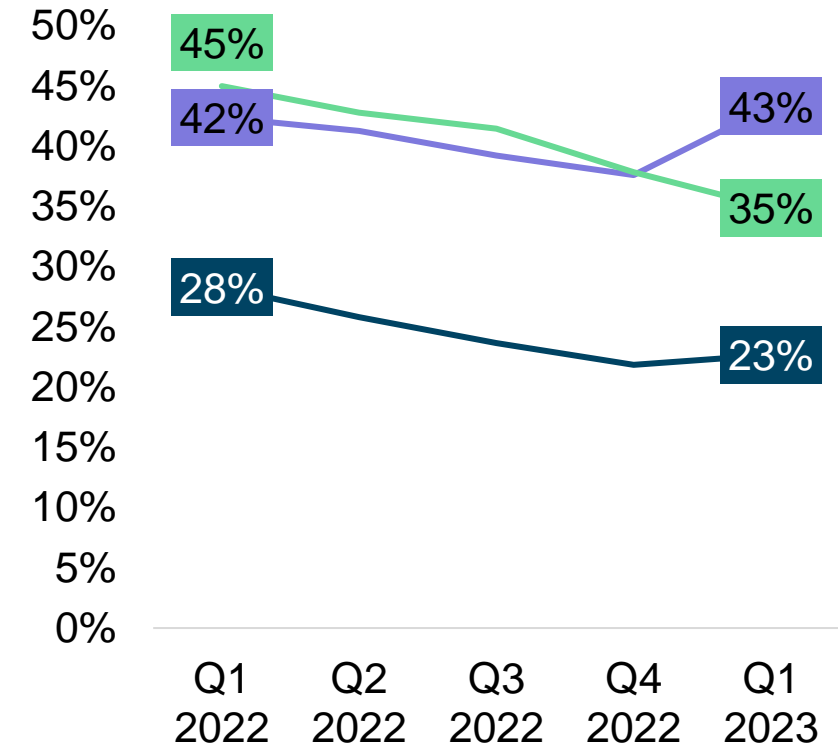
Consumer Distribution



Share of Outstanding Balances



Account-Level 3+MIA



Clothing Account Only

Retail Revolving Only

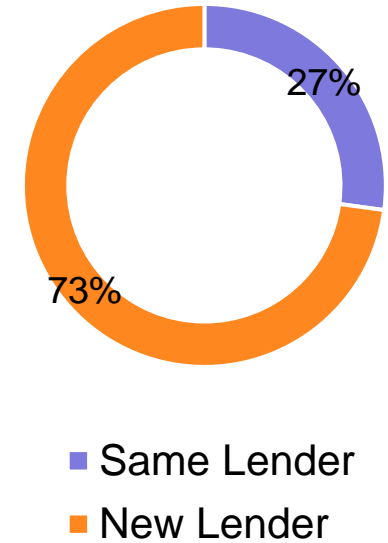
Clothing and Retail Revolving

Upsell opportunity: Identify lifestyle needs for consumers with single accounts

	Single Account
Share of Originations	79%
Opening Limit	R4,285
Share of Active Accounts	66%
Average Limit	R3,684
Average Balance	R1,531
Share of Consumers	81%
Borrowers age <30	87%
Share of Score <=655	71%

Multiple Accounts
21%
R4,901
34%
R 4,369
R2,010
19%
13%
29%

Multiple Accounts



CreditVision™ risk score:

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



Cross-sell Opportunity: Identify consumers eligible for an upgrade

Top Clothing Account*

R12,058

Average Limit Assigned

R4,385

Average Balance

626

Average Score

1.3M

No. of Consumers

76%

% Share ever in 3+ MIA

312,355

Number of Performing Consumers

Retail Revolving Account

R12,022

R6,345

762

1.9M

46%

990,613

A portion of 300K consumers may be eligible for an upgrade

*Top Clothing Account by value for consumers with multiple clothing accounts and do not have a retail revolving account

A Need To Educate and An Opportunity To Cross and Upsell

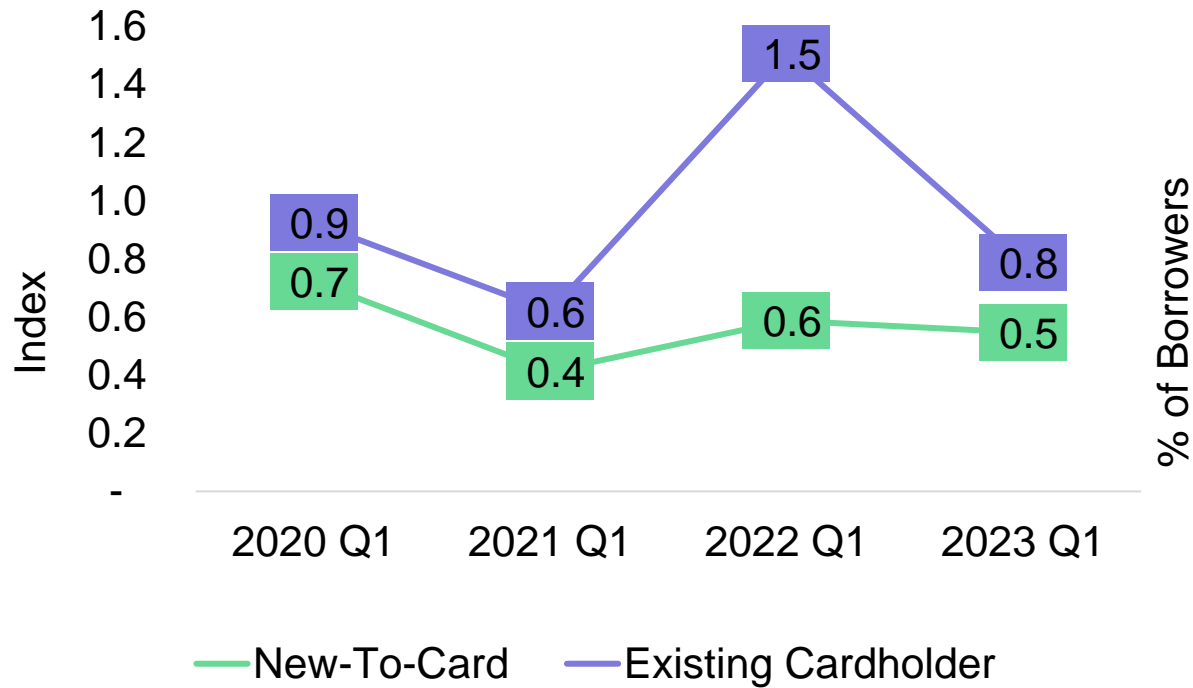
- The prevalence of single clothing account holding consumers in South Africa suggests substantial room to **diversify and expand** consumer's credit portfolios.
- High serious-delinquency rates among clothing account holders may **hinder** their credit portfolio diversification and growth.
- Implementing **robust financial education** and **proactive risk management** strategics can reduce delinquencies and support upward progression for clothing account holders.
- High-performing top-of-wallet clothing account holders present an **opportunity for upgrading** to retail revolving products, promoting upward mobility.

Credit Cards

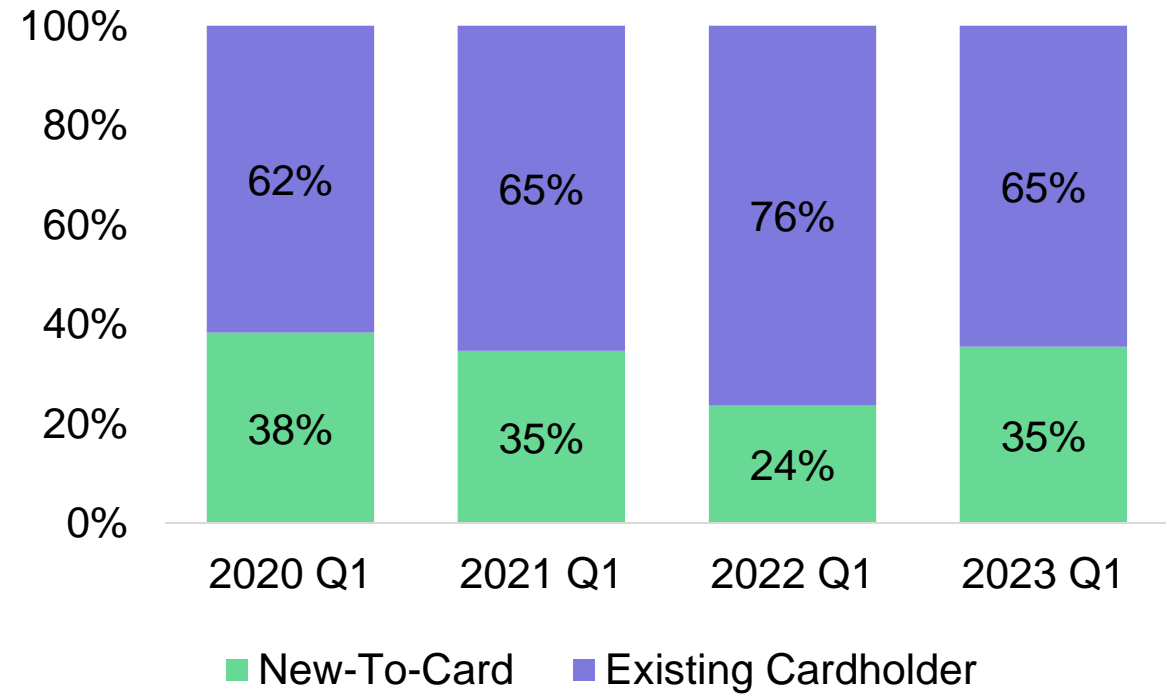
	Q1 2023	YoY Growth	Q2 2023	YoY Growth
Origination Limit	R4.9B	28%	R4.8B	8%
Origination Volume	175,836	27%	178,377	10%
Average Balances	R22,473	8%	R22,745	7%
No. of Consumers	6.7M	7%	6.7M	4%
Performance 3+MIA Volume	873K	-0.5%	856K	-0.6%
Performance 3+ MIA Balance	R29B	-1%	R27.5B	-2%

Card growth primarily driven by existing cardholders,

Year-Over-Year Originations Indexed to 2019 Volume by Borrower Type



Distribution by Borrower Type

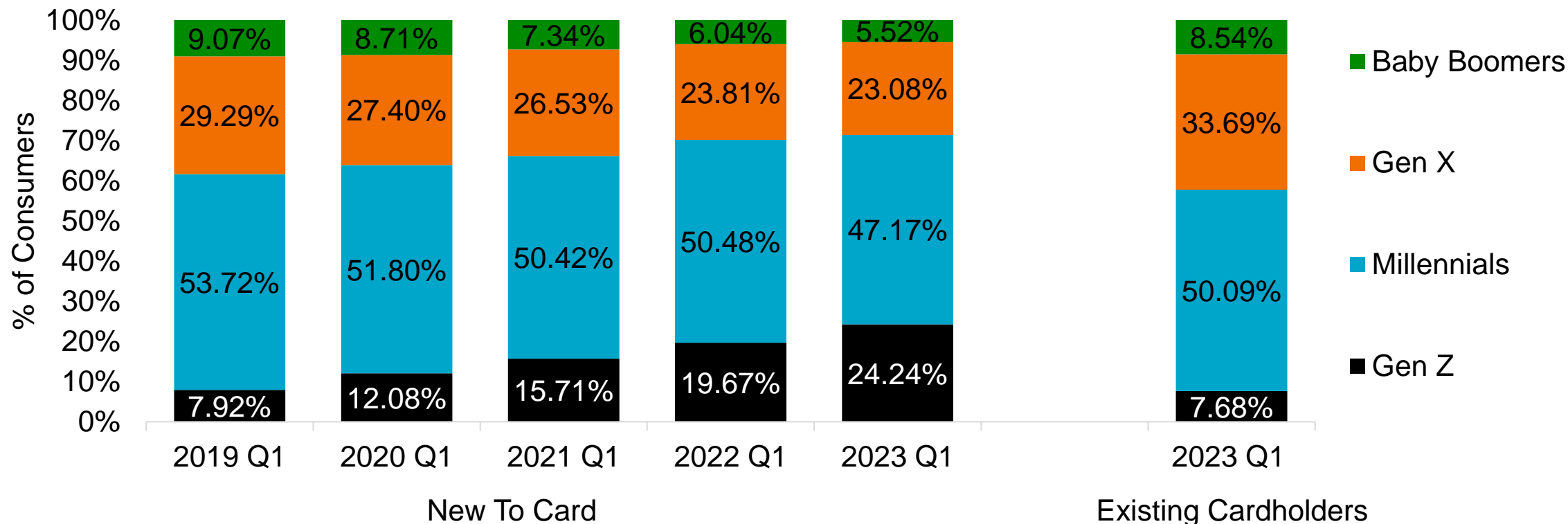


Indexed to 2019 quarterly average originations by borrower type



Gen Z consumers are gaining share in the credit card market, making friction-right digital experience a critical consideration

Q1 Origination Distribution By Generation



TransUnion age distribution:

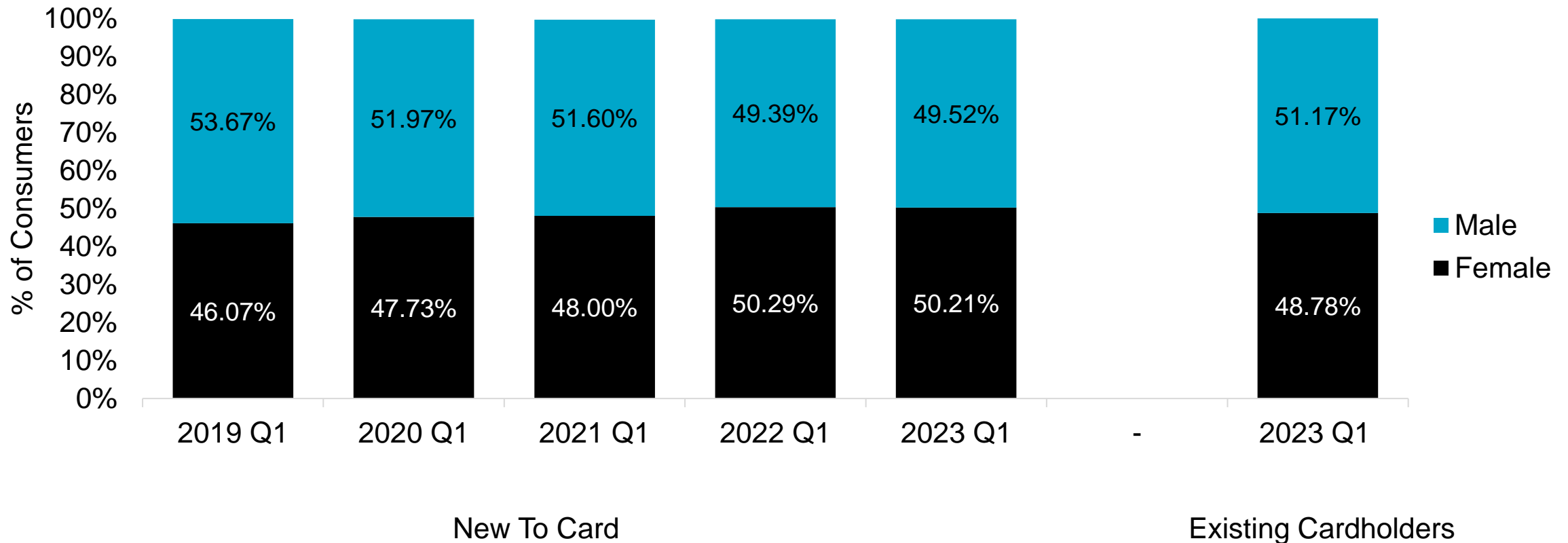
Gen Z (Born 1995 – 2010); Millennials (Born 1980-1994); Gen X (Born 1965-1979); Baby Boomers (Born 1946-1964); Silent (Born Pre-1946)

New to card: Opening of first-ever cards



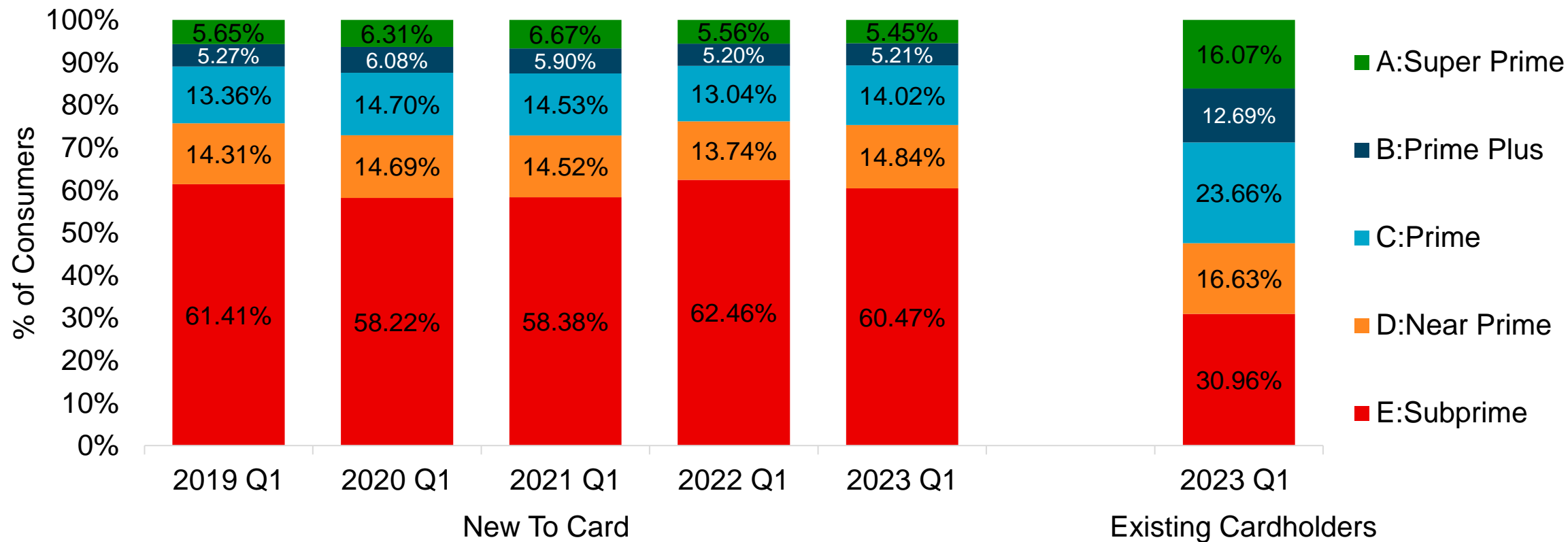
Female borrowers comprise a significant share of new entrants in the card marketplace: Ensure your offerings are relevant

Q1 Origination Distribution By Gender



Consumers entering the card market are riskier than their counterparts, indicating the need to leverage enhanced underwriting models

Q1 Origination Distribution By Risk



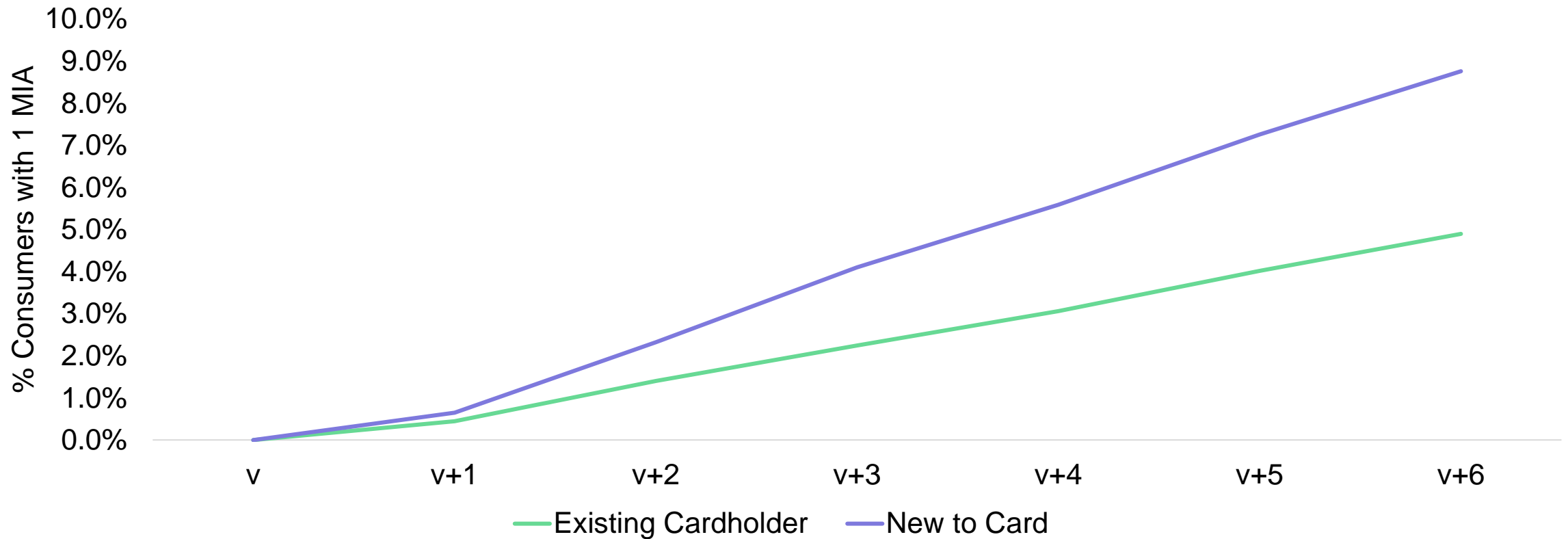
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Existing cardholders has more experience in credit cards, and they performed better than new to card consumers

Prime Vintage DQ 6 Months on Book



Growth Potential Exists In Targeting New-To- Card Consumers



- **Emerging Gen Z influence:** The rapid growth of Gen Z borrowers signals the need for tailored products, services. Addressing their unique requirements could unlock new market potential.
- **Gender dynamics & engagement:** The rise in female participation, particularly among new-to-card borrowers, requires lenders to refine their outreach and communication strategies to effectively cater to this demographic.
- **Value of Credit Experience:** Delinquency rates show the advantage of credit familiarity. This underscores the opportunity to develop educational resources or initiatives to guide newer borrowers, potentially reducing future delinquencies and improving risk scores.

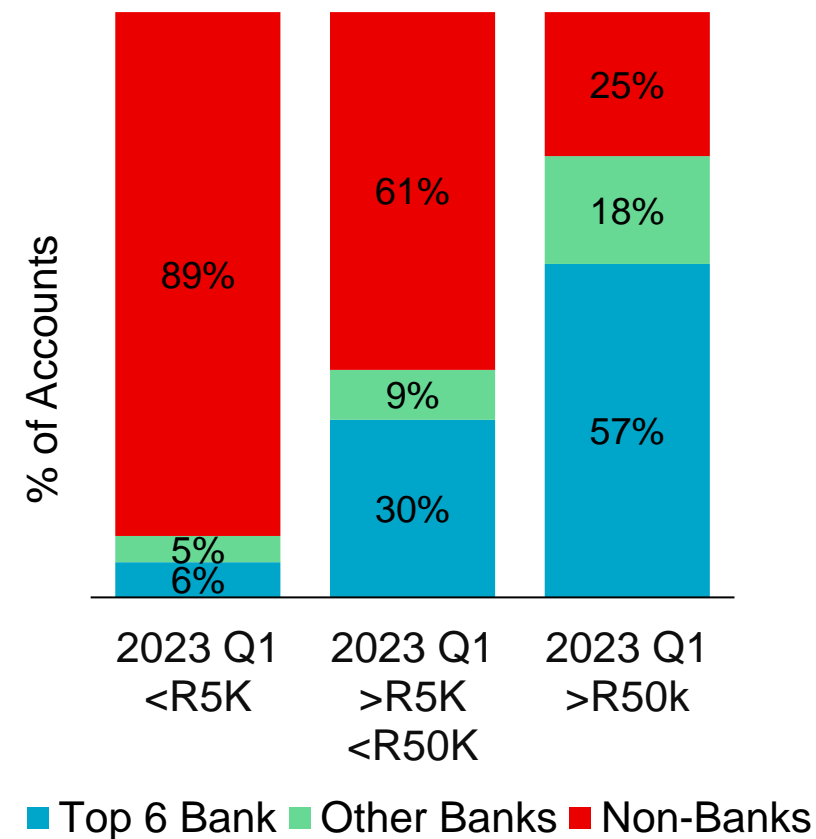
Personal Loans

	Q1 2023	YoY Growth	Q2 2023	YoY Growth
Opening Loan Amount	R46.5B	-5%	R47B	-8%
Origination Volume	4.3M	16%	4.6M	8%
Average Balances	R32,095	1%	R31,934	2%
No. of Consumers	7.8M	4%	8M	1%
Performance 3+MIA Volume	4M	-0.2%	4.1M	0.3%
Performance 3+ MIA Balance	R123B	-2%	R122B	-2%

Majority of personal loan consumers carry lower ticket loans, primarily dominated by non-bank lenders

	<5k Loan Amount	>5k < 50k Loan Amount	> 50k Loan Amount
Share of Active Loans	3.9M	5.3M	3.1M
Total Loan Originations Q1	3.0M	864K	216K
Share of Originations	73.6%	21.2%	5.3%
Number of Consumers	2.5M	816K	212K
Share of Consumers	71.1%	22.9%	5.9%
Borrowers age <30	76.9%	19.6%	3.4%
Share of Score <=655	70%	23.1%	4.9%

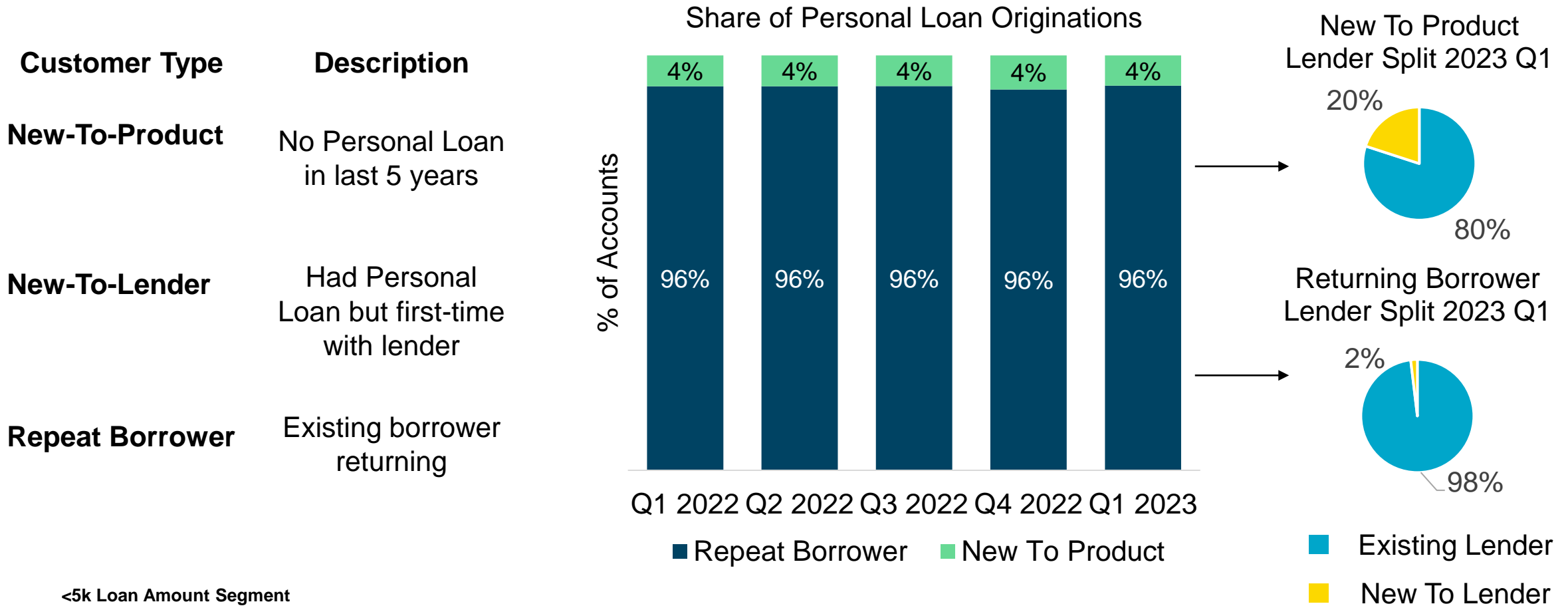
Share of Originations



As at Q1 2023



Repeat borrowers comprise significant share and demonstrate loyalty, representing upsell opportunity



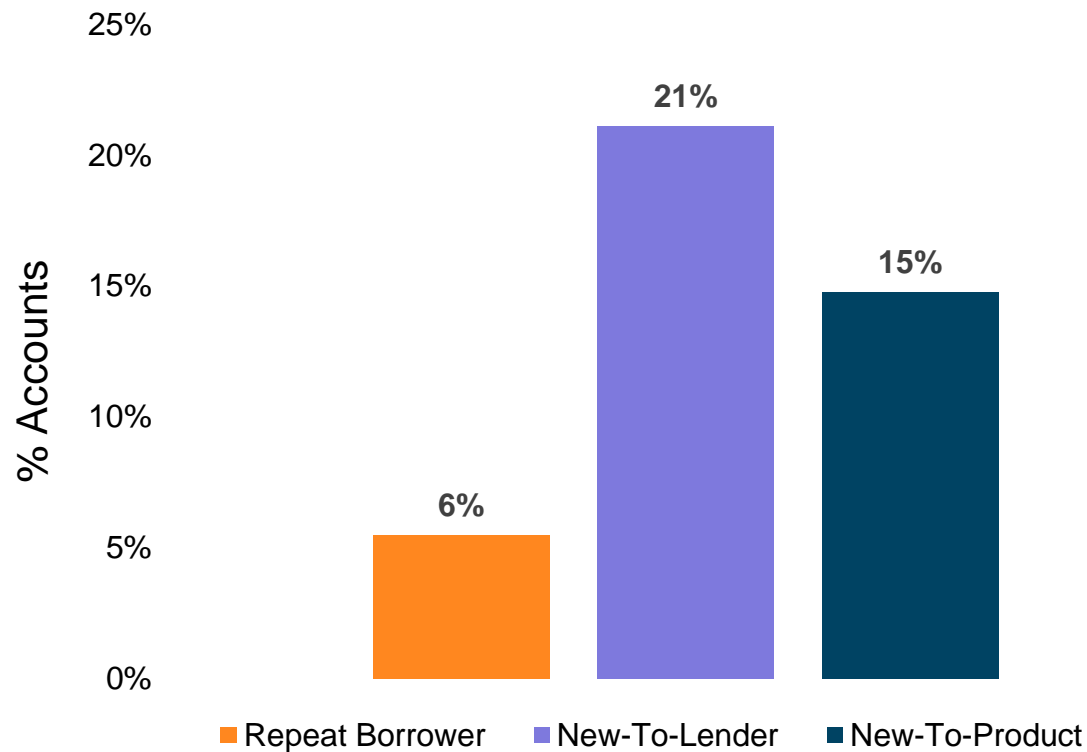
<5k Loan Amount Segment

Existing borrower: Had Personal Loan products within last 5 years, and took on new personal loan with a lender that had provided them with personal loans before

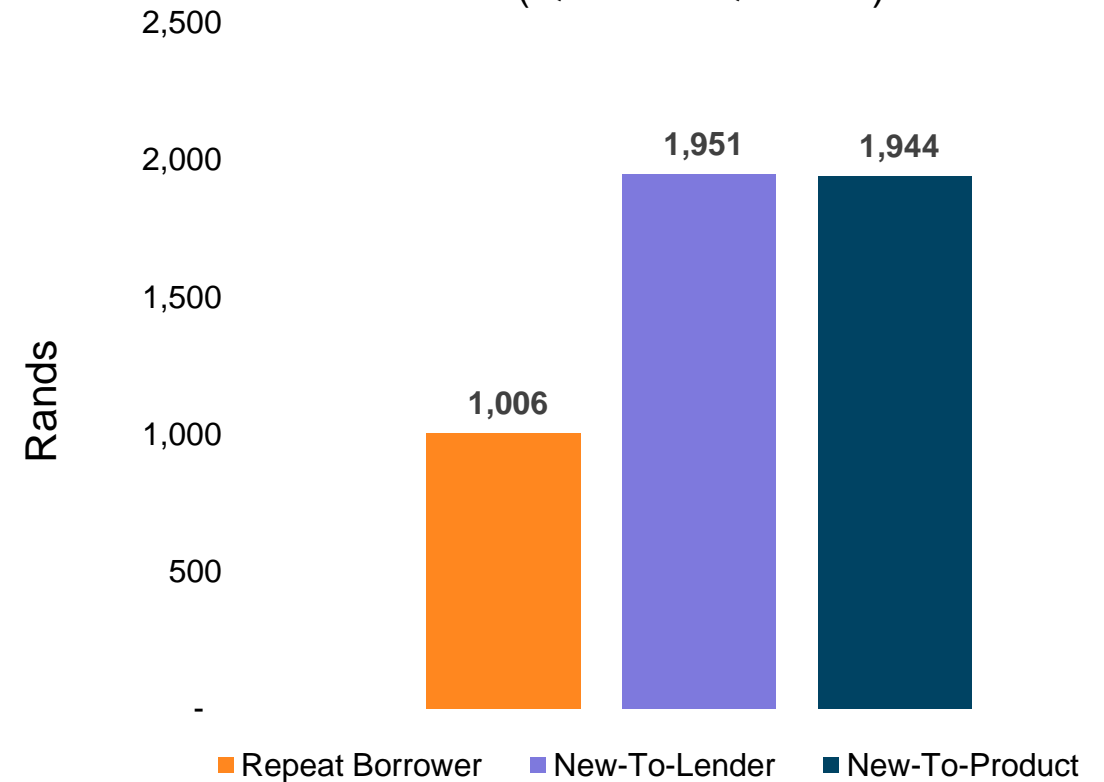


Given healthy performance, lenders need to predict and capture wallet share of repeat borrowers

Accounts 3+MIA worst status over 12 months
(Q1 2022-Q1 2023)



Average Balance Per Accounts 3+MIA worst status over
12 Months (Q1 2022-Q1 2023)



<5k Loan Amount Segment

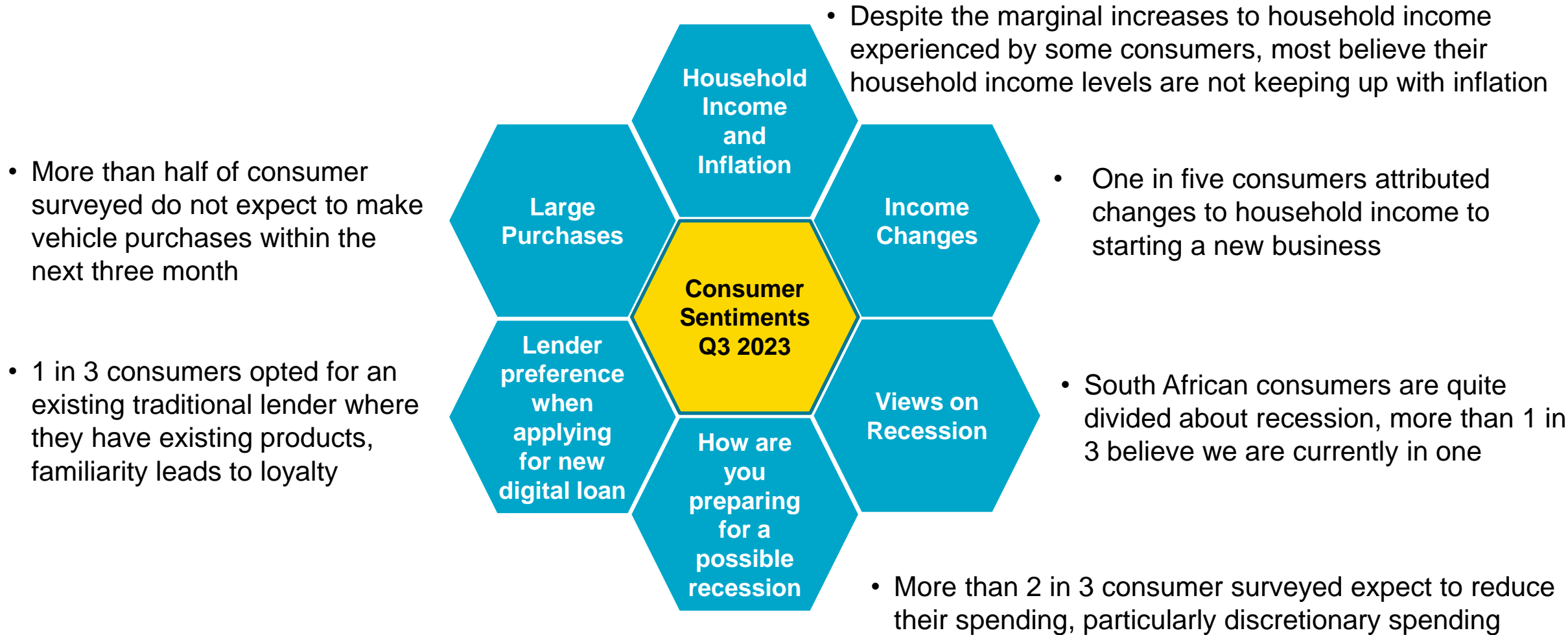


Repeat Borrowers Generate Significant Value



- A substantial **majority** of both **repeat borrowers** and borrowers new to personal loans tend to choose lenders with whom they have existing relationships.
- Lenders should leverage the strong loyalty factor that exists within the market, **building on existing relationships** and focusing efforts on both retention strategies for current borrowers and onboarding strategies that tie into their existing product offerings to entice new borrowers (a.k.a. **bundling**),
- Our findings indicate the need for **careful risk management** when dealing with new-to-lender and new-to-product borrowers. While these borrowers tend to carry higher balances, they also represent greater risk of defaults.
- Lenders should employ comprehensive risk assessment measures, offer robust **financial education** to new borrowers, and develop strategies to **manage and recover** delinquent accounts effectively

Voice of the Customer Q3 (Looking forward)



Resilient growth observed in the credit market amid headwinds, strategic engagement of new-to-credit consumers for sustainability



Younger Participation

Younger Gen Z borrowers the next growth engine as they begin to take greater share of new business volumes



New-To-Credit

New-To-Credit share of originations remain lower than prior years, presenting an opportunity to tap into unserved markets



Repeat Borrowers

An opportunity exists for personal loan providers to upsell higher ticket loans to repeat borrowers