Debt Index | Q4 2022

2023 National Debt Awareness Month

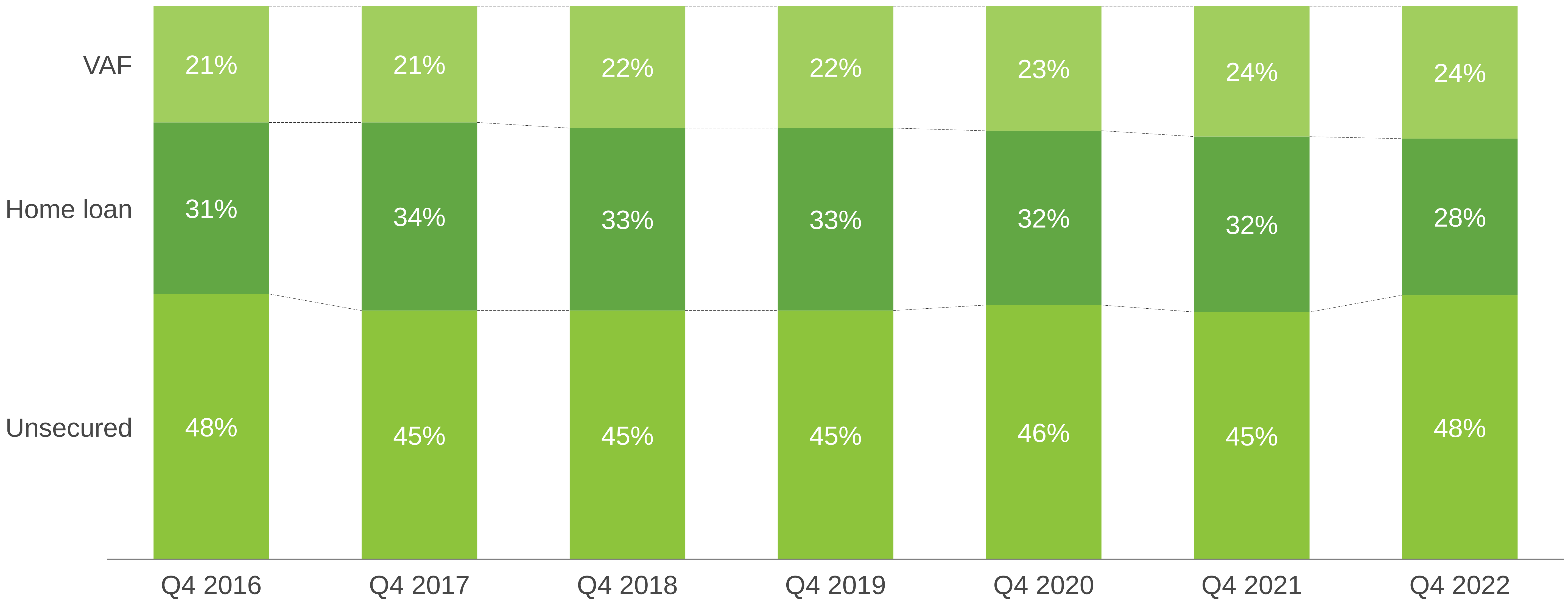
Executive Summary - Benay Sager, Head of DebtBusters

- **Publishing of the Q4 2022 Debt Index coincides with the launch of the National Debt Awareness Month**. We are launching the National Debt Awareness Month at this critical juncture, where elevated **interest rates and high inflation dominate the conversation.** We want consumers to learn more about the impact of interest rates and take advantage of the best tool they have available to manage cost of credit and interest rates: debt counselling. In fact, over the past year, we have seen more online engagement, more inquiries, and more awareness from consumers on how to manage their debt more proactively. So, our central theme this year is "**More consumers than ever are facing up to their debt**"
- In Q4 2022, **there was increased demand from consumers for debt management, with debt counselling inquiries up by 53% and online debt management up by 130% compared to the same period last year**. In 2023 – while early days – we observe (and expect) a similar trend. In our view, this is the clearest evidence yet that consumers are facing up to their debt and taking the necessary steps to do the responsible thing and pay back their debt.
- The full impact of successive interest rate increases since November 2021 and elevated levels of inflation is now fully evident in consumer finances. With interest rate increases, lending activity has increased: average loan size has increased by 31% in a few years and virtually all consumers (96%) who applied for debt counselling in Q4 2022 had a personal loan – both indicating that consumers continue to supplement their income with unsecured credit, and personal loans have become a lifeline for many. Compared to 2016, **those consumers who applied for debt counselling in Q4 2022 had**:
    - **33% less purchasing power**: Nominal incomes were on par with 2016 levels, however when cumulative inflation growth of 33% is factored in for the same six-year period, consumers' purchasing power diminished by 33% over this period. This means consumers are feeling like they are taking home 33% less today in real terms than they did in 2016.
    - **Higher debt service burden**: Consumers need to spend around 63% of their take home pay to service their debt before coming to debt counselling – those taking home R20k or more p.m. need to use 68% of their income towards debt repayments. The debt-to-income ratio for top two band is higher in Q4 2022 compared to same periods in the past: 125% for those taking home more than R10k per month and 161% for those taking home R20k or more p.m.
    - **Unsustainably high levels of unsecured debt:** Unsecured debt levels were on average 21% higher than that in 2016 levels; for those taking home R20k or more, the unsecured debt levels were 50% higher. This is a direct result of erosion of net income (take home pay): consumers need to supplement this erosion with unsecured credit.
- Starting from Q2 2020, average interest rates for bonds and vehicle finance started to decrease, thanks to multiple interest rate reductions by the SA Reserve Bank. This had ushered many (especially younger) consumers to purchase vehicles and homes at attractive interest rates. As interest rates started to increase in late 2021, these consumers have started to feel the increasing burden of servicing asset-linked debt: average interest rate for a bond went from 8.3% in Q4 2020 to 10.8% in Q4 2022, and more asset debt has been restructured as part of debt counselling during this period. **Debt counselling is the best tool to help consumers**:
    - Unsecured debt interest rates can be reduced by over 90% while under debt counselling from an **average of 23.6% to ~1.9%, allowing consumers to pay back expensive debt quicker**.
    - In 2022, in partnership with creditors DebtBusters was able to reduce interest rates significantly for consumers, **and in return consumers paid R2.5bn to their creditors**.
    - The number of consumers successfully completing debt counselling successfully has increased by five-fold over the last six years. **Consumers who successfully completed debt counselling in Q4 2022 paid back over R400m worth of debt to their creditors as part of the debt counselling process**.
- During the same period, we observed increasing levels of interest from consumers for **online debt management on** www.debtbusters.co.za. Younger consumers generally have less debt burden and have been taking advantage of online debt management tools to help manage their debt more pro-actively. These consumers are keen to learn how best to manage their debt and recognise that if addressed early in their professional career, management of debt can become part of daily life. To support these consumers, during the course of 2023, we will continue to add functionality and enable them to become more effective in managing their own debt.
- For more information and to find out how DebtBusters helps consumers with debt management, visit our website.

Nature of debt is mostly stable, except a growing portion is from financed vehicles

Share of vehicle debt has increased in the last few years, indicating that more consumers with financed vehicles are seeking financial assistance

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management

Percent by type, by value at end of Quarter

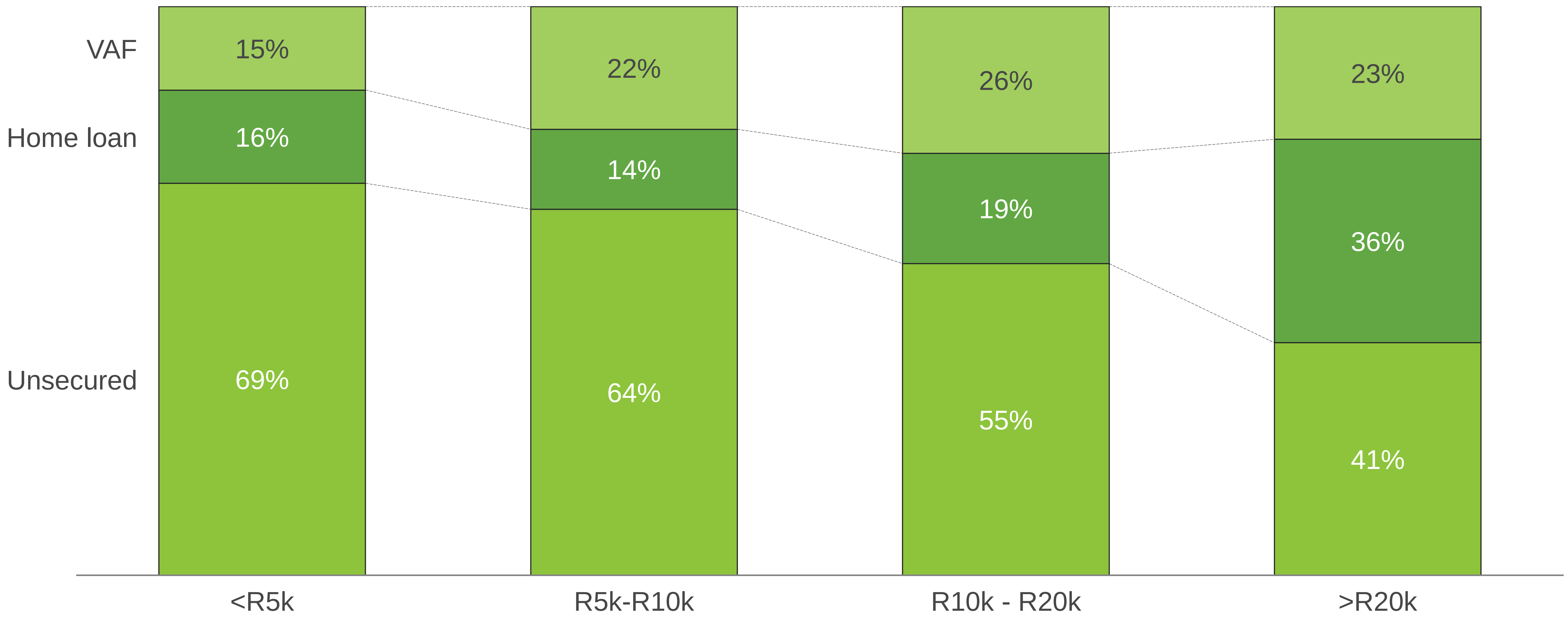
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Nature of debt varies for each income group; perhaps predictably higher income earners having a larger proportion of secured debt

TOTAL DEBT BOOK

Share of debt that is asset-based increases to almost ~60% for those taking home R20,000 or more per month



Breakdown of DebtBusters debt under management
At end of Q4 2022

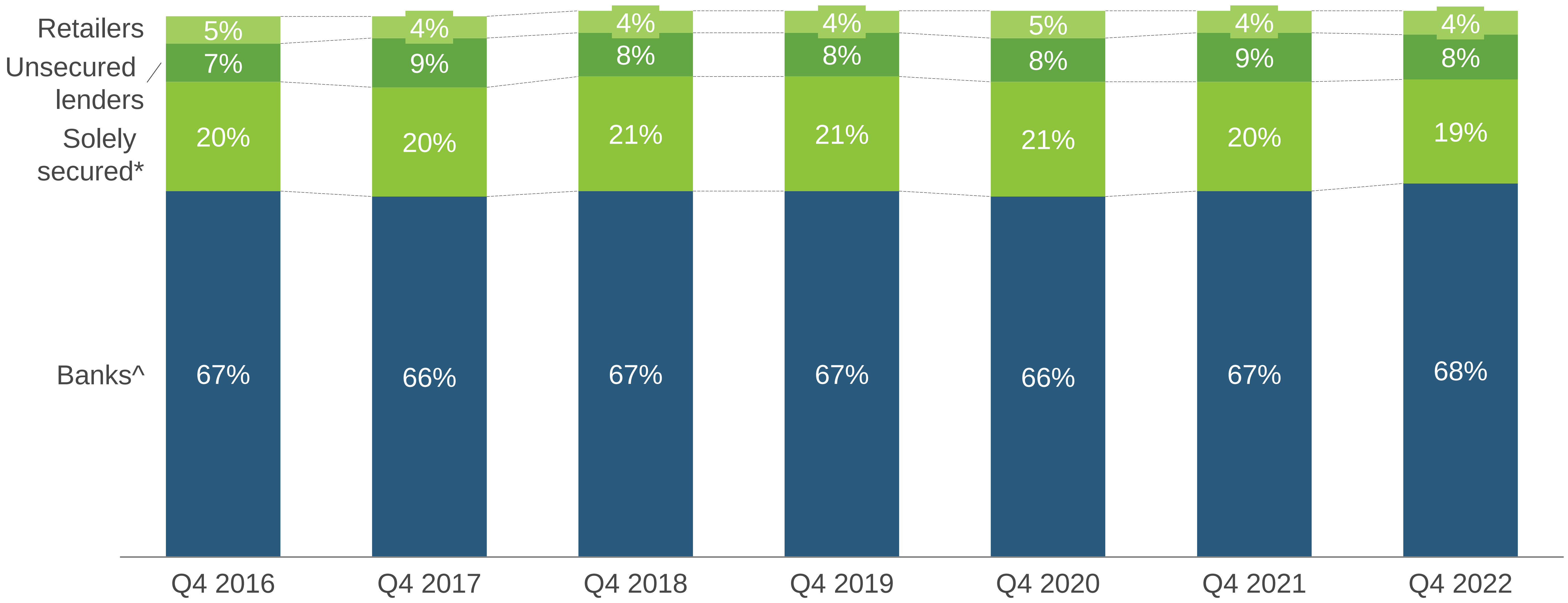
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Share of lending institutions is largely stable

Banks make up two thirds of debt; there is slight increase in share of unsecured debt over the past year

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management

Percent by type of lender, by value at end of Quarter

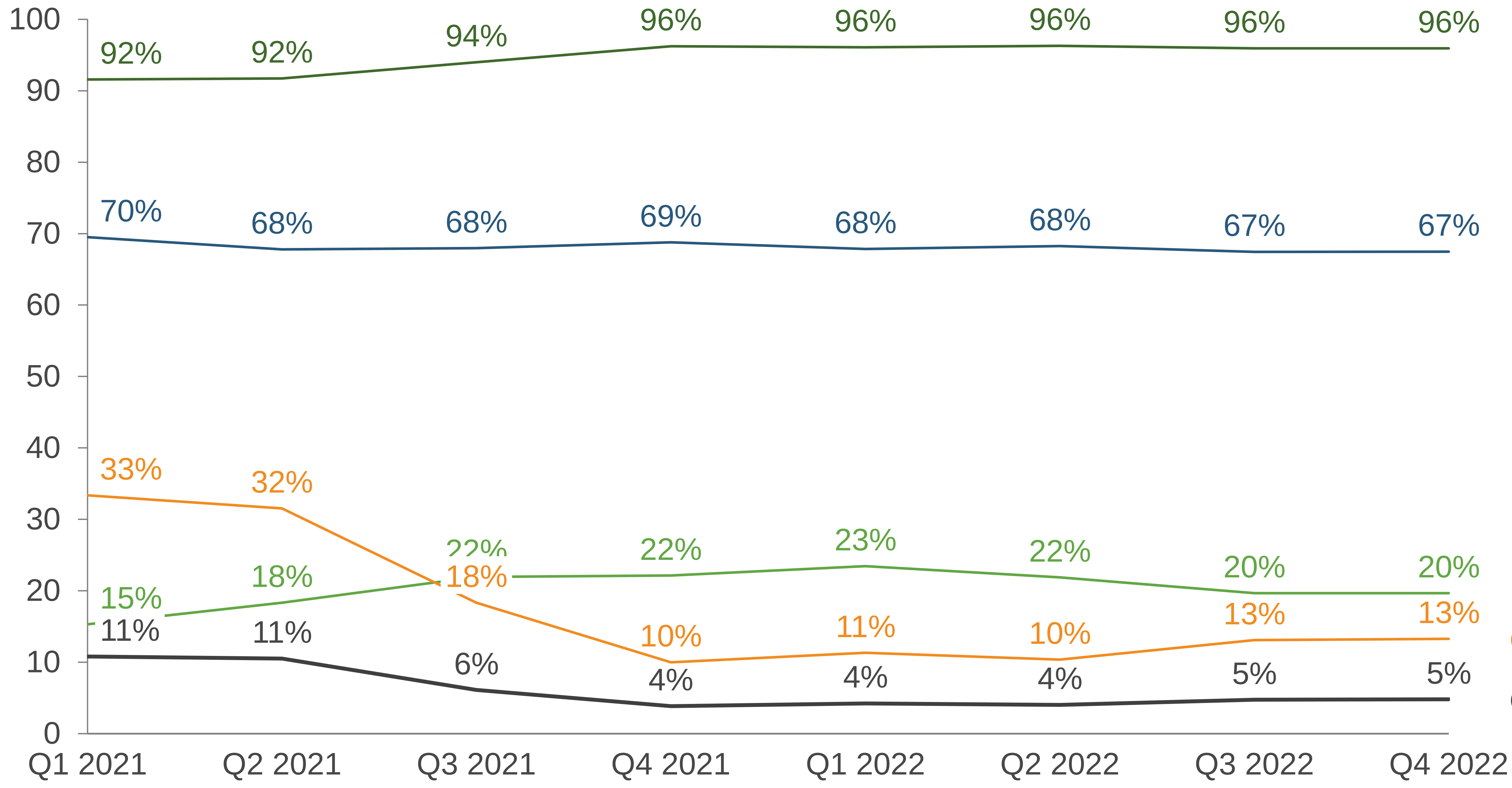
* Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW, who grant secured credit only

^ Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank

Source: DebtBusters

Looking more closely at unsecured debt… 96% of new applicants have a personal loan (at the time they apply for debt counselling) & 20% come with a payday loan, indicating consumers continue to supplement their incomes with loans

Share of new applicants with…



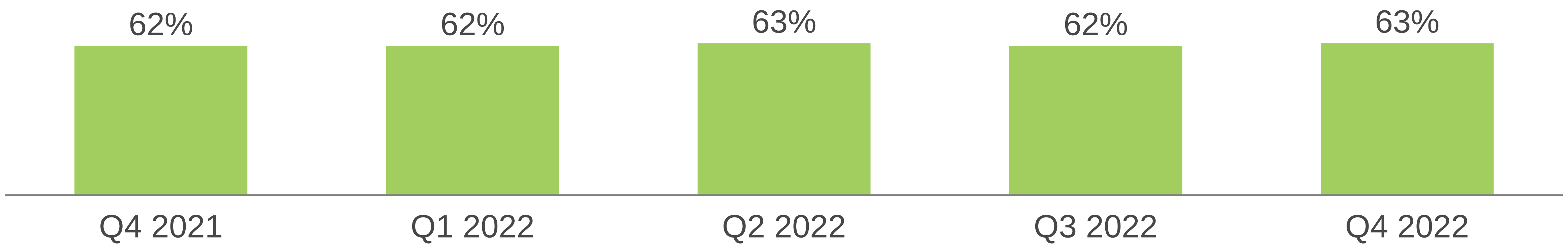
- **96% of new applicants have a personal loan at time of application for debt counselling**
- **~20% have a payday loan**
- **It appears loans are back in favour in line with increases in repo rate which started in November 2021**

Payday loans refers to short-term unsecured loans
Retail refers to clothing accounts, store cards, furniture accounts and similar
Credit Cards refers to revolving credit facilities excluding those linked to stores or retail

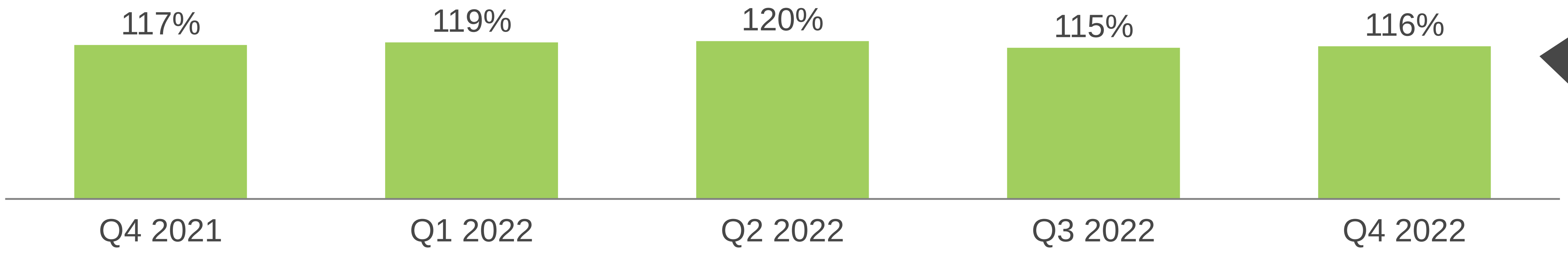
Source: DebtBusters

Compared to previous quarters, overall debt levels have remained high, where total debt to annual net income ratio is now 116% on average…

Original (median) monthly debt repayment to net income ratio[1] has stayed steady...
Percent of net income that was required to pay debt before signing up with DebtBusters



…quarter-on-quarter overall debt levels also stayed at elevated levels
Total debt exposure to annual net income ratio, when consumers sign up with DebtBusters



Comparable figure for other select countries (from OECD):

Russia 37%	Brazil 55%
Italy 90%	Germany 102%
USA 101%	UK 148%
Korea 206%	Australia 211%

In many countries, debt is mostly mortgage debt at very low interest rates

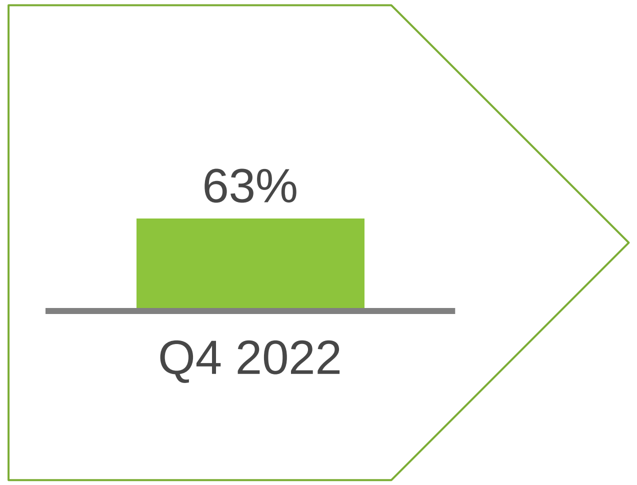
1 Median debt to net income ratio for all new consumers signed up in that quarter
Source: DebtBusters

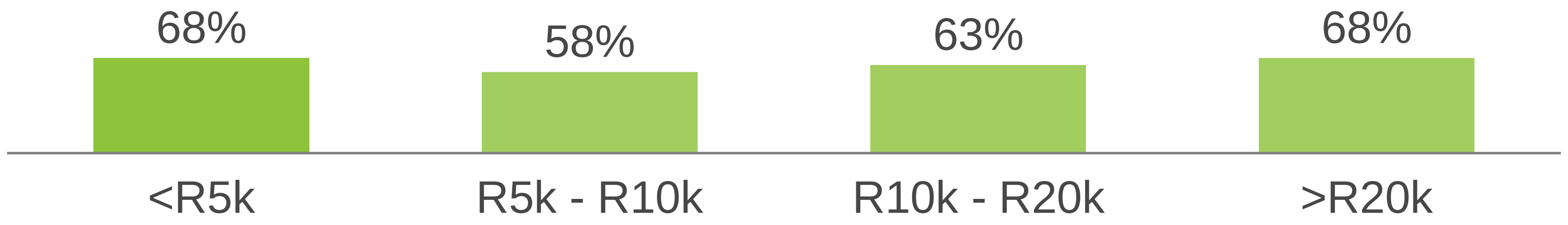
OECD (2023), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 19 January 2023)

…for those taking home more than R20k per month the total debt to annual net income ratio is 161% and they need 68% of their take home pay to service their debt repayments…

Original monthly debt repayment to net income ratio[1]

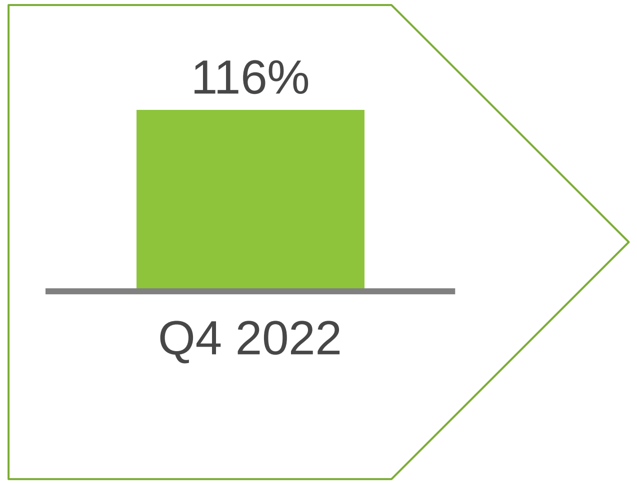
Percent of net income that was required to pay debt before signing up with DebtBusters

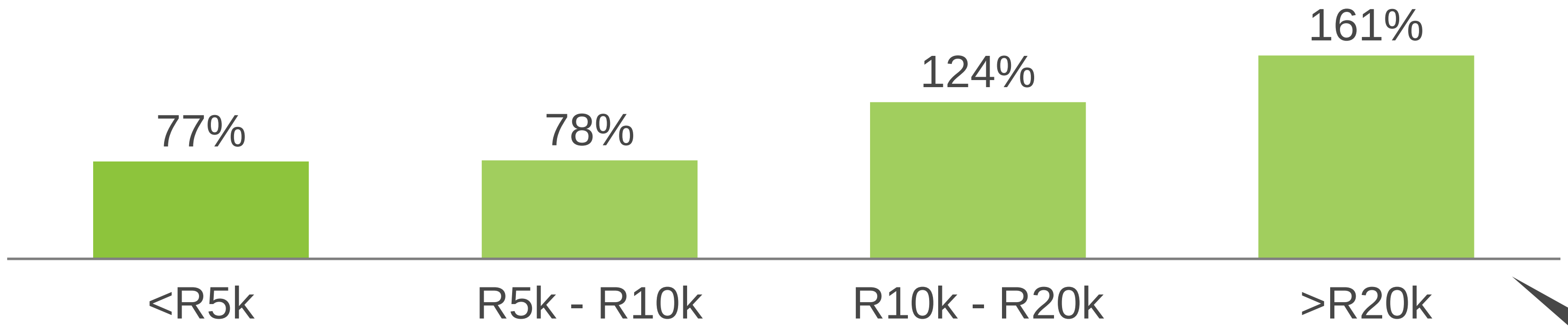




Original overall debt to annual net income ratio[1]

Debt exposure to net income ratio, when consumers sign up with DebtBusters





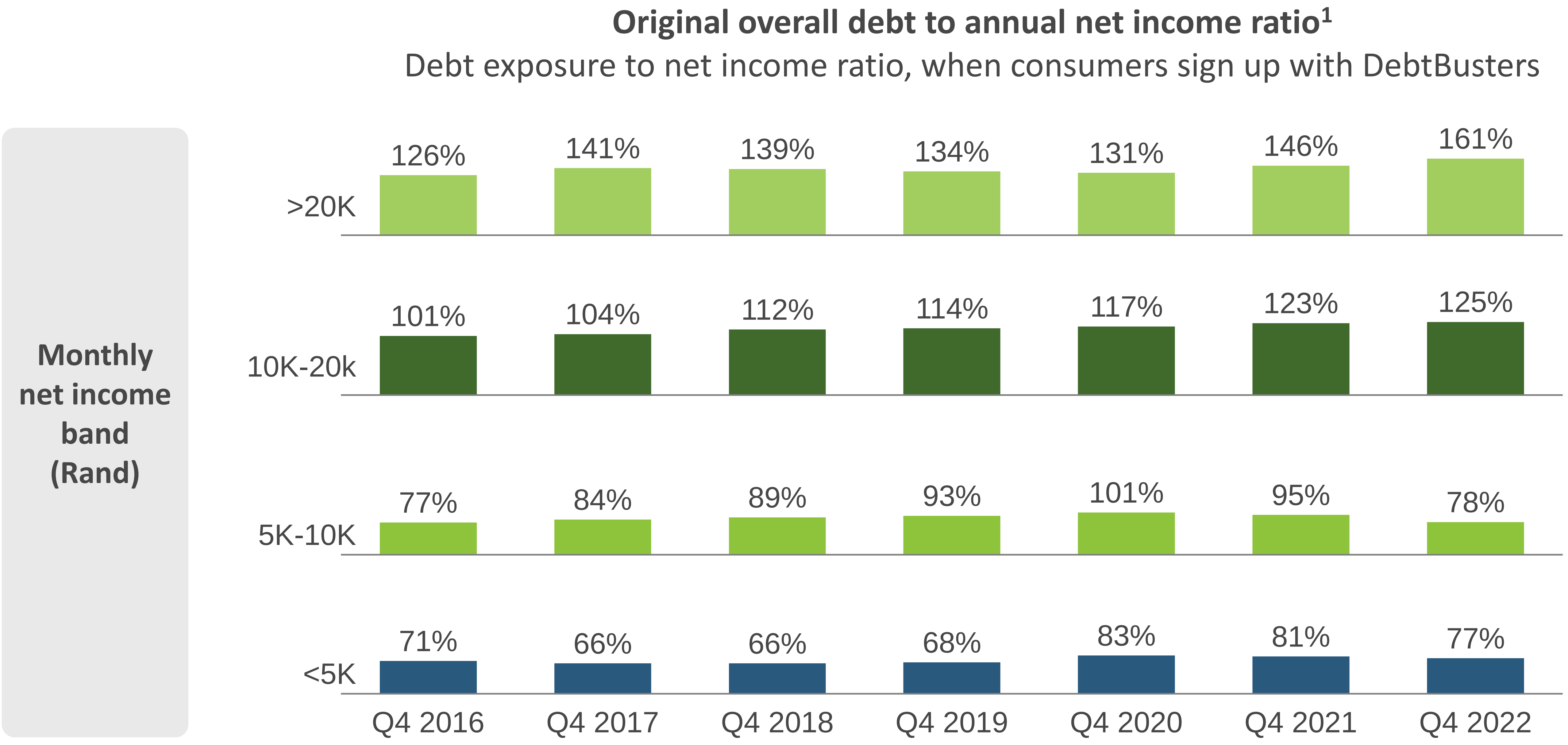
Lowest overall debt ratio at 77%, but still require 68% of net income to pay debt per month, which means interest rates charged are highest.

Highest debt to income ratio

1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

…the debt to annual net income ratio for all income bands is at its highest level ever for most Q4 consumers; those taking home R20k or more have a debt-to-income ratio of 161%



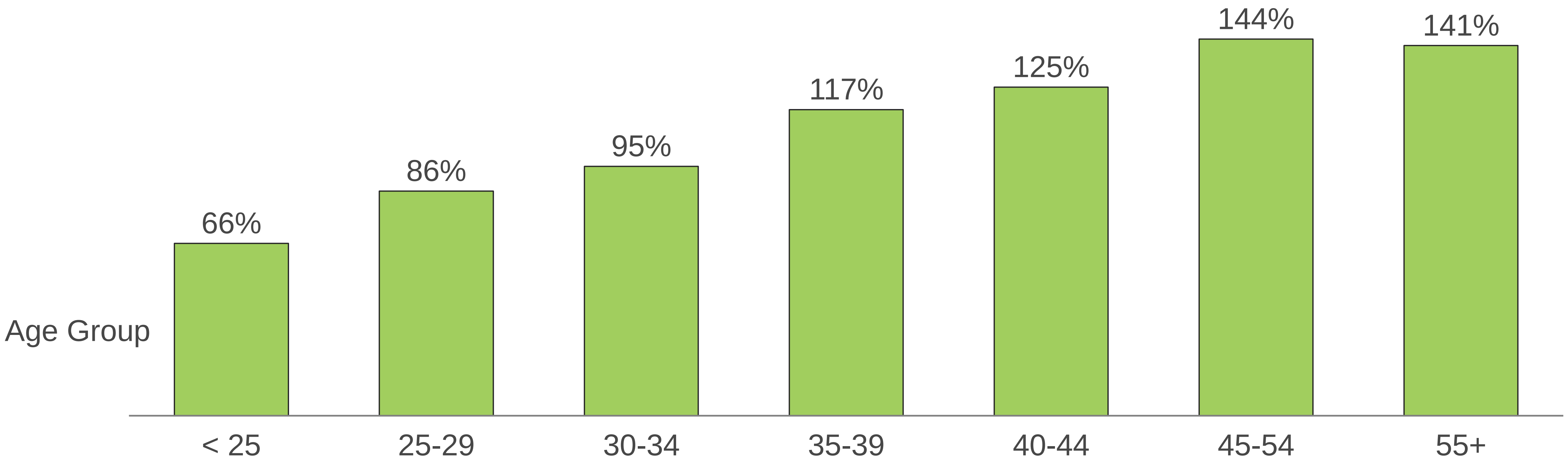
- Debt exposure worsened significantly for top two income groups, which are the some of the highest levels recorded
- Worst increase in debt exposure is for those taking home R20k or more: their debt-to-income ratio now sits at 161%, highest ever recorded.

1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

Debt-to-income ratio seems varies with age group; indicating there is an opportunity for younger consumers to address their debt earlier in their professional lives

Original overall debt to annual net income ratio[1]
Debt exposure to net income ratio, when consumers sign up with DebtBusters



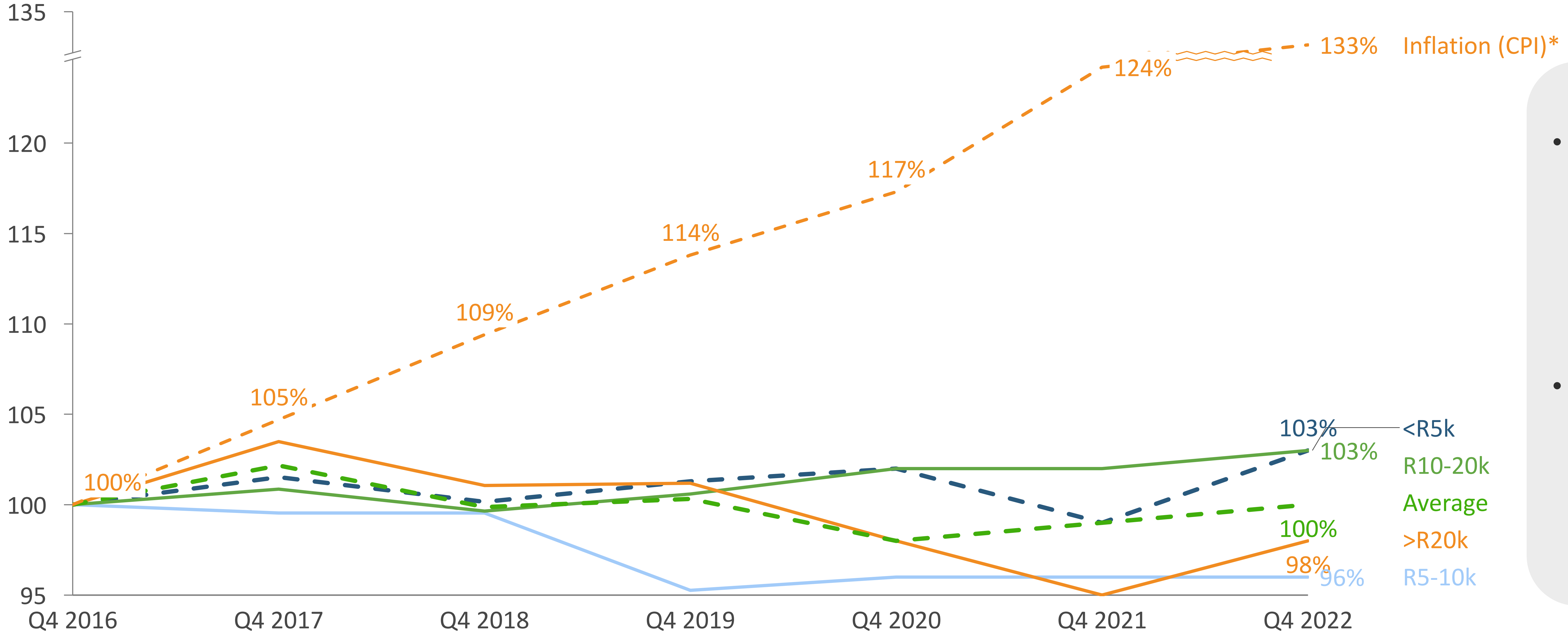
1 Debt to Income ratio is calculated by looking at the median for each age group

Source: DebtBusters

In the last six years, average net incomes (take home pay) were flat, meaning in real terms most South Africans had 33% less disposable income in 2022 compared to 2016…

DEBT BUSTERS

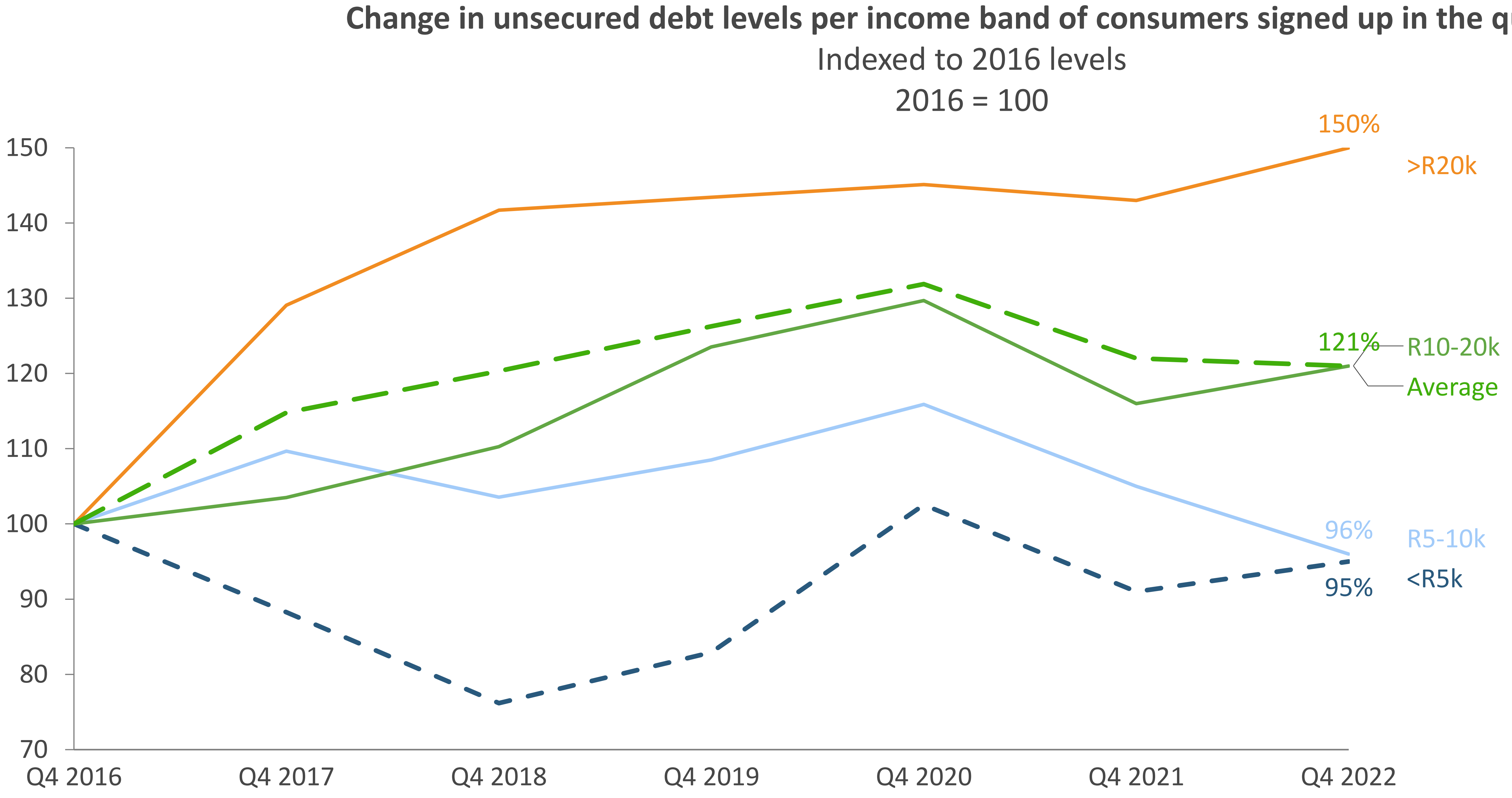
Change in net income levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100



- **On average, net incomes did not increase in the last six years; during the same period inflation was 33%**
- **This means disposable incomes shrank by 33% during the past six years**

Source: DebtBusters
* Stats SA CPI history

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 21% more unsecured debt in 2022 compared to 2016, those taking home R20k or more have unsecured debt levels that are 50% higher than 2016



- Unsecured debt for the average consumer is 21% higher than 2016 levels; for top earners the figure is 50%
- This indicates consumers continue to use unsecured credit to supplement their incomes; however debt levels have tapered off compared to 2020

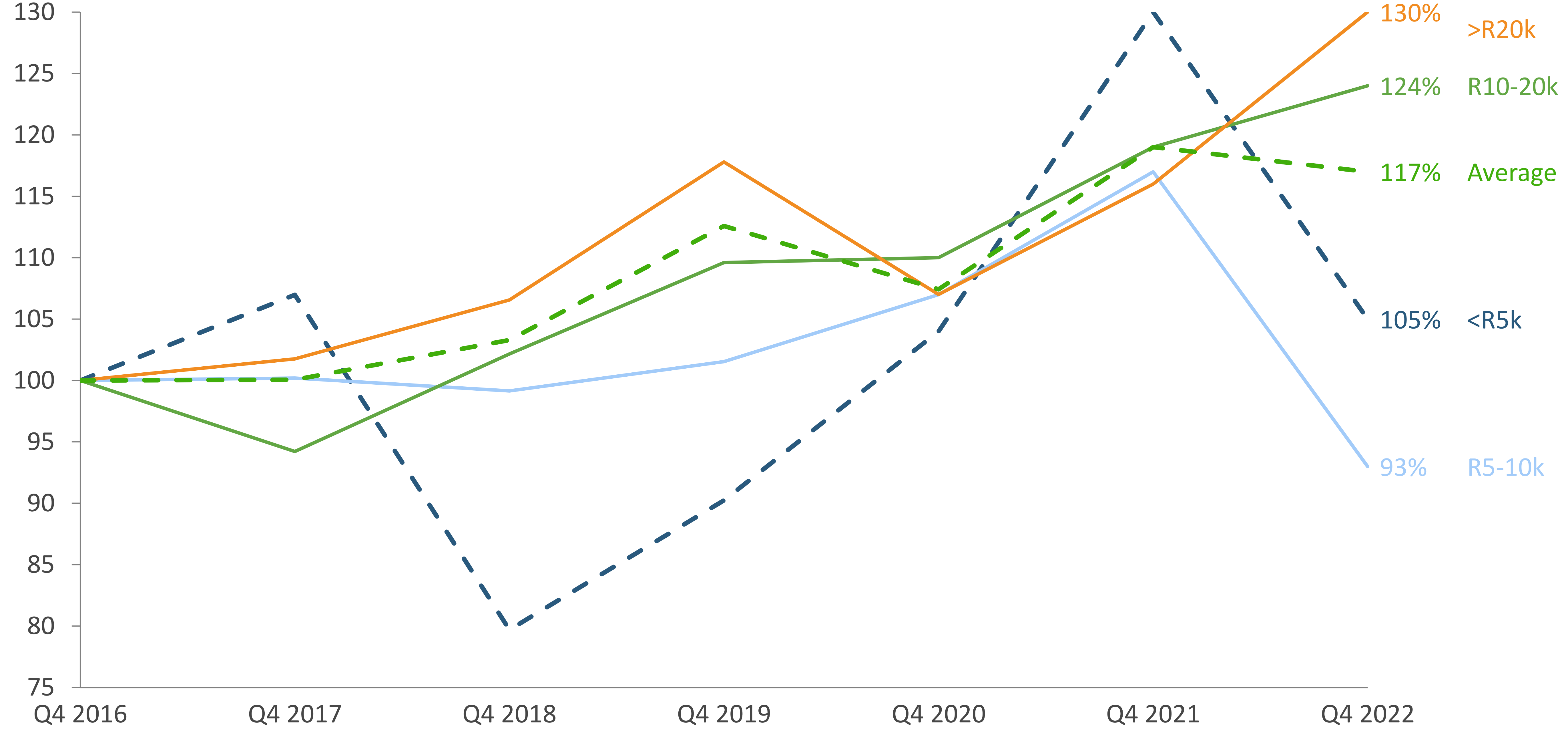
Source: DebtBusters

Total debt levels (which include both secured and unsecured debt) have increased by 17% compared to Q4 2016; this increase is lower than both inflation unsecured debt growth. However, highest income group has seen the largest increase in total debt levels, indicating the fact that this group is under severe financial pressure

Change in total debt levels per income band of consumers signed up in the quarter

Indexed to 2016 levels

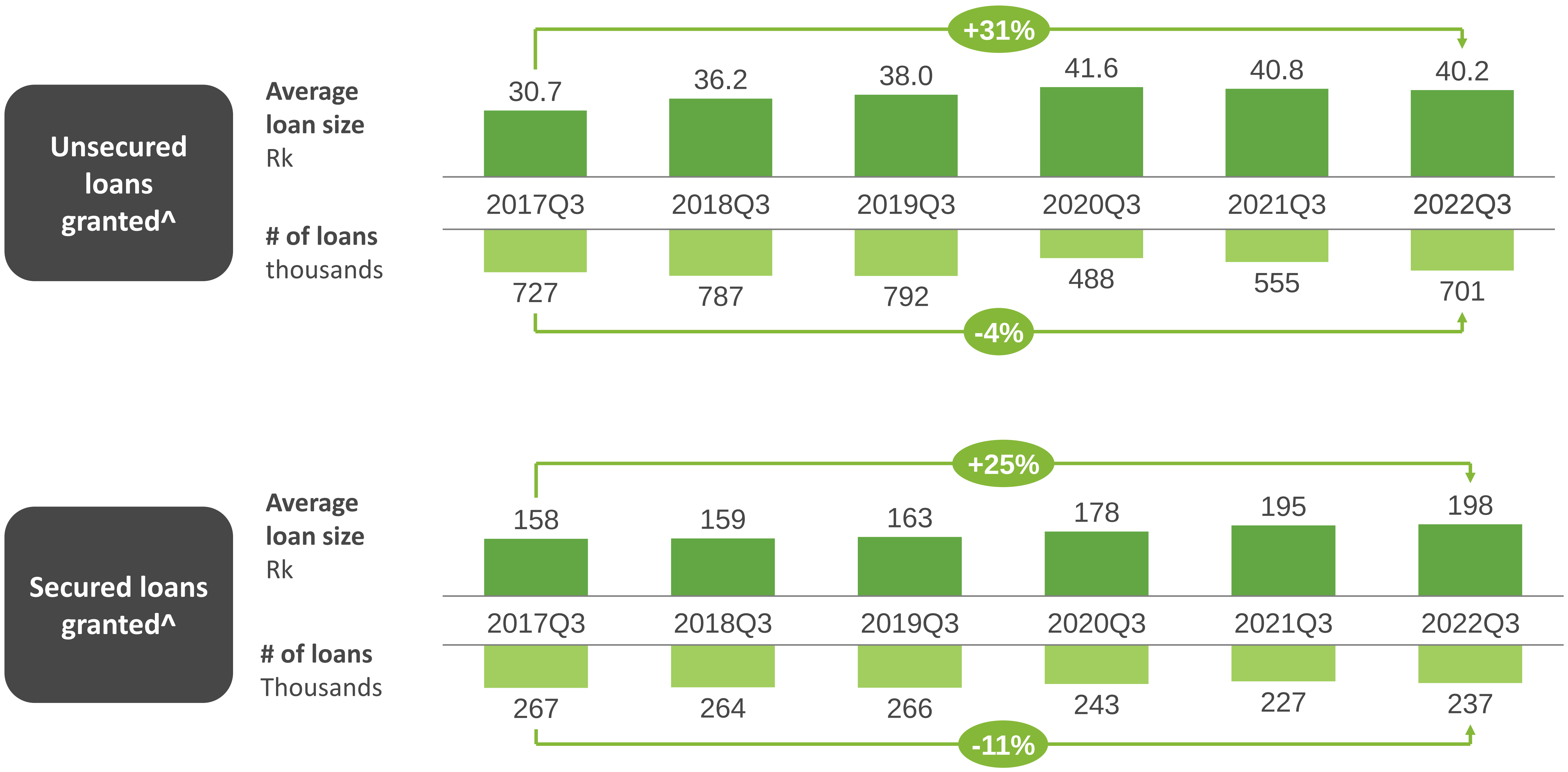
2016 = 100



- Compared to 2016, the total debt level increased by 17% on average
- Those taking home more than R20k had the largest increase in overall debt levels

Source: DebtBusters

The number of unsecured loans plummeted at the start of the pandemic, but in 2022 are about 90% of pre-pandemic levels. This means larger loans are being granted to same number of consumers, highlighting lending risk appetite is still not back to pre-pandemic levels



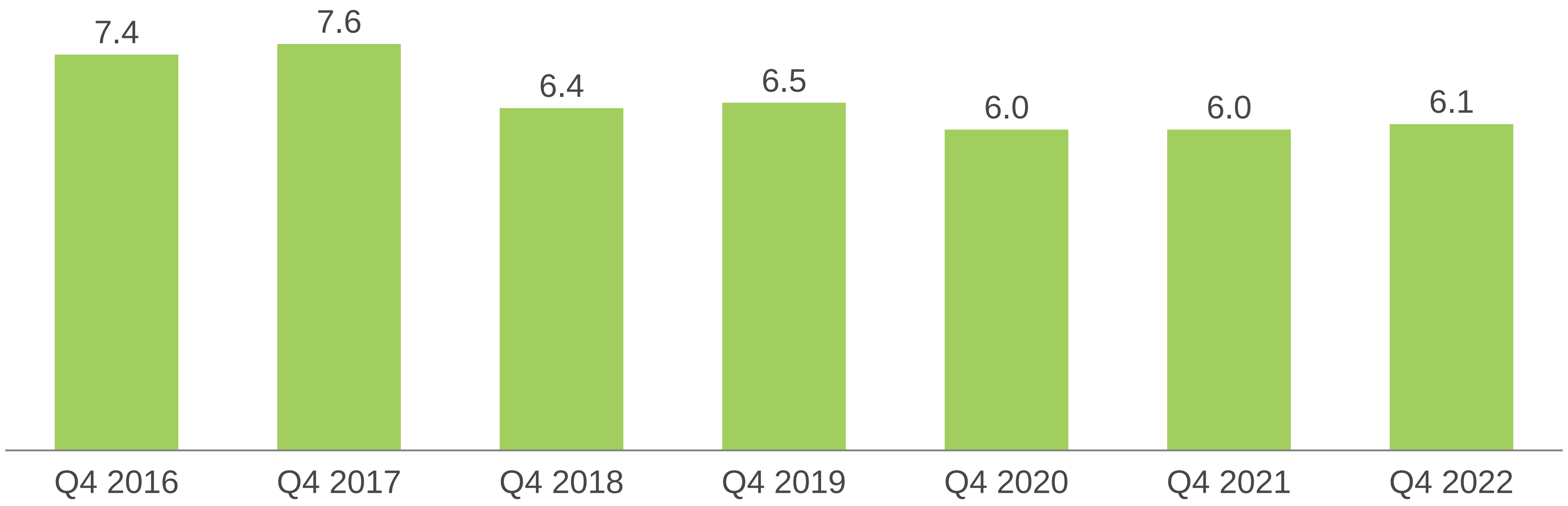
- There has been some recovery in the lending environment since lockdowns of 2020; however, volumes are not at the same levels as they were before 2020
- **Average unsecured loan size has grown by 31% in five years, whereas the number of loans has shrunk by 4%, indicating an ever-smaller pool of consumers are receiving unsecured loans**
- Secured loans have also grown in size, but by a smaller percentage (25%) compared to unsecured loans

^: Q3 2022 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q2 2007 – Q3 2022

The average number of credit agreements (open trades) a consumer has continues to be at historical low levels. When factoring in debt levels, this indicates consumers have more debt per credit agreement and are seeking help faster than before….

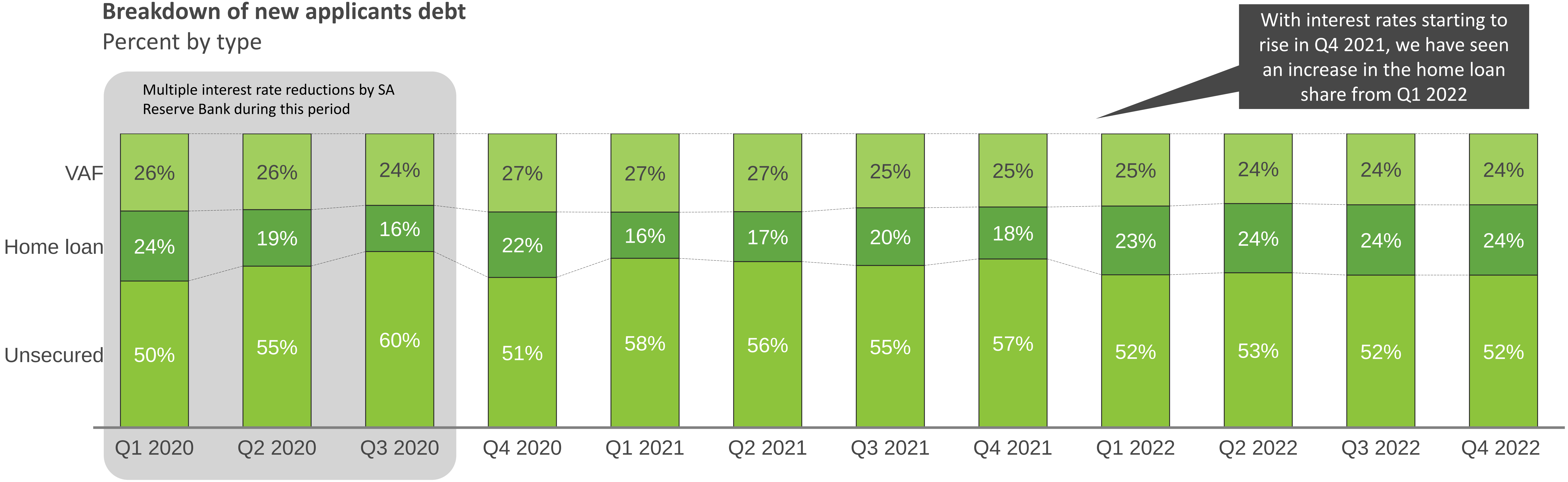
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Source: DebtBusters

The debt mix for new applicants has shifted over the last few years driven by change in interest rates. Since early 2022, the share of home loan debt increased.

Breakdown of new applicants debt
Percent by type



- Interest rate reduction combined with bank payment holidays in first three quarters of 2020 resulted in dip in asset debt share
- Starting from Q4 2020 (with expiry of payment holidays) more consumers with assets are seeking help; however many consumers with assets were benefitting from low interest rates
- As interest rates have started to rise in 2022, we have seen a rise in the asset share of new applicants

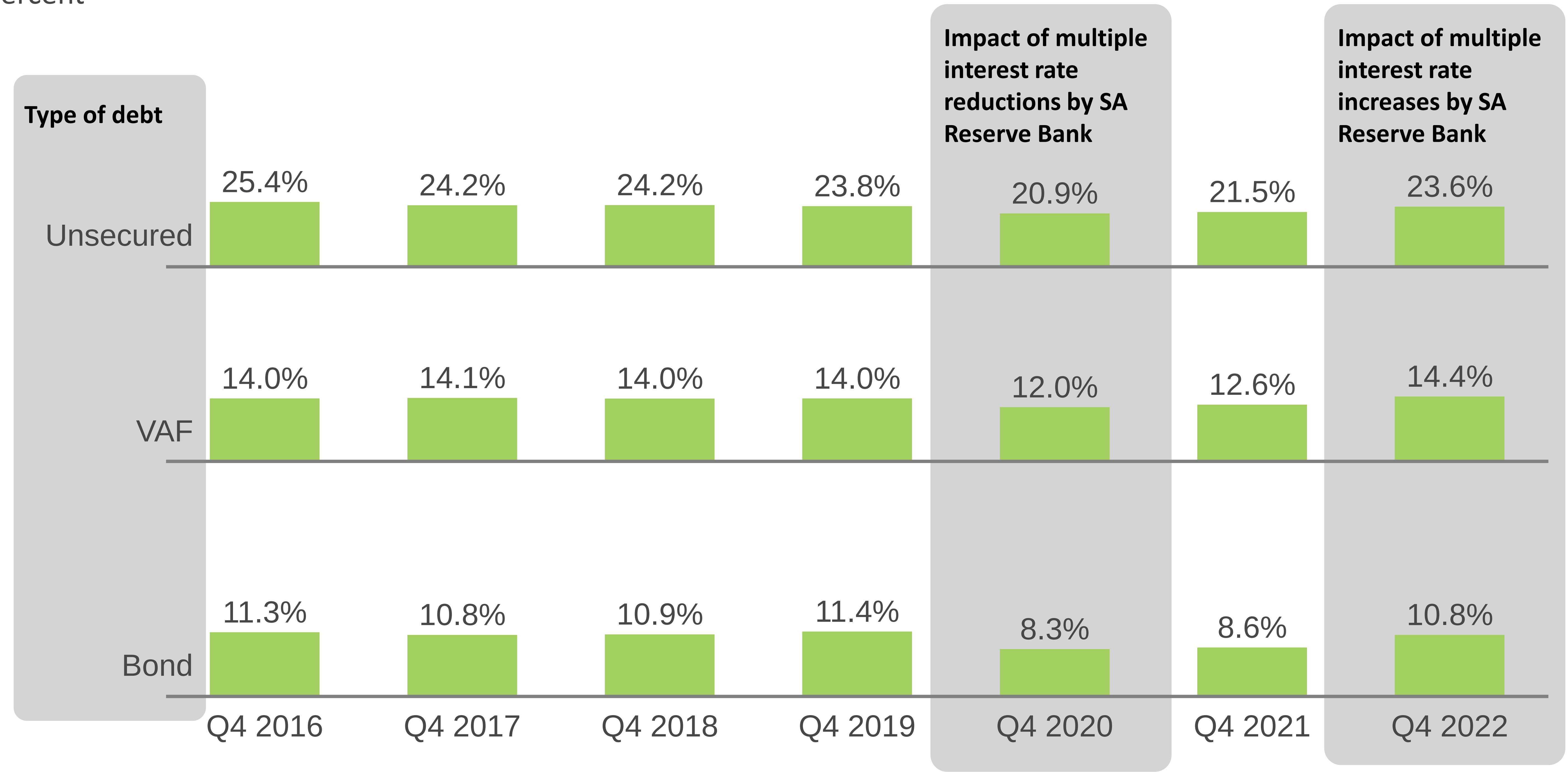
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: Debtbusters

Most consumers with assets had benefited from successive interest rate reductions by the SA Reserve Bank in 2020. In 2022, we saw the reverse: successive interest rate increases resulted in higher average interest rate of new applicants, which we expect to continue in 2023.

DEBT BUSTERS

Average interest rate for new applicants (before debt counselling)
Percent



- Bonds very sensitive to changes in interest rates – big swing from 2019 to 2020, and from 2021 to 2022
- Unsecured debt interest rates have been increasing as well – almost back at 2019 levels.
- Unsecured debt interest rates has big impact on what percent of incomes are needed to service debt

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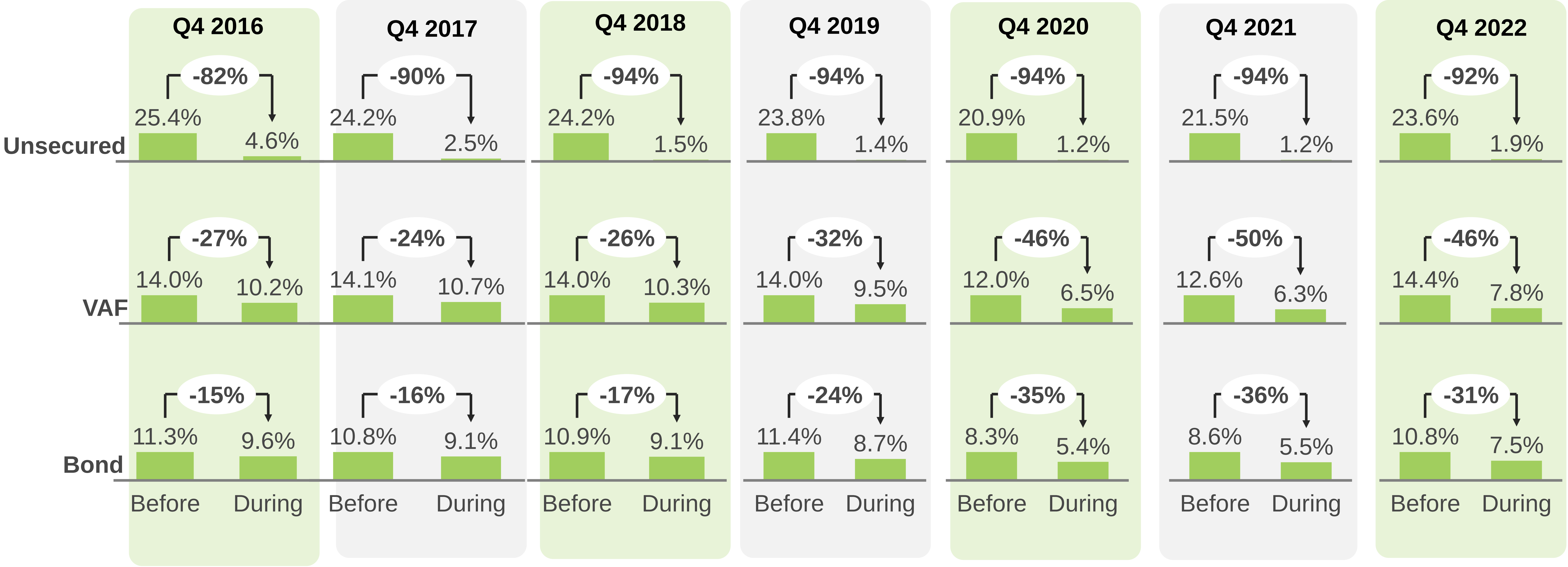
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: Debtbusters

In debt counselling, interest rates can be reduced by over 90%+, allowing consumers to pay off their debt quicker. In 2022, in partnership with creditors, DebtBusters was able to reduce interest rates significantly for consumers, and in return consumers paid over R2.5bn to their creditors

Average interest rate for new applicants (before and proposed during debt counselling)

Percent



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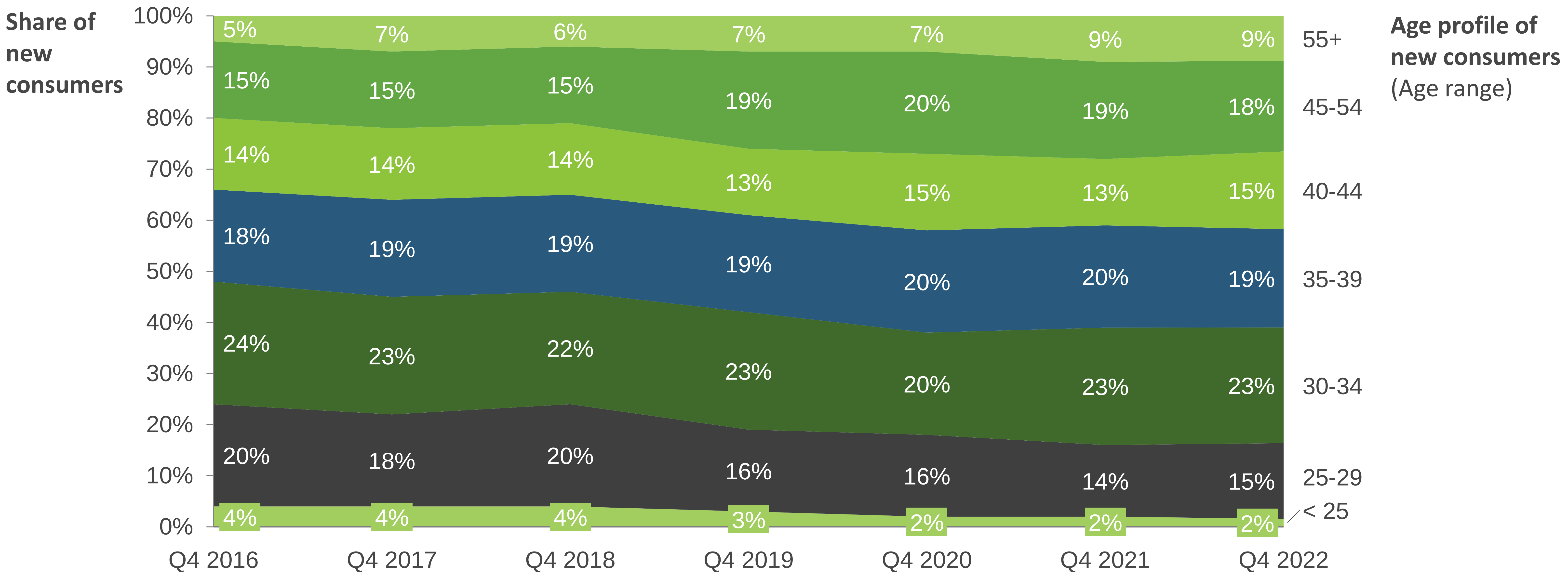
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: Debtbusters

Consumer age profile indicates increasing financial stress in 45+ age group

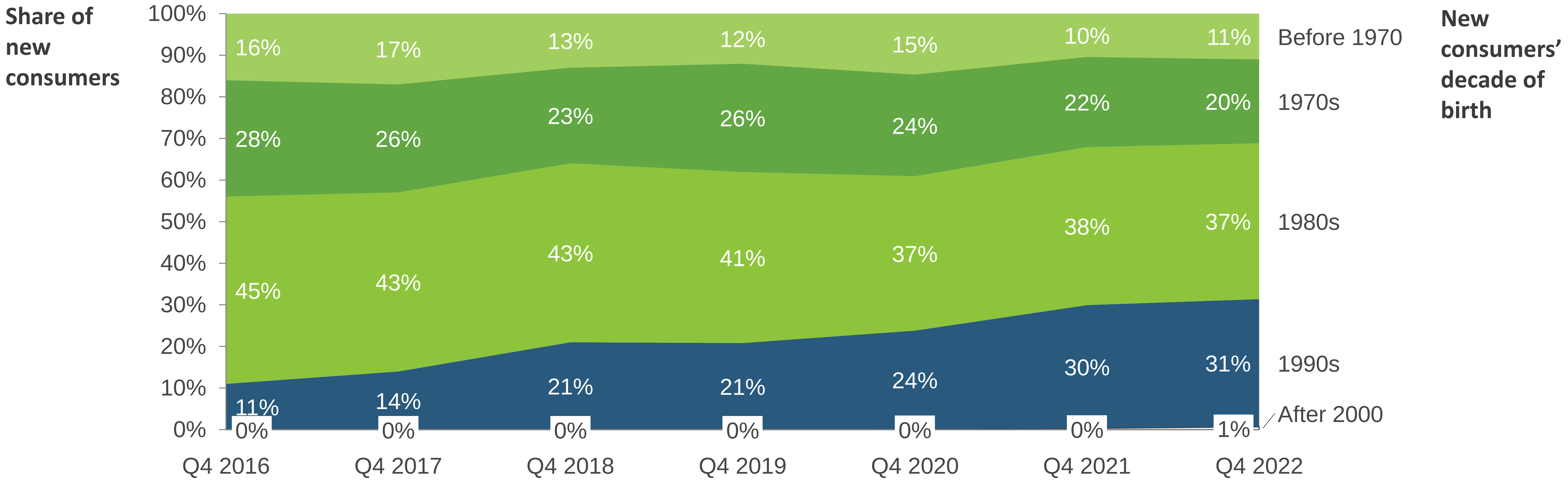
While the average new applicant age has been consistent, the share of applicants who are 45 or older has increased from 20% to 27% over the past six years, indicating financial stress is becoming more prevalent in this age category

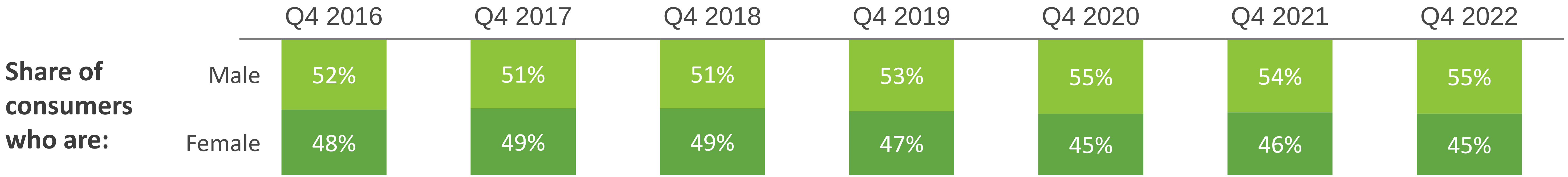


Average age of new consumers -> 38 37 37 38 39 39

Source: DebtBusters

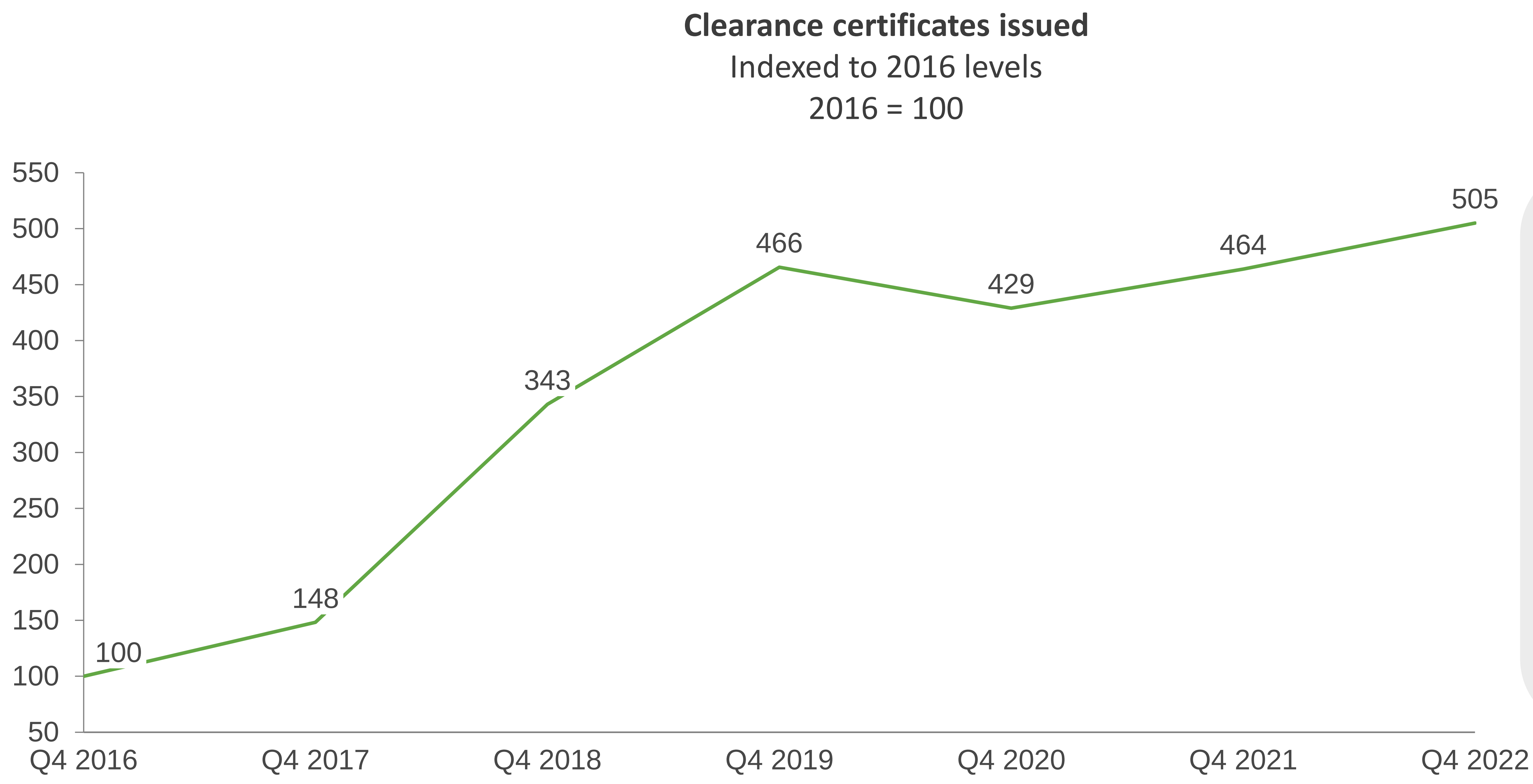
Consistent with recent quarters, there is steady interest from male applicants, indicating men are becoming more proactive about addressing financial distress. For the most recent quarter, 55% of applicants were male





Source: DebtBusters

In the most recent quarter, the number of consumers graduating from debt counselling (successfully receiving their clearance certificates) was five times higher than the same period in 2016; consumers who graduated in Q4 2022 paid over R400m to their creditors while under debt counselling

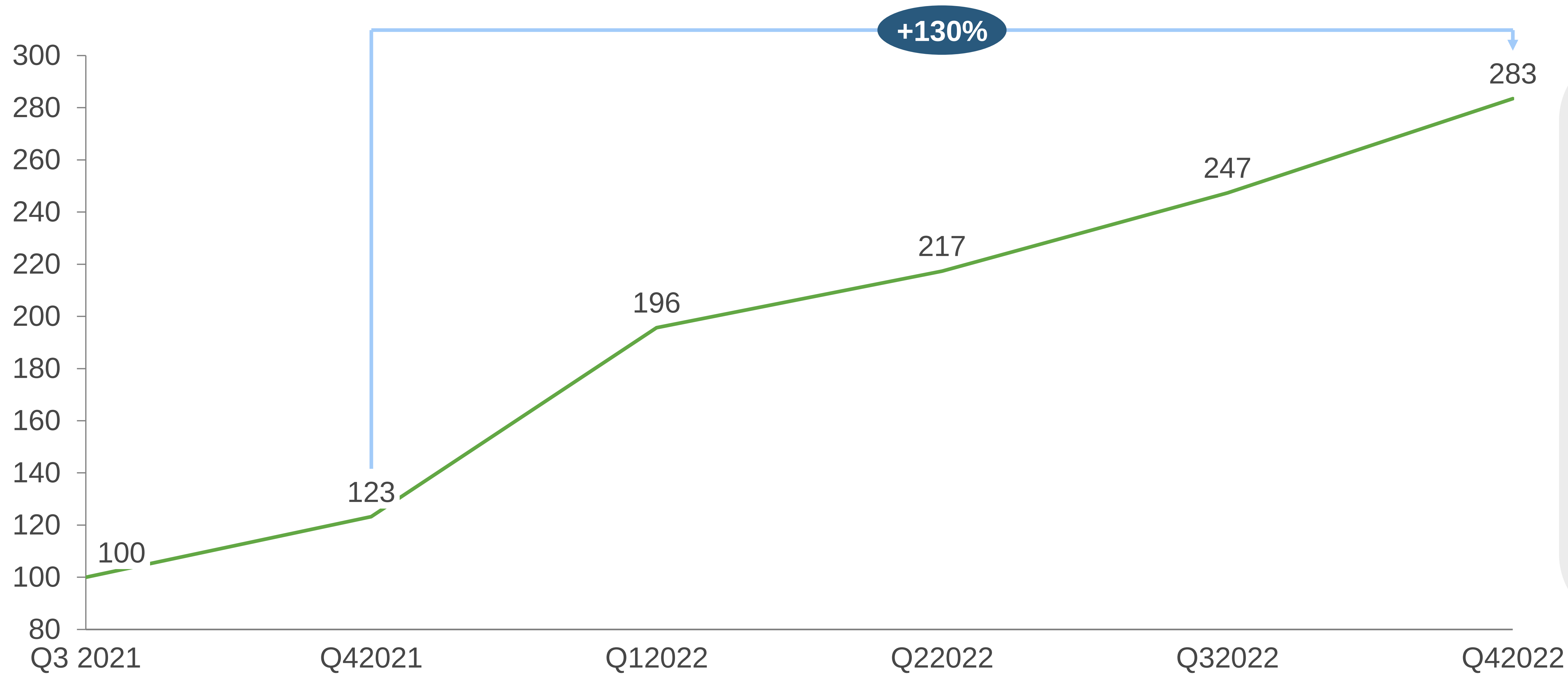


- **In Q4 2022, there were 5x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid over R400m to their creditors while under debt counselling**

Source: DebtBusters

Consumers' interest in online debt management continues to increase. We have observed that the non-debt counselling userbase for DebtBusters website has grown 130% over the past year

Number of new non-debt counselling subscribers to DebtBusters website
Indexed to Q3 2021 levels; Q3 2021 = 100



- **130% increase in new subscribers for online debt management on DebtBusters website**
- **Consumers enjoy the freedom of managing their debt profile at their own time and have access to debt management tools, such as budgeting, Debt Radar, and others**

Source: DebtBusters

For further information, contact our Marketing Manager Amelia de Milander at:
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