Debt Index |Q3 2023

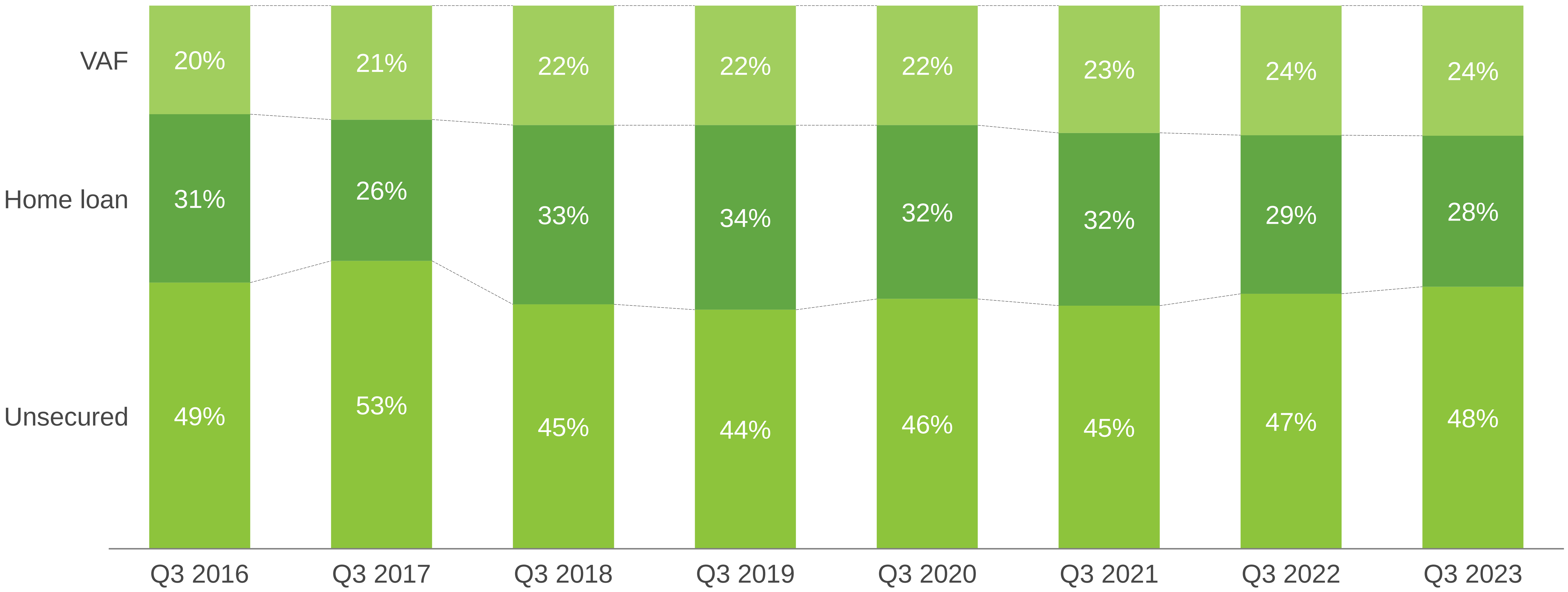
Executive Summary - Benay Sager, Executive Head of DebtBusters

- In Q3 2023, **there was increased demand from consumers for debt management, with debt counselling inquiries up by 28% and online debt management up by 65% compared to the same period last year**. As we indicated in previous quarters, this was an expected trend: we anticipate a similar trend for the rest of 2023.
- For the first time in a while, the median debt to annual income ratio has come down slightly; however, at 108% it is still at an elevated level. We welcome this improvement, but still observe that the full impact of successive interest rate increases since November 2021 continue to be felt in consumer finances. Virtually all consumers (96%) who applied for debt counselling in Q3 2023 had a personal loan and 20% of consumers had a short-term 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 Q3 2023 had**:
  - **40% less purchasing power**: Nominal incomes were 1% higher than 2016 levels, however when cumulative inflation growth of 41% is factored in for the same seven-year period, consumers' purchasing power diminished by 40% over this period. This means consumers are feeling like they are taking home 40% less today in real terms than they did in 2016.
  - **Higher debt service burden with 63% of net incomes going towards paying debt**: Consumers need to spend around 63% of their take home pay to service their debt before coming to debt counselling; those taking home R35k or more p.m. need to use 67% of their income towards debt repayments. The debt-to-income ratio for top two income bands is higher in Q3 2023 compared to same periods in the past: 140% for those taking home more than R20k p.m. and 164% for those taking home R35k or more p.m. These ratios are at unsustainable levels.
  - **Unsustainably high levels of unsecured debt:** Unsecured debt levels were on average 21% higher than that in 2016 levels. While this ratio is lower than some recent quarters, for those taking home R35k or more, the unsecured debt levels were 42% higher. While this is on par with inflation (and in some cases lower than that noted in 2020), in absence of meaningful salary increases, it signals that consumers need to supplement their incomes with unsecured credit.
- As interest rates started to increase in November 2021, consumers 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 12.4% in Q3 2023, and more asset debt has been restructured as part of debt counselling during this period. **More alarmingly, the average interest rate for unsecured debt is now at an eight-year high level of 25.5%. 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 25.5% to ~1.9%, allowing consumers to pay back expensive debt quicker**.
  - **Service vehicle debt and balloon payments over a meaningful period of time**, and restructure the average financed vehicle interest rate of 15.6% down to a more manageable level.
  - The number of consumers successfully completing debt counselling successfully has increased by over eight times since 2016. **Consumers who successfully completed debt counselling in Q3 2023 paid back over R500m 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. New (free) subscriber base increased by 65% over the past year. 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 using proprietary tools such as Debt Radar and recognise that if addressed early in their professional career, management of debt can become part of daily life.
- 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

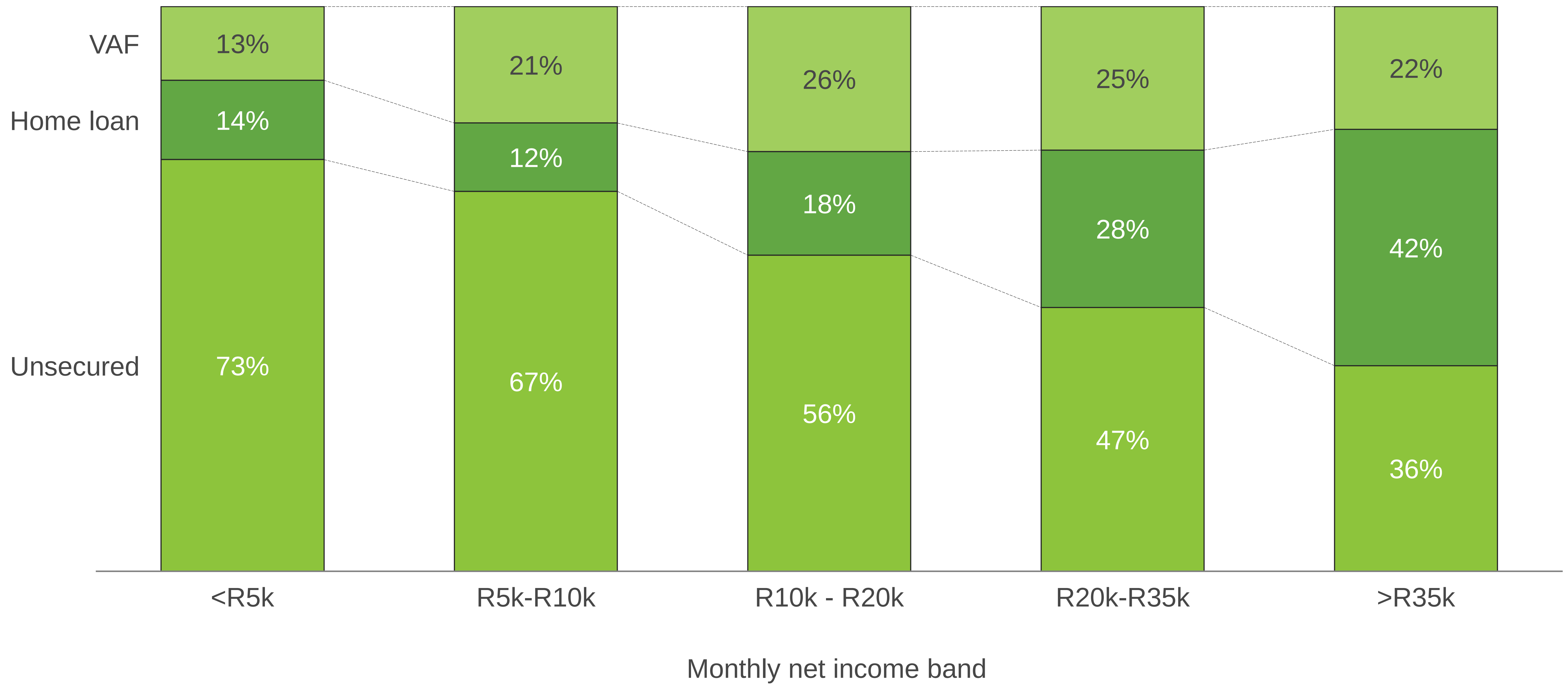
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

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

Breakdown of DebtBusters debt under management
At end of Q3 2023



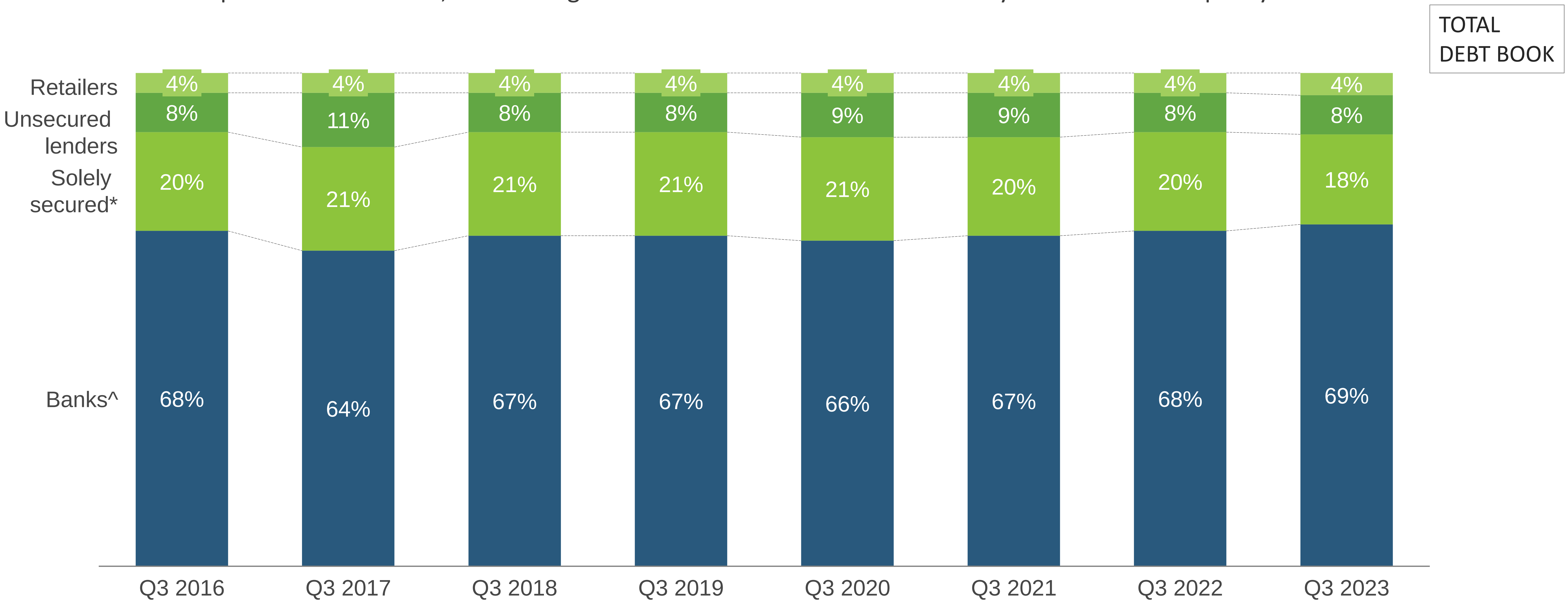
Share of debt that is asset-based increases to 53% for those taking home R20k-R35k; for those taking home R35k or more the share of debt that is asset-based goes up to 64%

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 decrease in share of unsecured-only lenders over the past year



Breakdown of DebtBusters debt under management

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

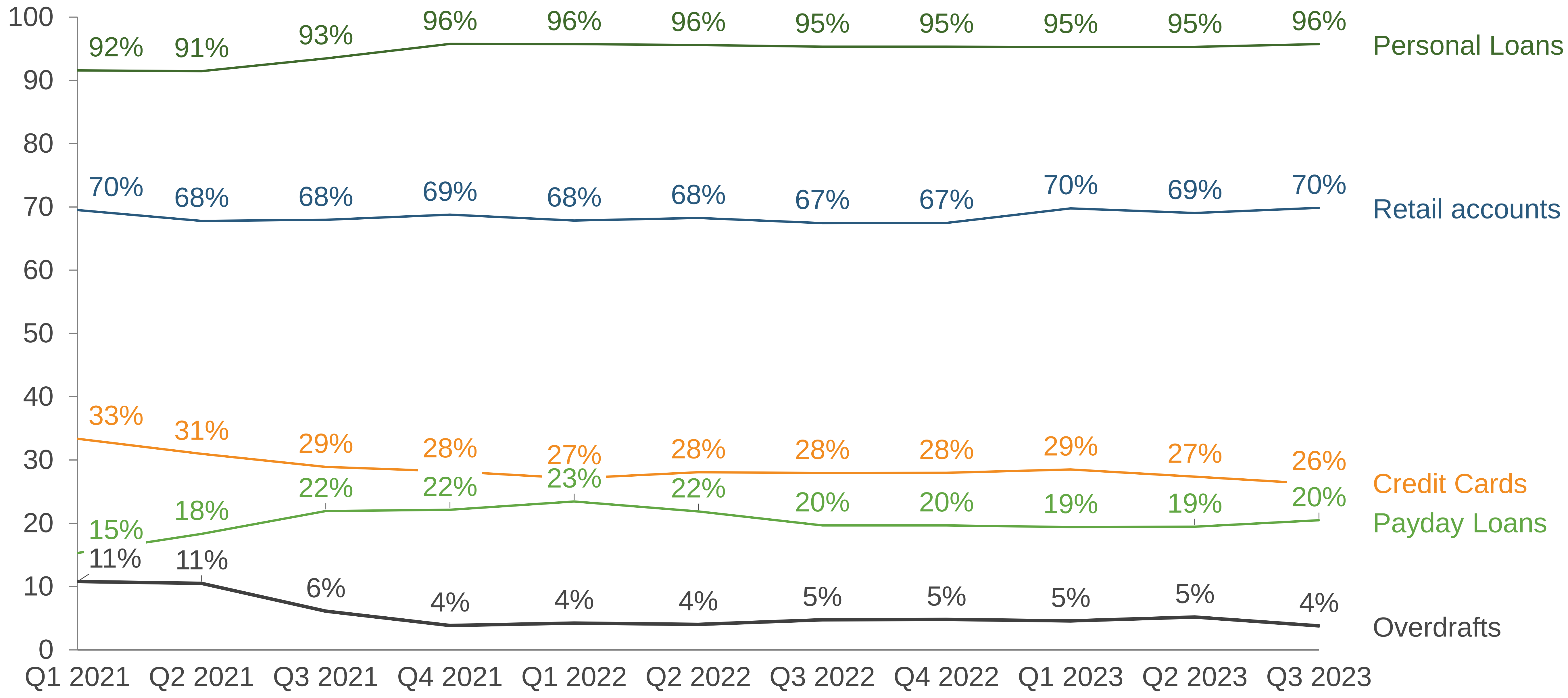
* Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW Finance who grant secured credit only (some of these institutions are linked to the banks)

^ 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…



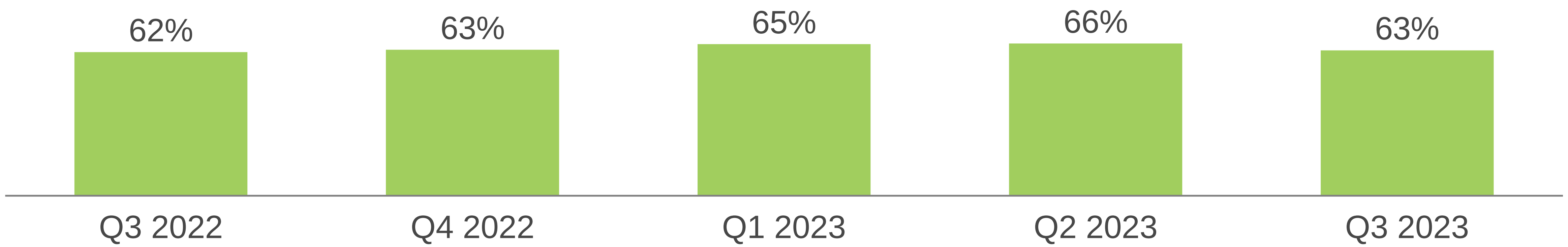
- **96% of new applicants have a personal loan at time of application for debt counselling**
- **~20% have a payday loan**
- **It appears loans are back in favour in line with increases in repo rate which started in November 2021**

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

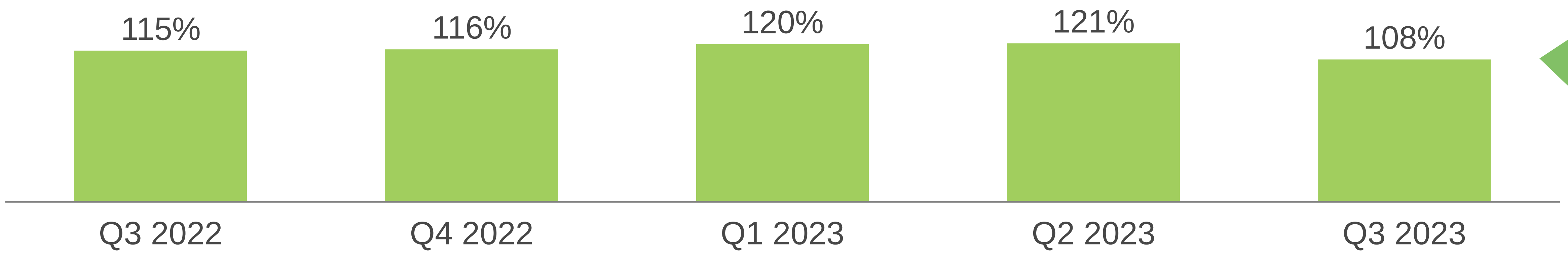
Source: DebtBusters

Compared to previous quarters, overall debt levels have reduced, however consumers still need 63% of their take home pay to service their debt…

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 45%
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

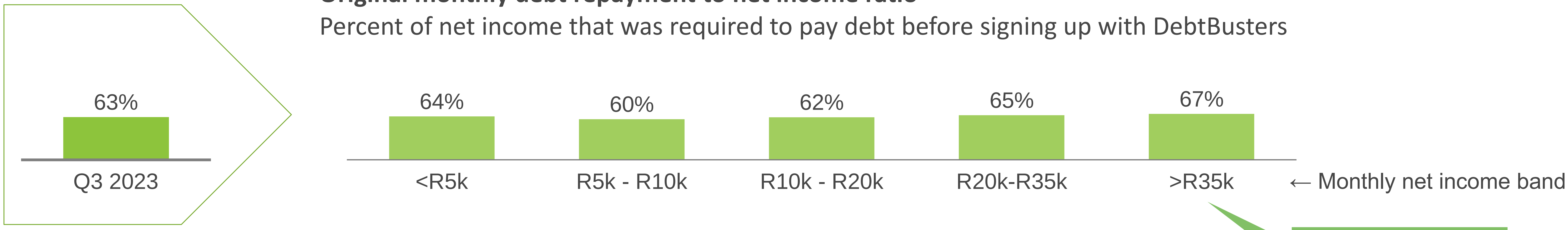
1 Median debt to net income ratio for all new consumers signed up in that quarter
Source: DebtBusters

OECD (2023), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 5 May 2023)

…for those taking home more than R35k per month the total debt to annual net income ratio is 164% and they need 67% 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



Highest monthly debt repayment ratio

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 68%, but still require 64% of net income to pay debt each month, which means interest rates charged are highest.

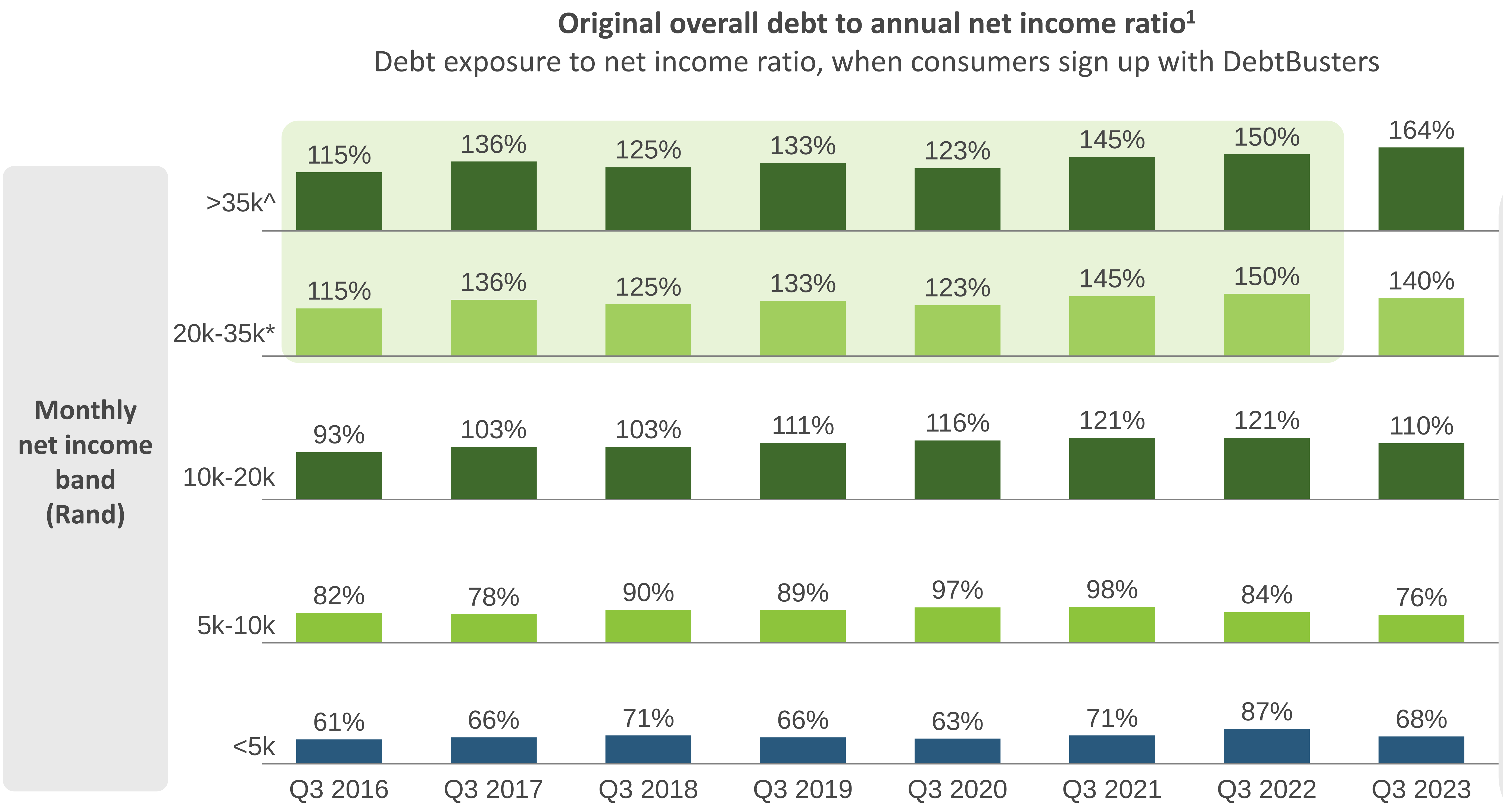
Highest debt to income ratio

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 most income bands is near its highest level ever; those taking home R35k or more have a debt-to-income ratio of 164%

Ratios are the same for this period because these two income groups were tracked together until 2023



- **Debt exposure worsened significantly for top two income groups in the last few years, which are the some of the highest levels recorded**
- **Worst debt exposure is for those taking home R35k or more: their debt-to-income ratio now sits at 164%, due to high exposure to bonds**

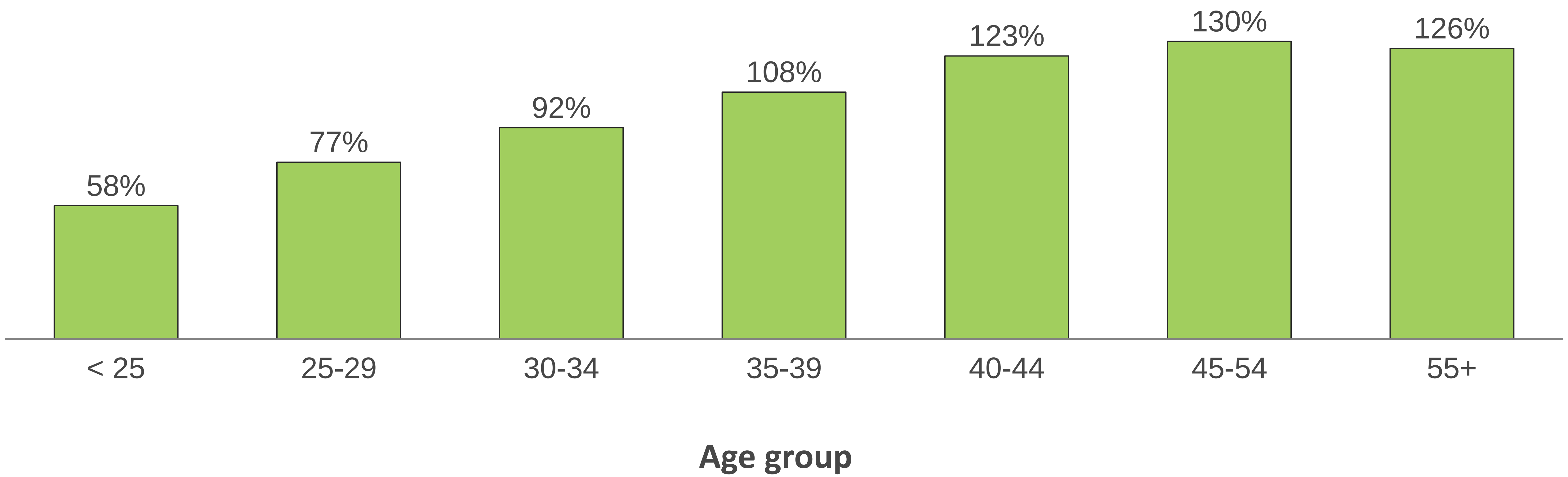
1 Debt to Income ratio is calculated by looking at the median in each quarter
^ New income band reported from Q1 2023 (Split from a broader group of >R20k); previously was part of the >20k income band. Previous quarters' ratios are attributed to this group as well as R20k-35k income band
* New income band reported from Q1 2023 (Split from a broader group of >R20k); previously was part of the >20k income band. Previous quarters' ratios are attributed to this group as well as >R35k income band

Source: DebtBusters

Debt-to-income ratio 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]

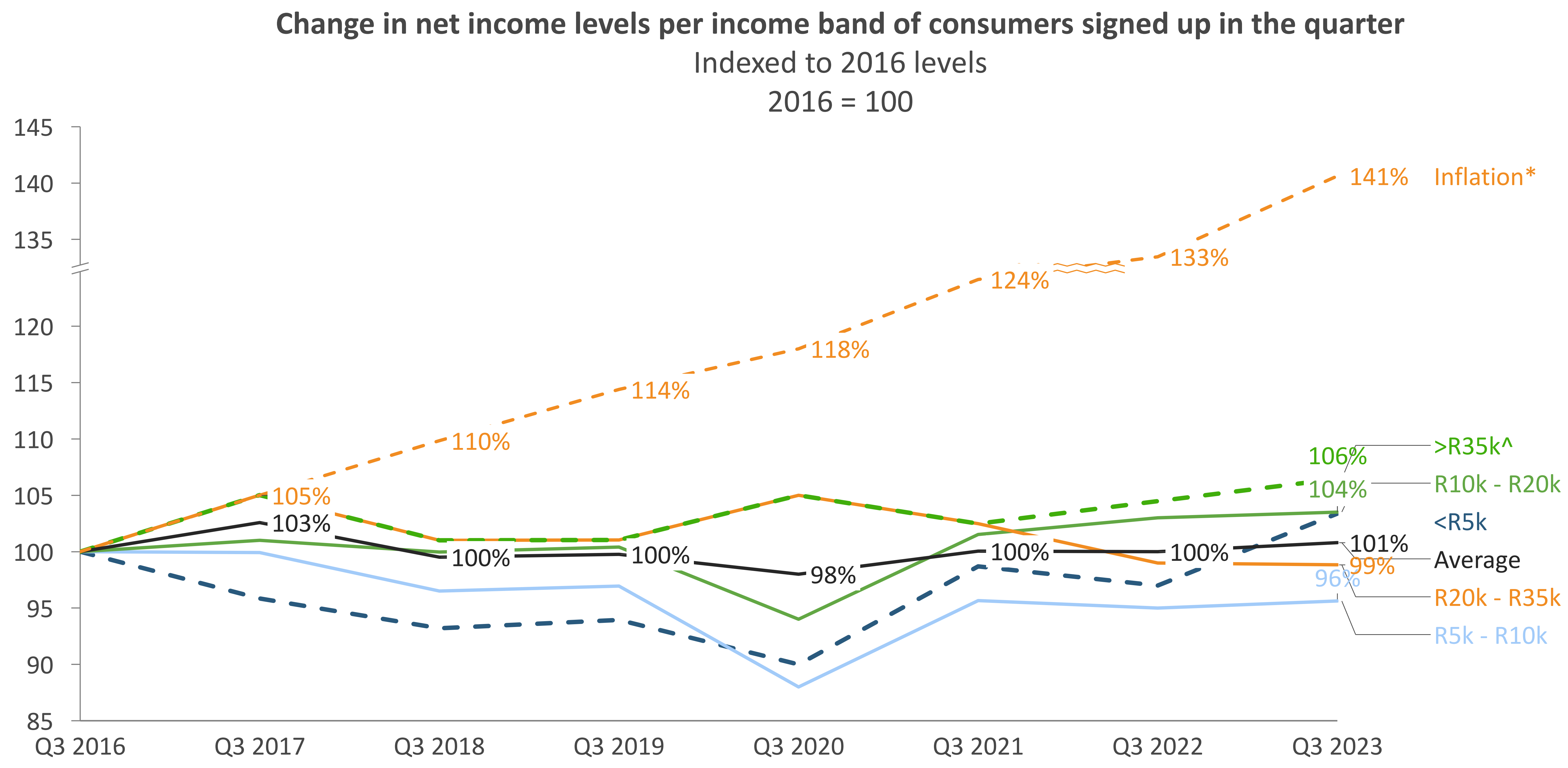
Debt exposure to net income ratio, when consumers sign up with DebtBusters



1 Debt to Income ratio is calculated by looking at the median for each age group; for most recently completed quarter

Source: DebtBusters

In the last seven years, average net incomes (take home pay) increased by 1% while inflation went up by 41%. This means that in real terms most South Africans had 40% less disposable income in 2023 compared to 2016 due mainly to the impact of high inflation…



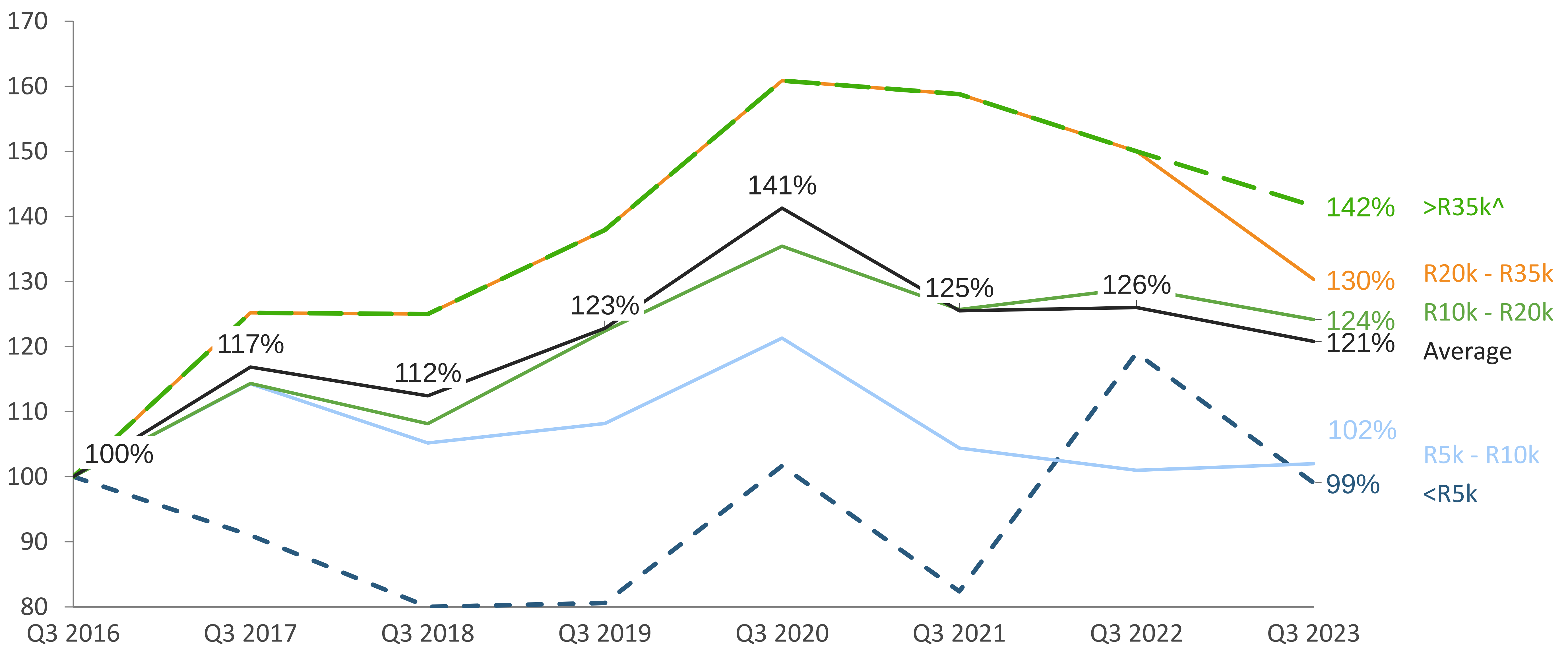
- **On average, net incomes increased by ~1% in the last seven years; during the same period compounded increase in inflation was 41%**
- **This means disposable incomes shrank by almost 40% during the past seven years**

Source: DebtBusters
- Source: Stats SA CPI history

^ New income band reported from Q1 2023; previously was part of the >20k income band

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 21% more unsecured debt in 2023 compared to 2016, those taking home R35k or more have unsecured debt levels that are 42% higher than 2016

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

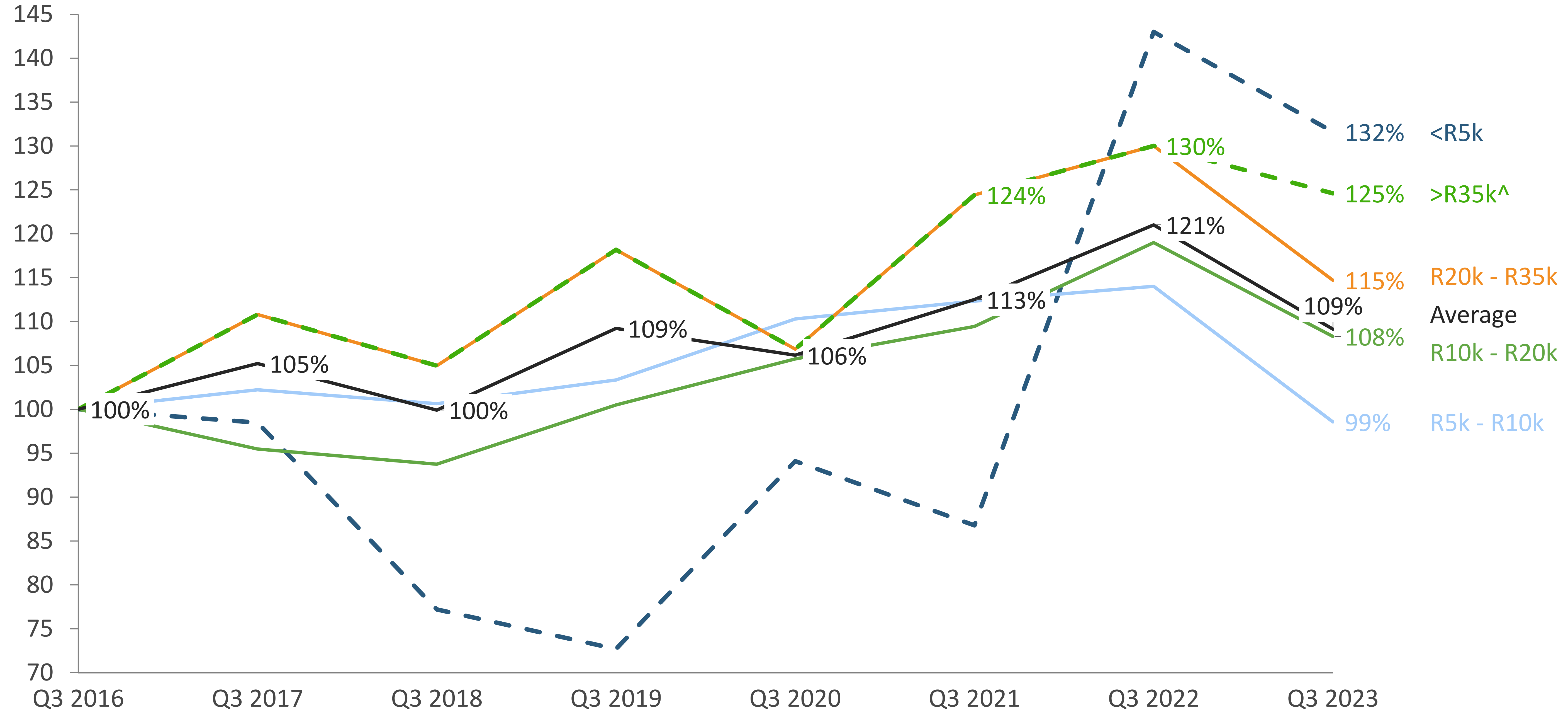


- **Unsecured debt for the average consumer is 21% higher than 2016 levels; for top earners the figure is 42%**
- **This indicates consumers continue to use unsecured credit to supplement their incomes and the situation has worsened significantly due to high inflation and interest rates**

Source: DebtBusters
^ New income band reported from Q1 2023; previously was part of the >20k income band

Total debt levels (which include both secured and unsecured debt) have increased by 9% compared to 2016; this increase is lower than both inflation and unsecured debt growth. It confirms the view that unsecured debt is used as a lifeline for many income groups to supplement their incomes

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 9% on average**
- **Those taking home more than R35k had 25% increase in overall debt levels since 2016**

Source: DebtBusters
^ New income band reported from Q1 2023; previously was part of the >20k income band

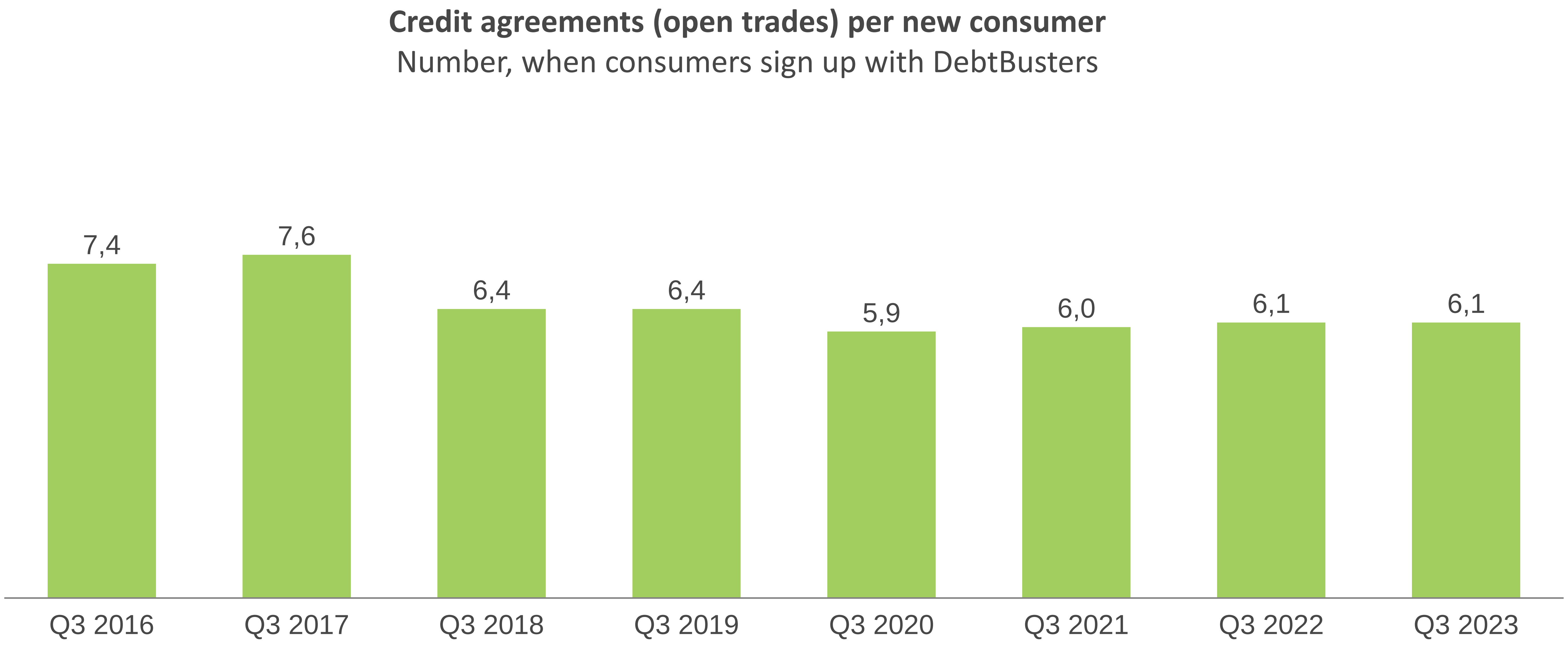
Since 2016, average unsecured loan size increased by 53% whereas the volume of new unsecured loans declined by 28%. This means larger loans are being granted to a smaller number of consumers, highlighting that risk is being concentrated on an ever-smaller group of consumers.

- Since 2016, average unsecured loan size increased by 53%, whereas number of loans decreased by 28%. This indicates that unsecured lending is extended largely to smaller pool of consumers.
- For secured loans, in contrast, the number of loans remained largely the same

^: Q2 2023 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q4 2007 – Q2 2023

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.

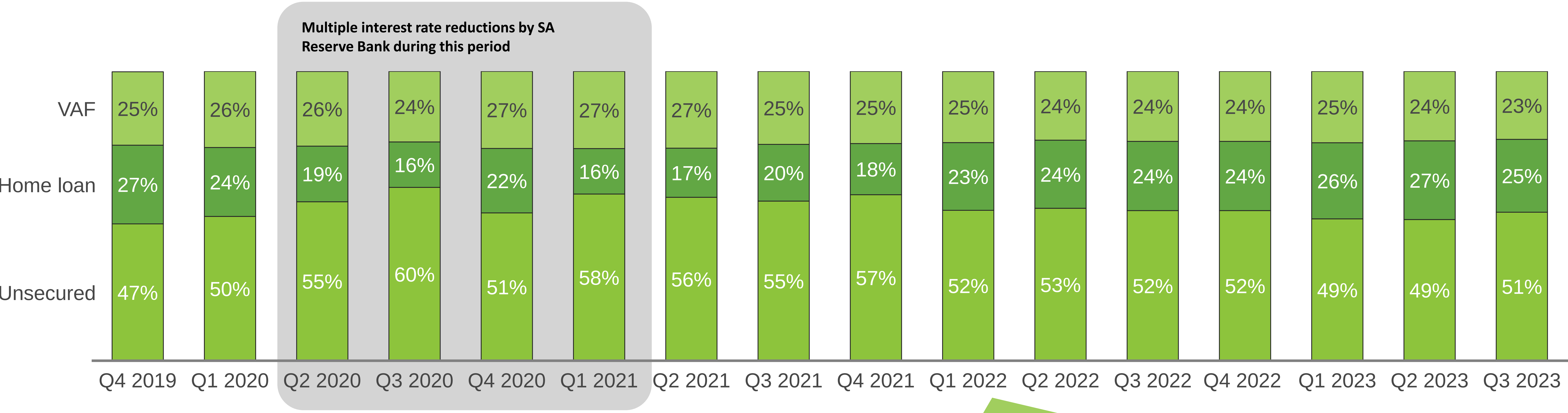


Source: DebtBusters

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 has increased and now makes up 25% of new applicants' debt

Breakdown of new applicants' debt

Percent by type



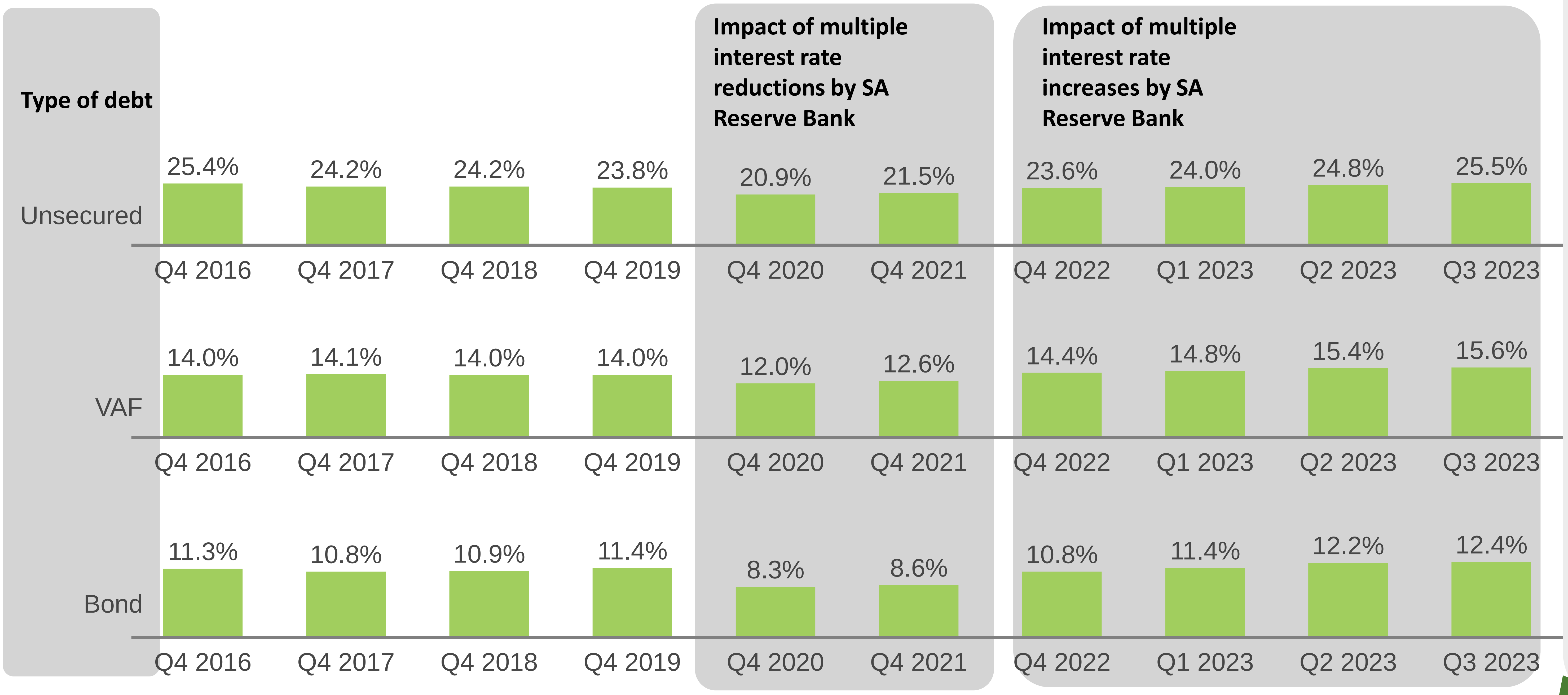
- Interest rate reduction combined with bank payment holidays in first three quarters of 2020 resulted in dip in asset debt share
- With interest rates increasing from Q4 2021, we have seen an increase in the home loan share from Q1 2022 onwards

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

Since late 2022, the impact of successive interest rate increases resulted in higher average interest rate of new applicants: in Q3 2023 average interest rate for unsecured debt was 25.5% p.a., average interest rate for a financed vehicle was 15.6% p.a., and average interest rate for a bond was 12.4% p.a.

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



- Bonds very sensitive to changes in interest rates – big swing from 2020 to 2023
- Unsecured debt interest rates have been increasing as well and are at the highest level in the last eight years
- Unsecured debt interest rate has big impact on what percent of incomes are needed to service debt

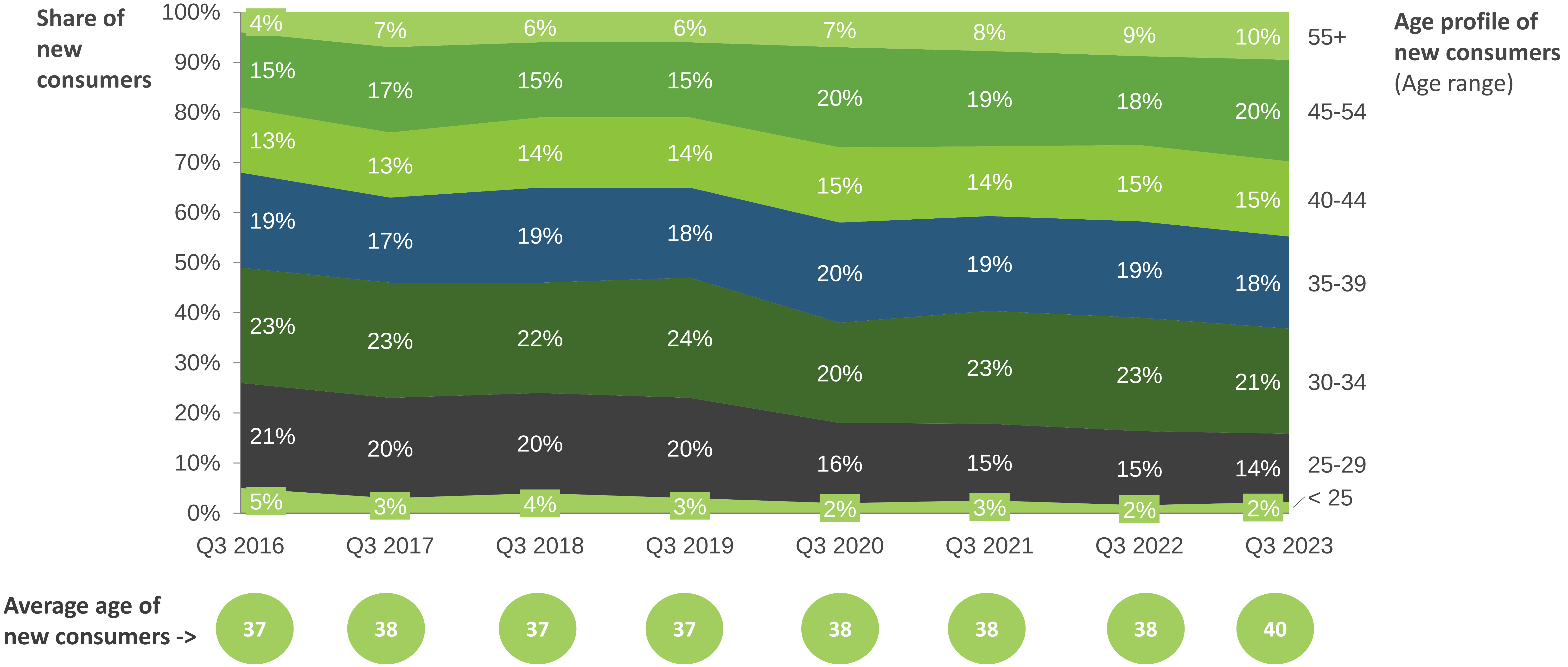
Max allowed at end of quarter:
- Unsecured: 29.25% p.a.
- VAF: 25.25% p.a.
- Bond: 20.25% p.a.

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

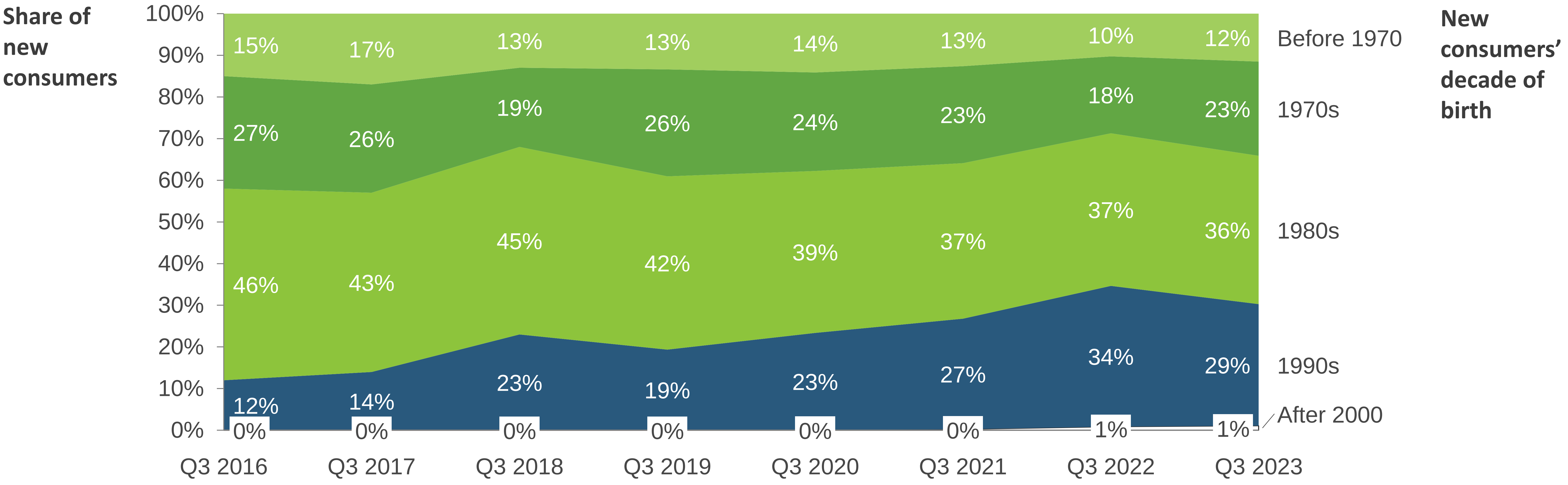
Consumer age profile indicates increasing financial stress in 45+ age group

Average age of new applicants has increased to 40. In addition, the share of applicants who are 45 or older has increased from ~20% to 30% over the past seven years, indicating financial stress is becoming more prevalent in this age category



Source: DebtBusters

There is a long-term increase in the ration of male applicants, indicating men are becoming more proactive about addressing financial distress. For the most recent quarter, 55% of applicants were male.

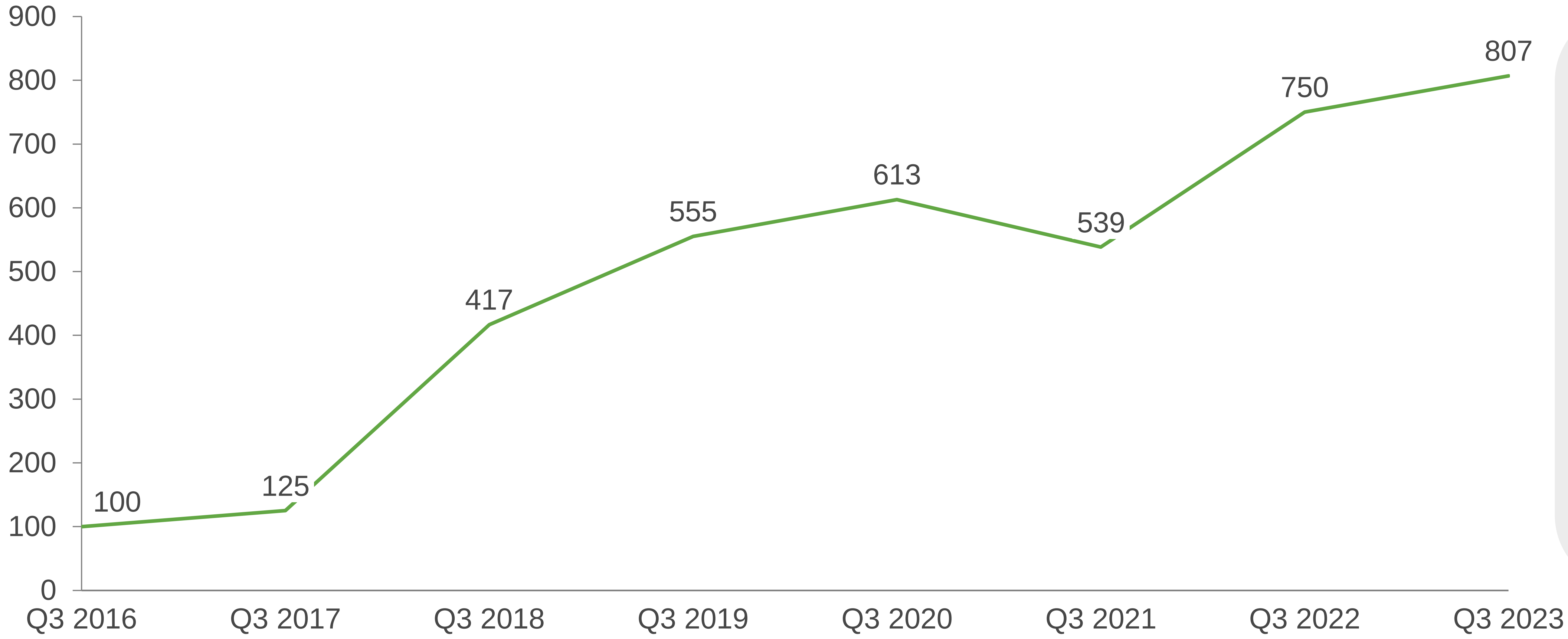


Share of consumers who are:	Q3 2016	Q3 2017	Q3 2018	Q3 2019	Q3 2020	Q3 2021	Q3 2022	Q3 2023
Male	48%	51%	53%	54%	57%	57%	56%	55%
Female	52%	49%	47%	46%	43%	43%	44%	45%

Source: DebtBusters

In the most recent quarter, the number of consumers graduating from debt counselling (successfully receiving their clearance certificates) was over eight times higher than the same period in 2016; consumers who graduated in Q3 2023 paid over R500m to their creditors while under debt counselling

Clearance certificates issued
Indexed to 2016 levels
2016 = 100

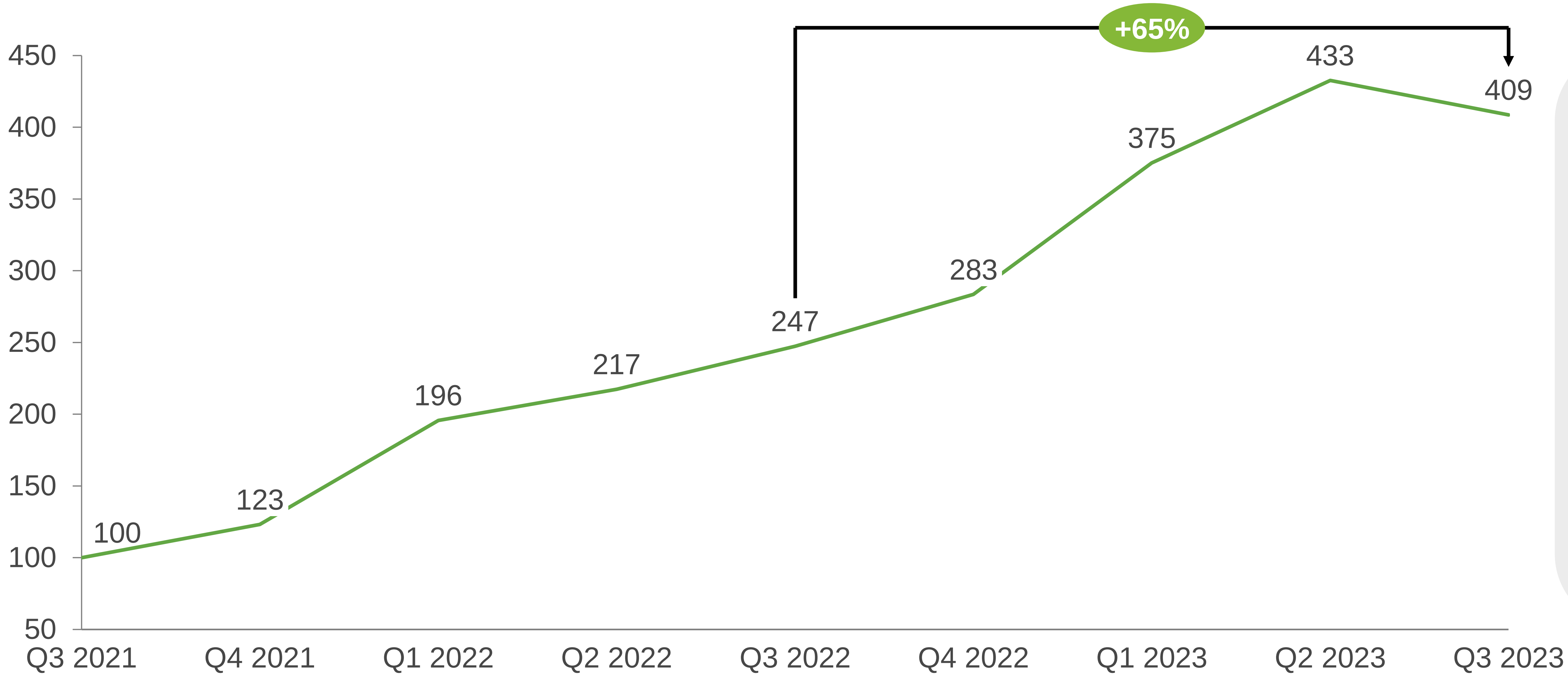


- **In Q3 2023, there were 8x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid over R500m to their creditors while under debt counselling**

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 65% over the past year.

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



- **65% increase in last year 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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