Debt Index | Q2 2022

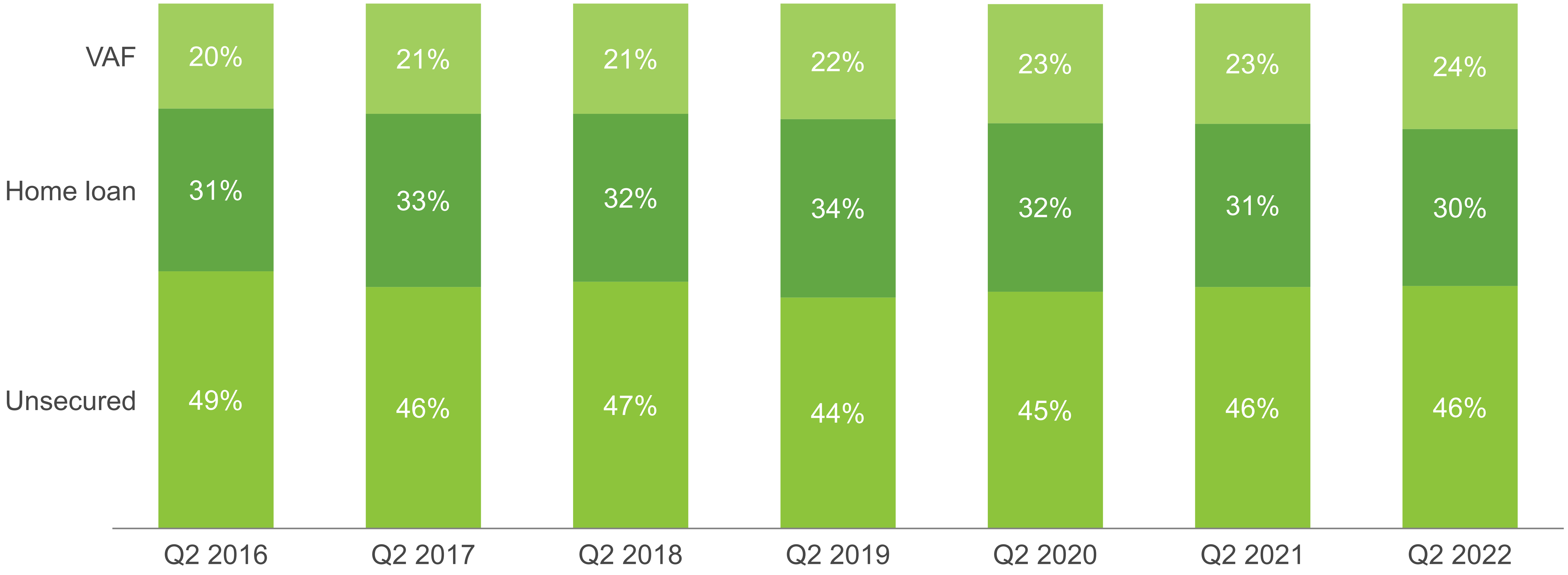
Executive Summary - Benay Sager, Head of DebtBusters

- In Q2 2022, **there was increased demand from consumers for debt counselling, with inquiries up 17% compared to the same period last year**. Many consumers are seeking help proactively as consumers are feeling the impact of inflation, interest rate increases, and diminished ability to borrow. Inflation featured in top three worries for consumers in the recent Money Stress Tracker survey and has been cited as one of the primary drivers for debt counselling applications by consumers.
- In absence of meaningful increase in real income, SA consumers continue to supplement their income with unsecured credit. While unsecured debt levels were slightly lower in Q2 2022 compared to the same period in 2021, average loan size has increased by 28% in a few years, and the number of debt obligations (open trades) has decreased by 18% over the same period – both indicating that consumers have more debt per credit agreement and are seeking help sooner. Compared to 2016, **those consumers who applied for debt counselling in Q2 2022 had**:
  - **34% less purchasing power**: Nominal incomes were same as 2016 levels, however when cumulative inflation growth of 34% is factored in for the same six-year period, consumer's purchasing power shrank by 34% over this period. Inflation in 2022 is significantly higher than previous years; coupled with successive interest rate hikes and no growth in incomes consumers are really feeling the pinch.
  - **Higher debt service burden**: Consumers need to spend around 63% of their take-home pay to service their debt before coming to debt counselling. The debt-to-income ratio for those in the R10-20k per month income band is near its highest levels recorded at 127%: we have observed that this income group is feeling the double pressure of interest rate increases and inflation the most.
  - **High levels of unsecured debt:** Unsecured debt levels were on average 22% higher than that in 2016 levels, but slightly lower than 2021 levels. This is perhaps a welcome relief for some consumers; however, consumers still feel the need to supplement the lack of income growth with unsecured credit.
- As interest rates continue to rise and inflation increases, consumers should do everything they can to reduce the cost of credit and protect their assets. **Debt counselling is the best tool to help consumers in dealing with interest rate and inflation increases**:
  - Unsecured debt interest rates can be reduced significantly while under debt counselling**, allowing consumers to pay back expensive debt quicker**.
  - The number of consumers successfully completing debt counselling successfully has increased 8.5 times over the last six years. **Consumers who successfully completed debt counselling in Q2 2022 paid back over R370m worth of debt to their creditors as part of the debt counselling process**.
  - In **Q2 2022, 57% of new applicants were male, indicating that men continue to be proactive about their debt.** In a society where debt is often not spoken about (especially by men), this is a welcome development.
- Many consumers are seeking help proactively and taking the brave step to deal with their debt burden in a responsible and sustainable way. We applaud all these consumers. For more information and to find out how DebtBusters helps consumers with debt management, visit www.debtbusters.co.za.

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

Vehicle debt has increased in the last few years, indicating that more consumers with assets (vehicles in particular) are seeking financial assistance

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management

Percent by type, by value at end of Quarter

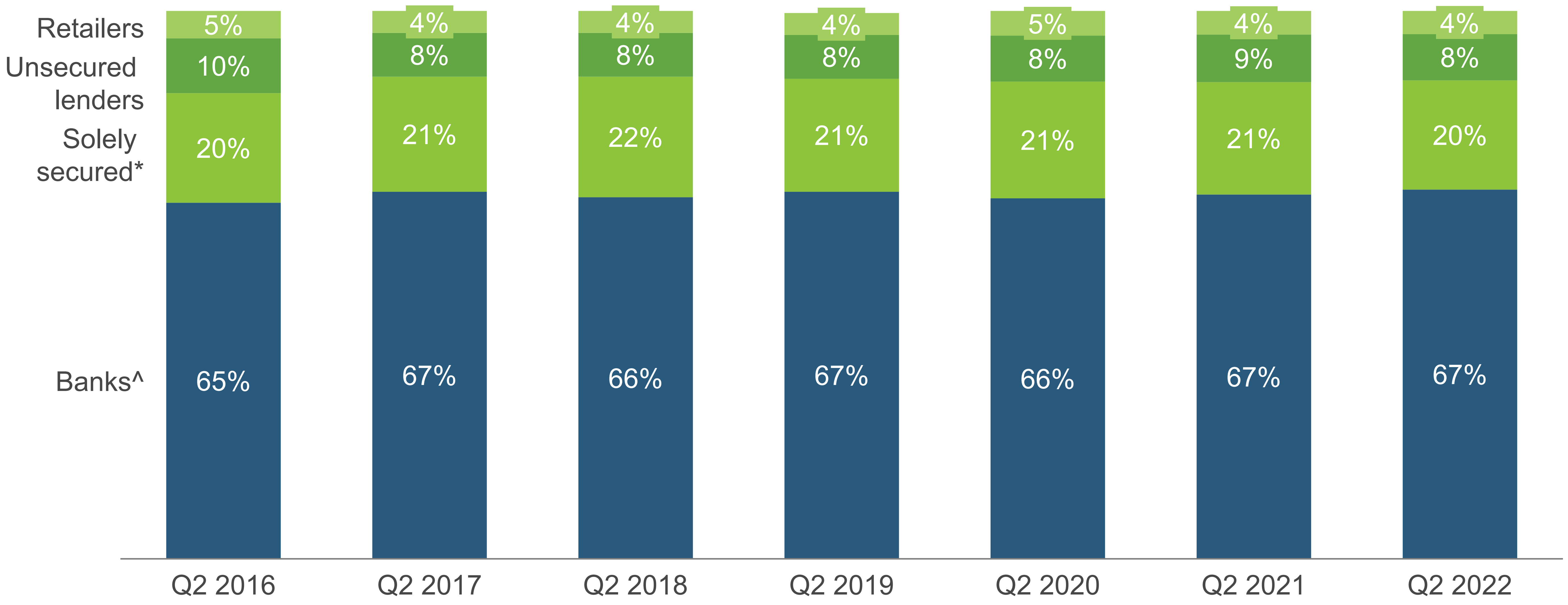
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Share of lending institutions is largely stable

Banks make up two thirds of debt; relative share of lending institutions has been stable

TOTAL DEBT BOOK



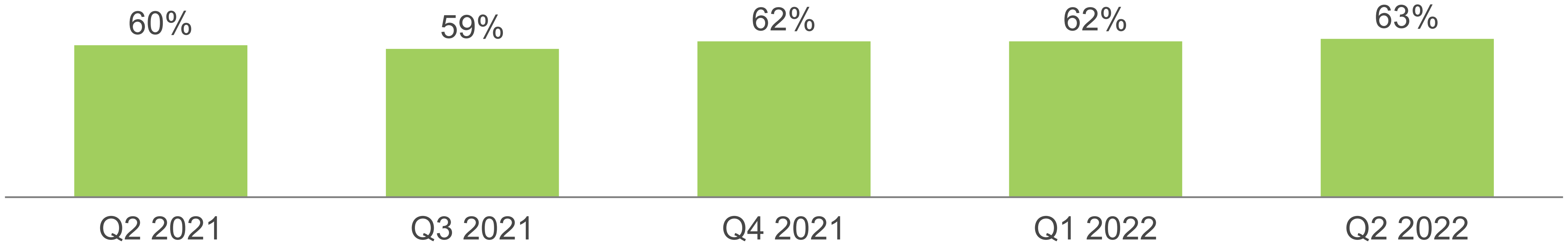
Breakdown of DebtBusters debt under management

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

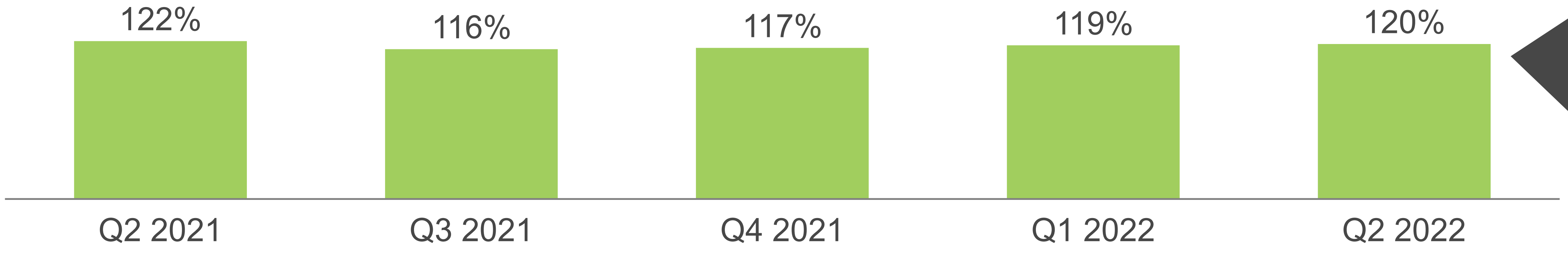
* Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW, who grant secured credit only
^ Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank
Source: DebtBusters

Prior to applying for debt counselling, Q2 2022 consumers needed 63% of their net income (take home pay) to service their debt

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



...following the same trend as total debt 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 51%
Italy 91%	Germany 99%
USA 101%	UK 148%
Korea 201%	Australia 202%

In many countries, debt is mostly mortgage debt

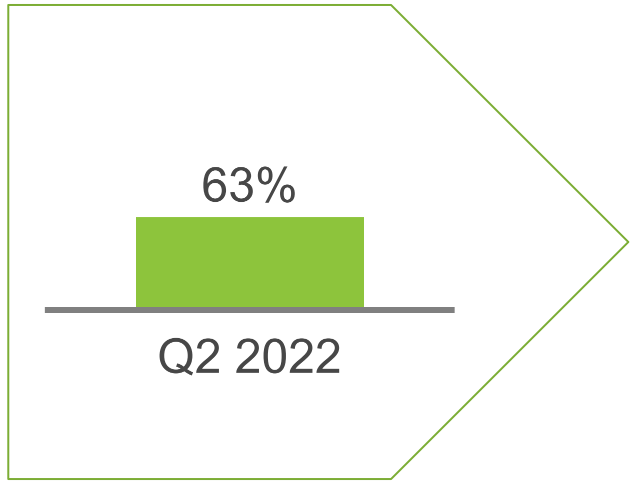
1 Median debt to net income ratio for all new consumers signed up in that quarter

Source: DebtBusters
OECD (2022), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 26 January 2022)

For those taking home more than R20k per month the total debt to annual net income ratio is 147%…

Original monthly debt repayment to net income ratio[1]

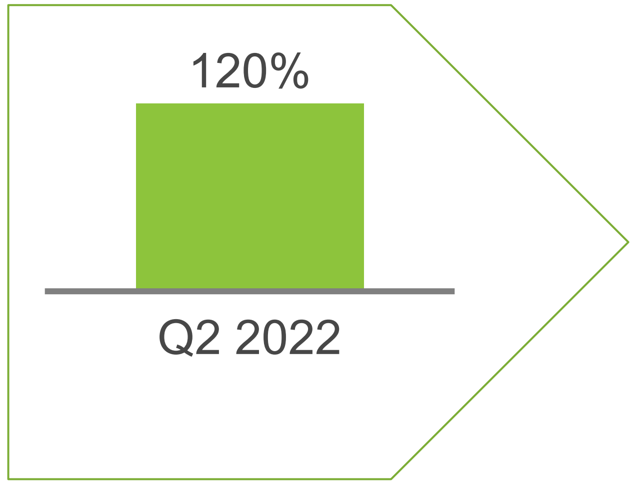
Percent of net income that was required to pay debt before signing up with DebtBusters

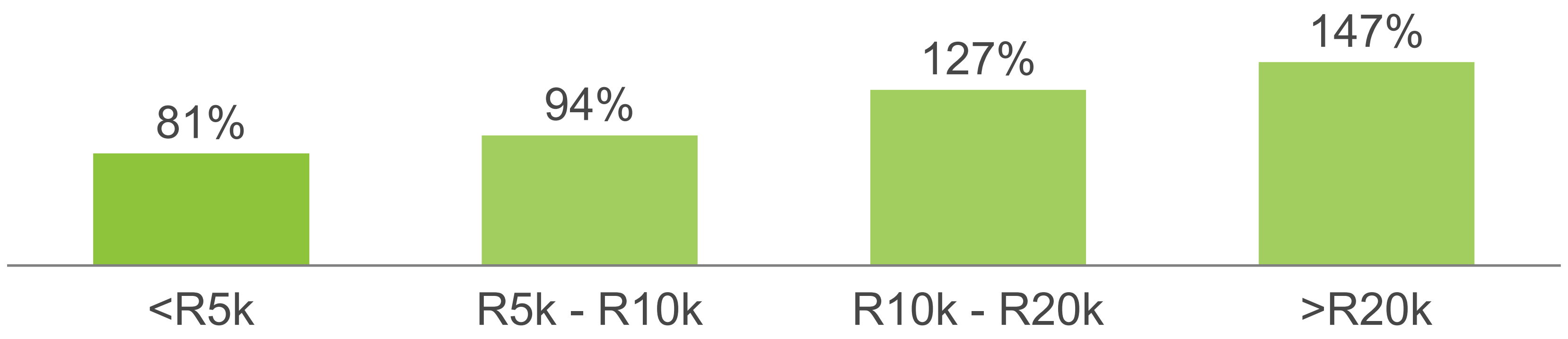


Highest monthly debt repayment ratio

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 81%, but still require 65% of net income to pay debt per month, which means interest rates charged are highest.

Highest debt to income ratio

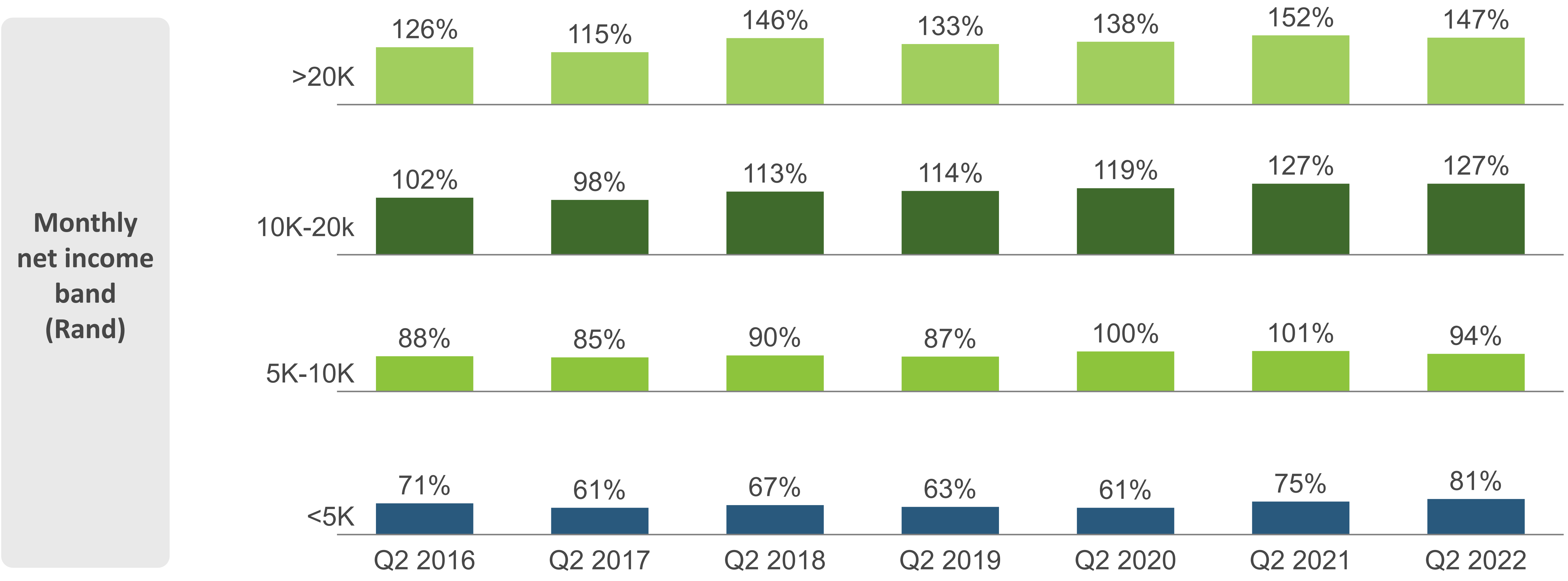
1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

…the debt to annual net income ratio for most income bands is lower than a year ago, except for consumers with net income of R5,000 or less per month; those taking home R10-20k p.m. seem to be under sustained financial pressure

Original overall debt to annual net income ratio[1]

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

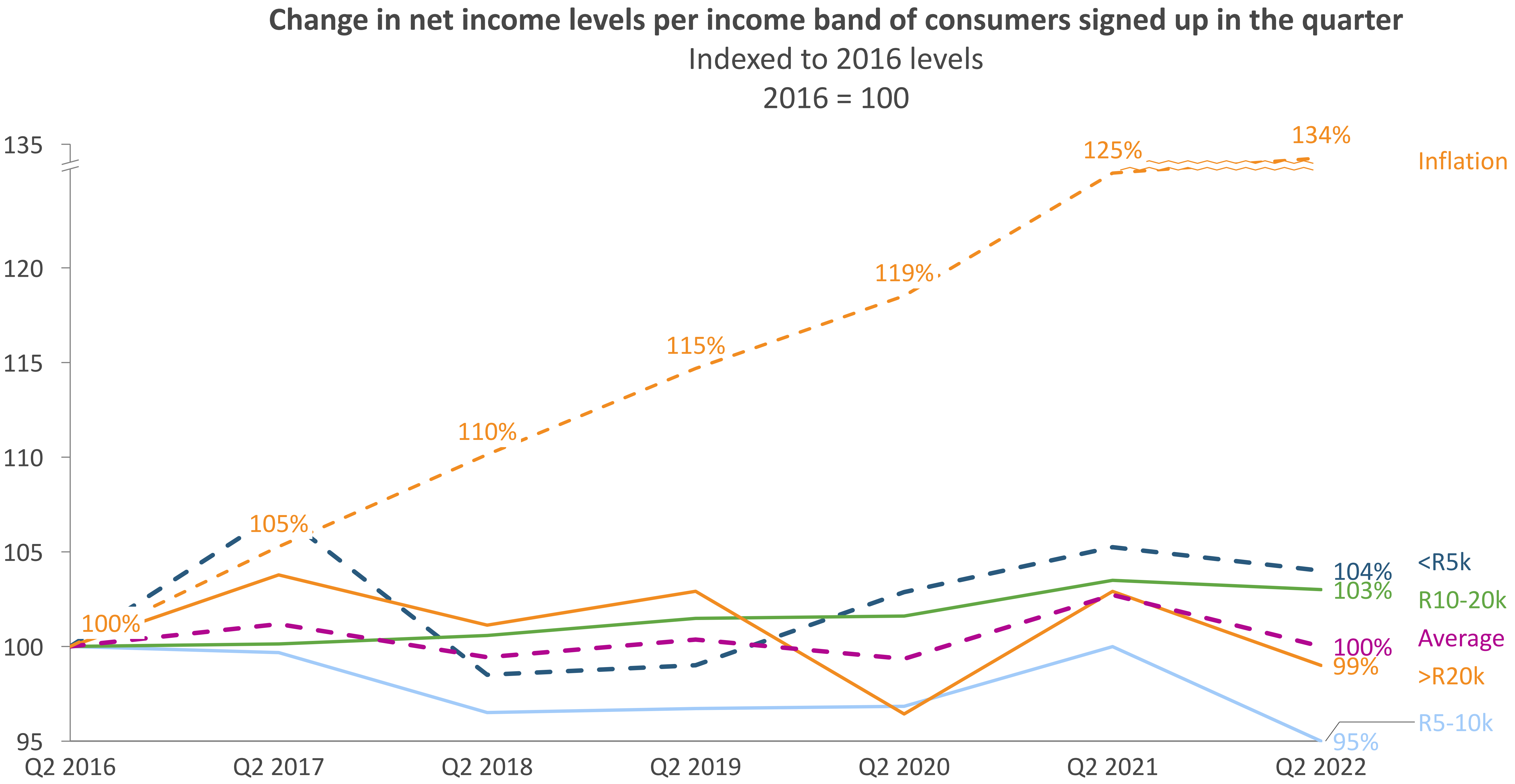


- **Debt exposure decreased slightly for income groups >R20k and 5k-10k compared to previous years**
- **Debt exposure for those earning R10-20k p.m. remained steady, indicating the pressure this group is under**
- **Income group <R5k increased to 81% - the highest level in the last six years**

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

Source: DebtBusters

In the last six years, average net incomes were flat, meaning in real terms (when compared against inflation) most South Africans have 34% less purchasing power in 2022 compared to 2016…

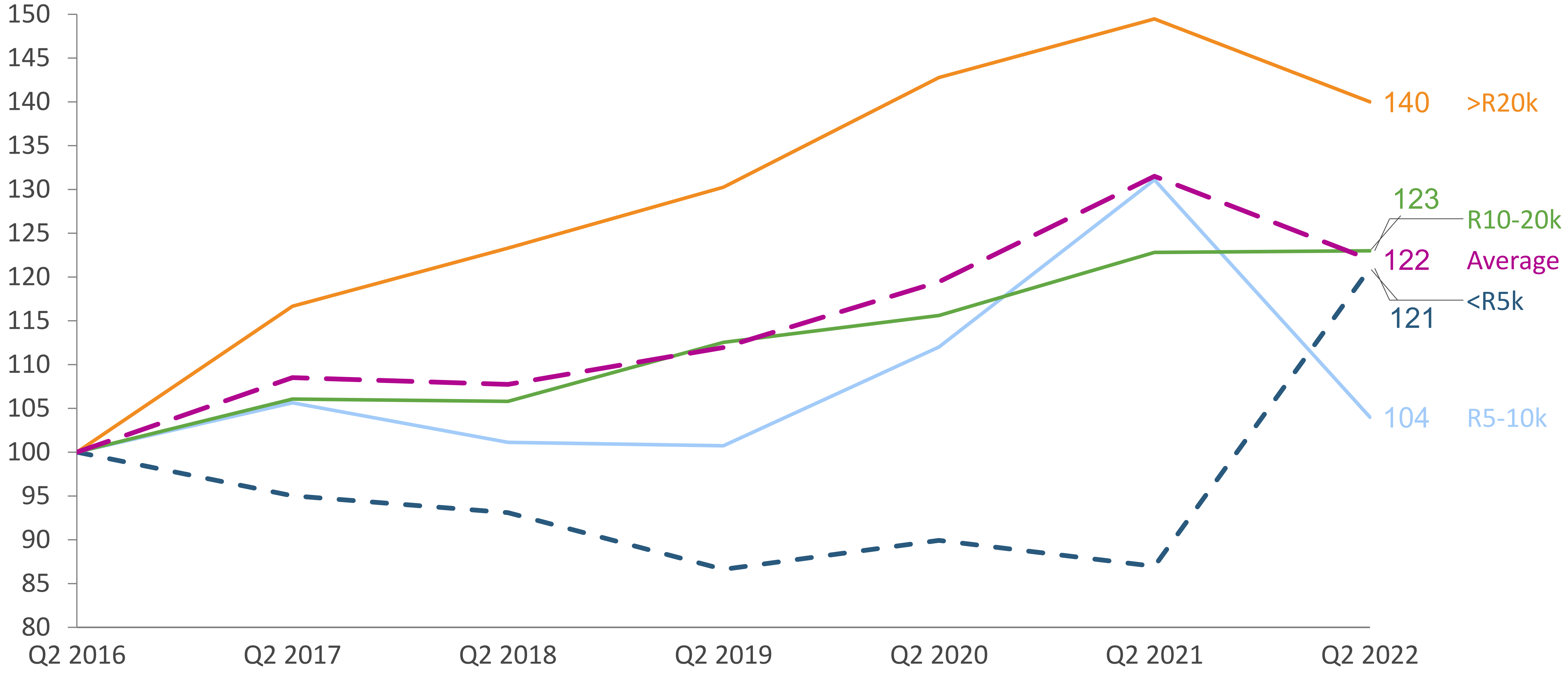


- On average, net incomes were flat in the last six years; during the same period inflation was 34%
- This means consumers have 34% less purchasing power in 2022 compared to 2016

Source: DebtBusters for income information; Stats SA for inflation information

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 22% more unsecured debt in 2022 compared to 2016, however unsecured debt levels are slightly lower than 2021 levels…

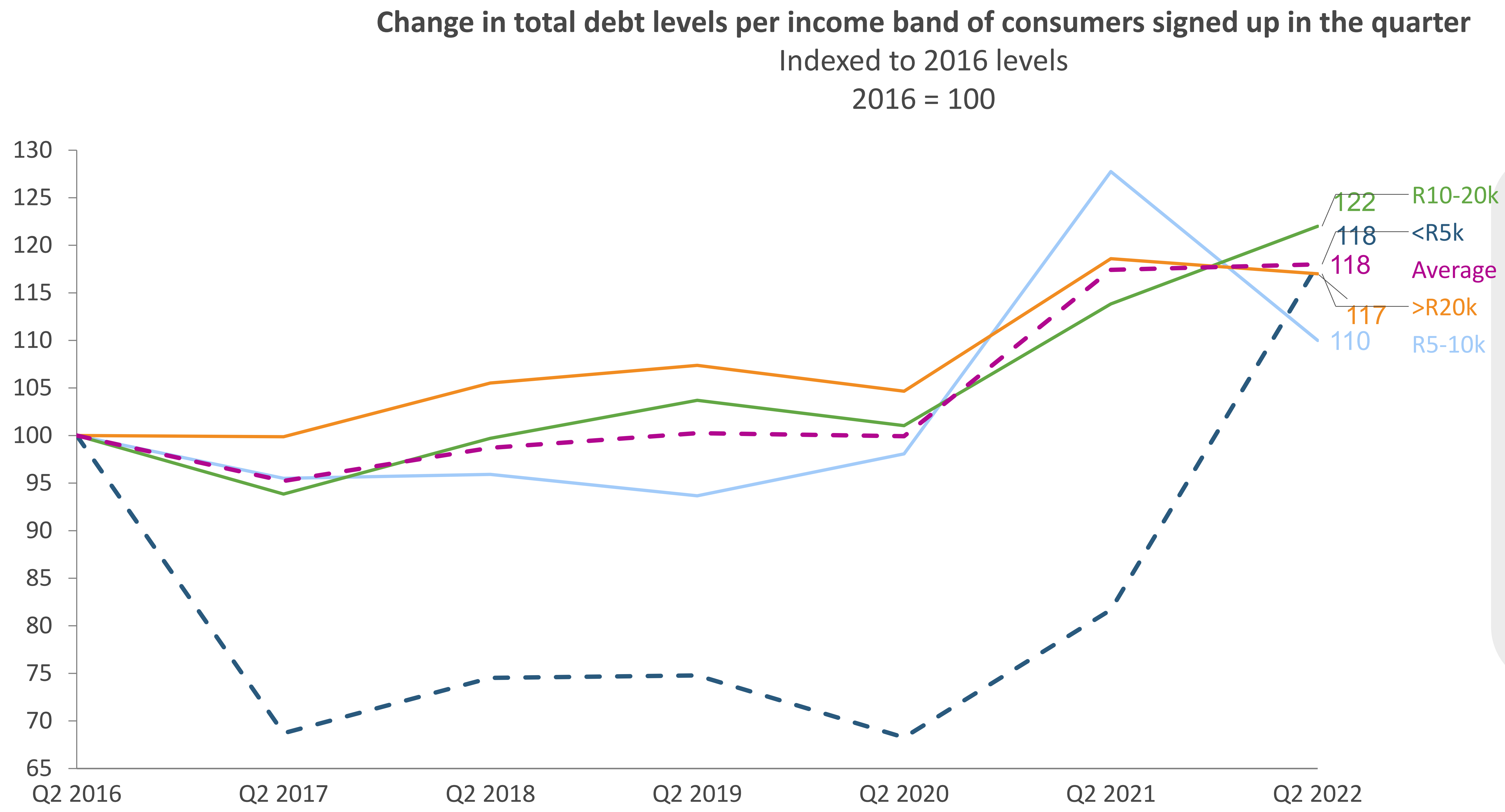
Change in unsecured debt levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100



- **Unsecured debt for the average consumer is 22% higher than 2016 levels; for top earners the figure is 40%**
- **This indicates consumers continue to use unsecured credit to supplement their incomes**
- **However, unsecured debt levels are slightly lower than then 2021 highs**

Source: DebtBusters

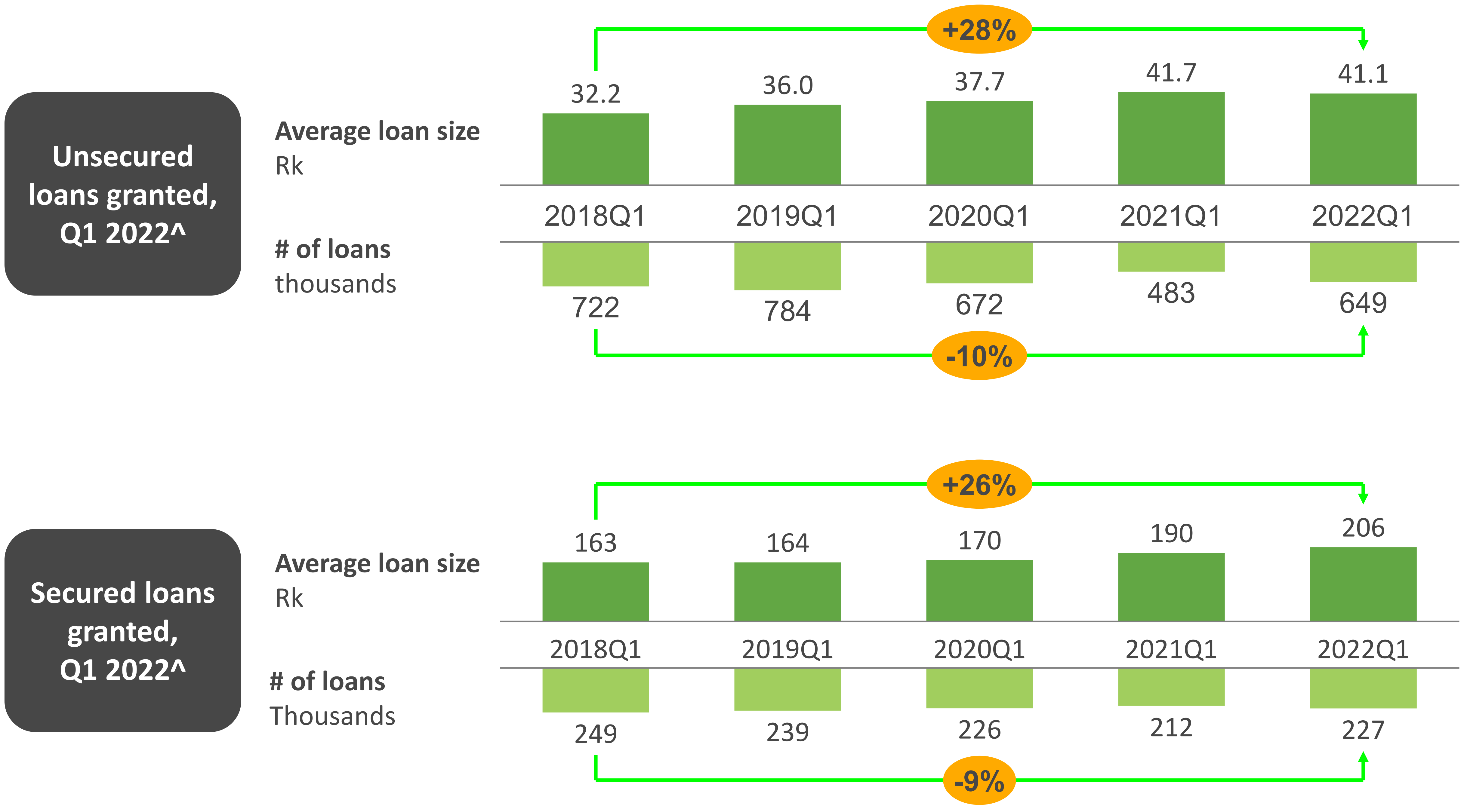
Total debt levels (which include both secured and unsecured debt) have increased by 18% compared to Q2 2016; this increase is lower than inflation and lower than unsecured debt growth



- Compared to 2016, the total debt level increased by 18% on average
- Those taking home 10k-20k had the largest increase in overall debt levels, which indicates the financial strain this income group is under

Source: DebtBusters

This growth in average debt is also supported by NCR data; average unsecured loan size grew by 28% whereas number of new unsecured loans shrank by 10% in the last four years



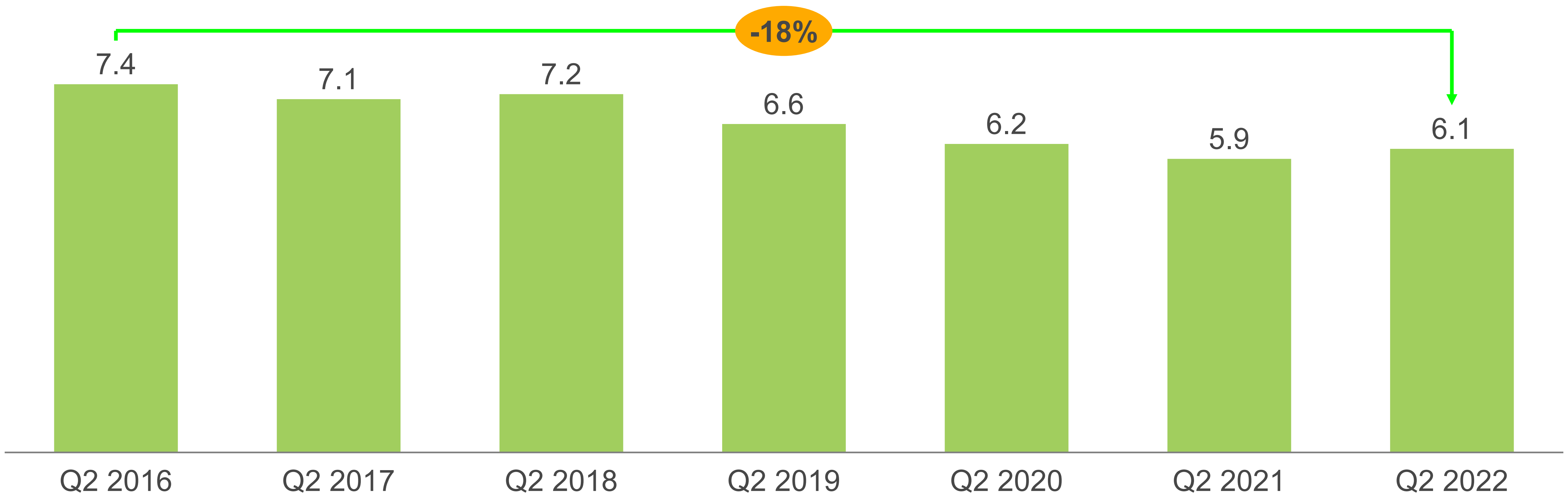
- There has been some recovery in the lending environment since lockdowns of 2020; however, volumes are not at the same levels as they were before 2020
- **Average unsecured loan size has grown by 28% in four years, whereas the number of loans has shrunk by 10%, indicating an ever-smaller pool of consumers are receiving unsecured loans**
- Average secured loan size has also grown, but by a smaller percentage (26%) compared to unsecured loans

^: Q1 2022 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q1 2007 – Q1 2022

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

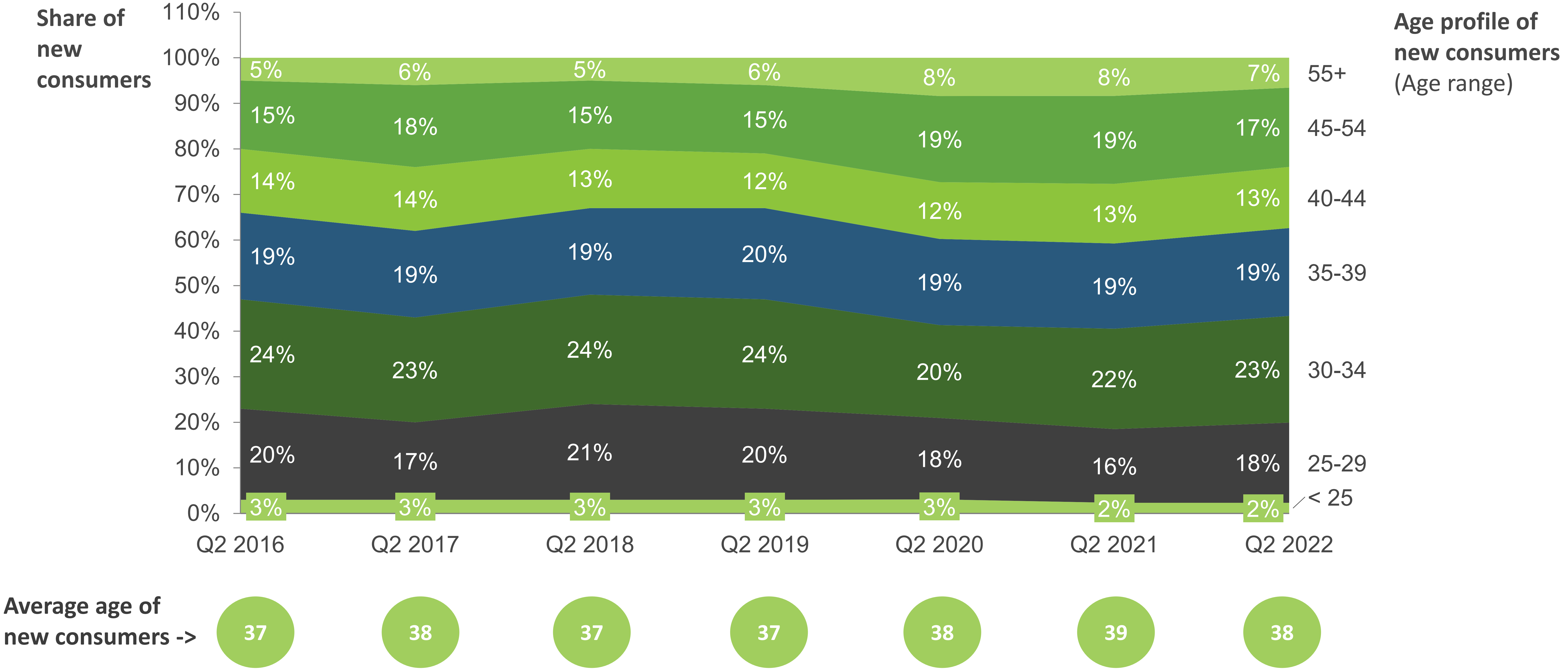
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Source: DebtBusters

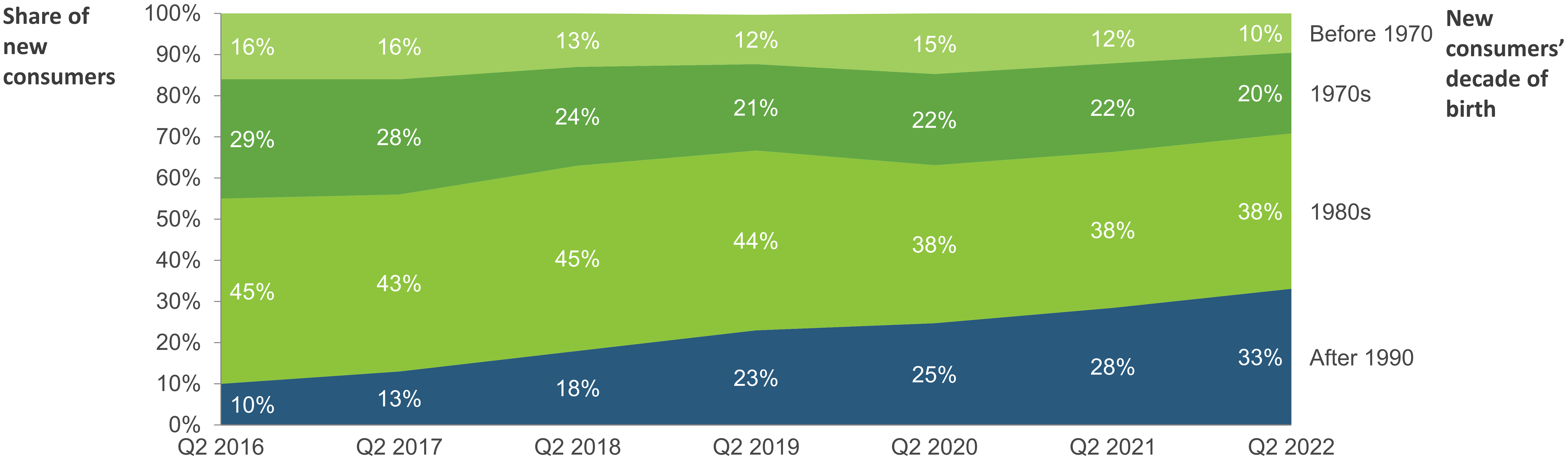
Consumer age profile indicates increasing financial stress in 45+ age group

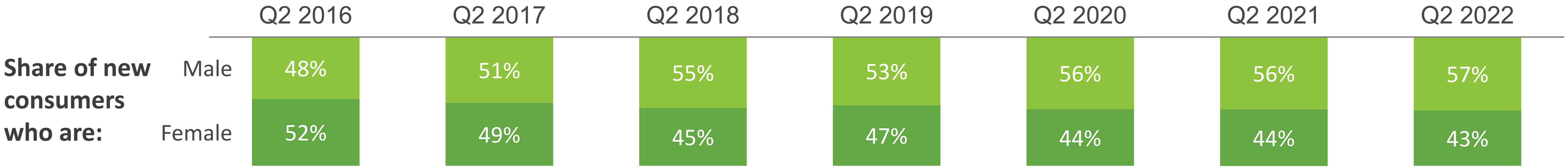
While the average new applicant age has been consistent, the share of applicants who are 45 or older has increased from 20% to 24% over the past six years, indicating financial stress is becoming more prevalent in this age category



Source: DebtBusters

There is increasing interest from male applicants, indicating men are becoming more proactive about addressing financial distress. For the most recent quarter, 57% of applicants were male

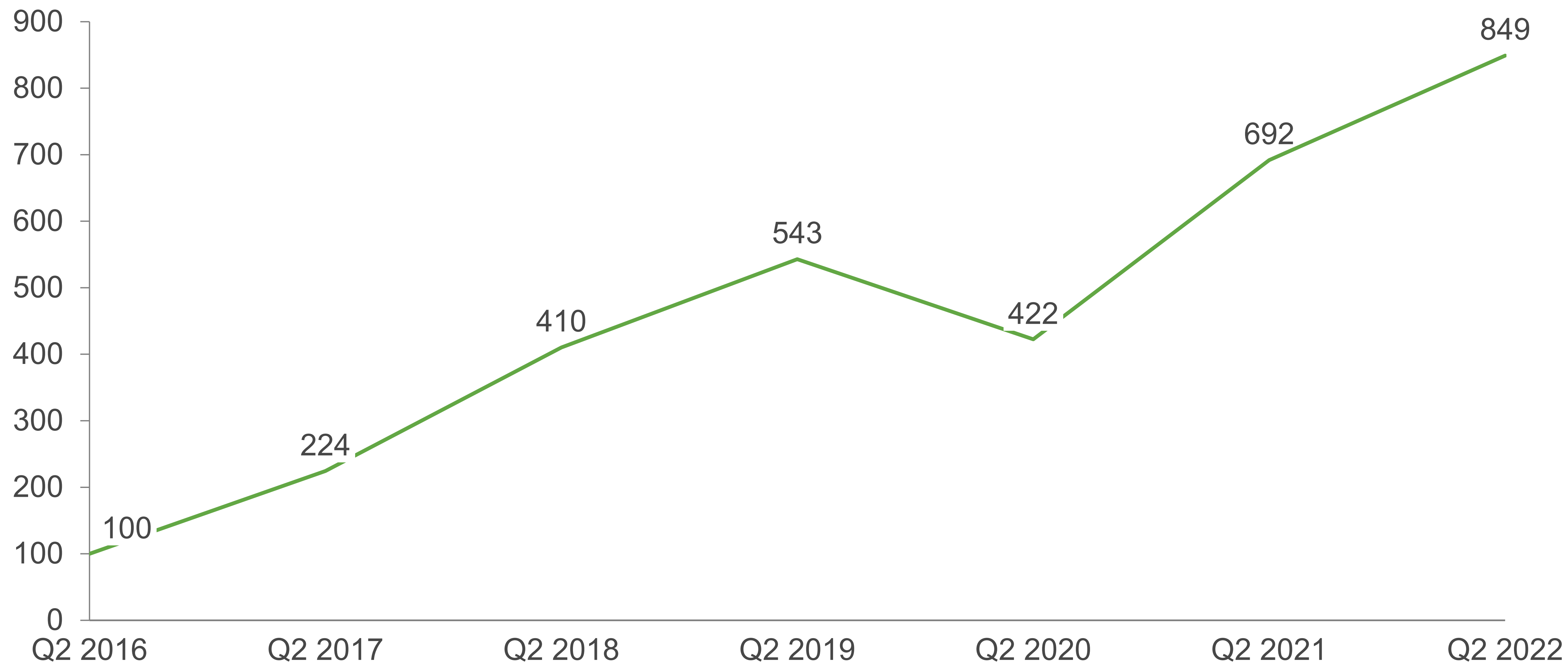




Source: DebtBusters

The number of consumers graduating from debt counselling (successfully receiving their clearance certificates) has increased by eight-fold since 2016; consumers who graduated in Q2 2022 paid over R370m to their creditors while under debt counselling

Clearance certificates issued
Indexed to 2016 levels
2016 = 100



- **In Q2 2022, there were 8.5x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid over R370m to their creditors while under debt counselling**

Source: DebtBusters

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