Debt Index | Q3 2022

Executive Summary - Benay Sager, Head of DebtBusters

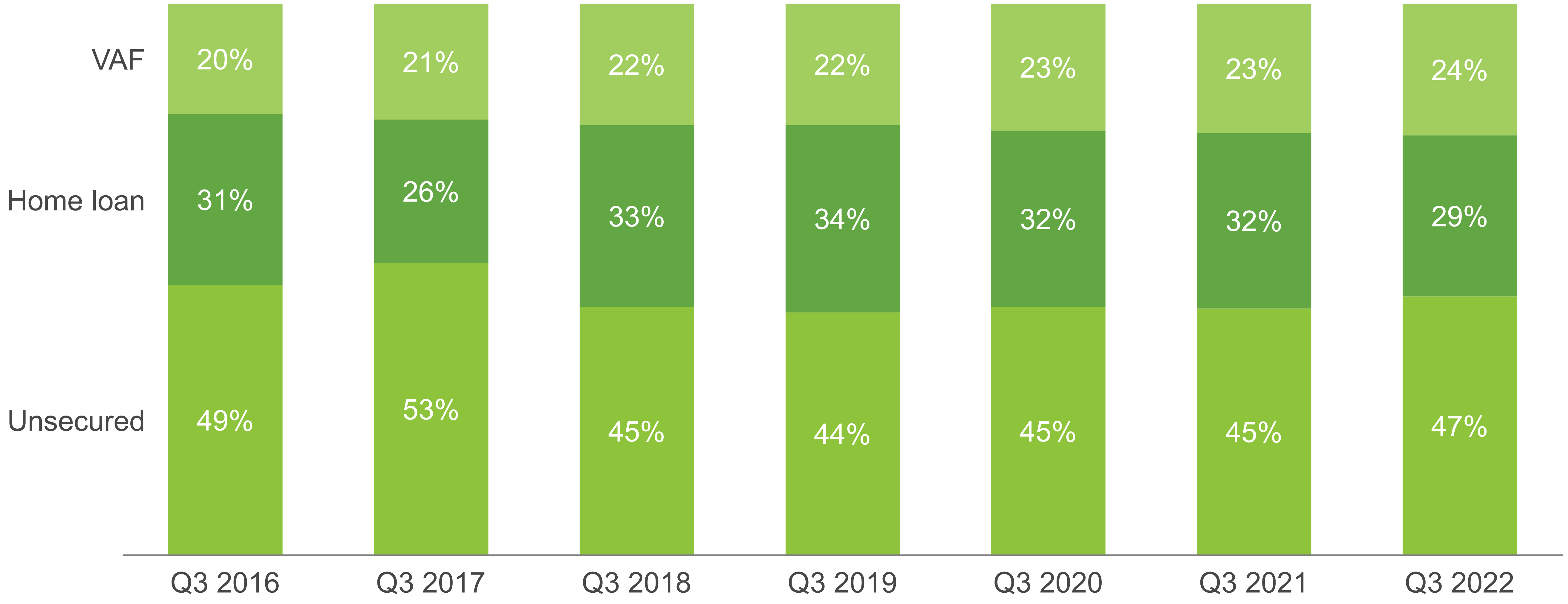
- In Q3 2022, **there was increased demand from consumers for debt counselling, with inquiries up more than 30% compared to the same period last year**. Many consumers are seeking help proactively as they are feeling the impact of increasing interest rates (especially first-time asset owners), high inflation, and diminished ability to borrow.
- The financial situation of SA consumers continues to be challenging, particularly as a result of the impact of the twin "I"s: Inflation and Interest rates. Compounded by absence of meaningful increase in real income, SA consumers continue to supplement their income with unsecured credit. Average loan size has increased by 43% in a few years, and the number of debt obligations (open trades) has decreased from 7.6 to 6.1 per consumer 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 Q3 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 62% of their take home pay to service their debt before coming to debt counselling. More alarmingly, the debt-to-income ratio for two income bands is at its highest level recorded in Q3 2022 compared to same periods in the past: 87% for those taking home less than R5k per month and 150% for those taking home R20k or more p.m. Consumers at both ends of the spectrum are feeling financially stretched.
  - **Unsustainably high levels of unsecured debt:** Unsecured debt levels were on average 26% higher than that in 2016 levels. While this is lower than some other years, for consumers 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.
- As interest rates start 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**:
  - 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 by six-fold over the last six years. **Consumers who successfully completed debt counselling in Q3 2022 paid back over R430m worth of debt to their creditors as part of the debt counselling process**.
  - In **Q3 2022, 55% of new applicants were male, indicating that more 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.

- 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

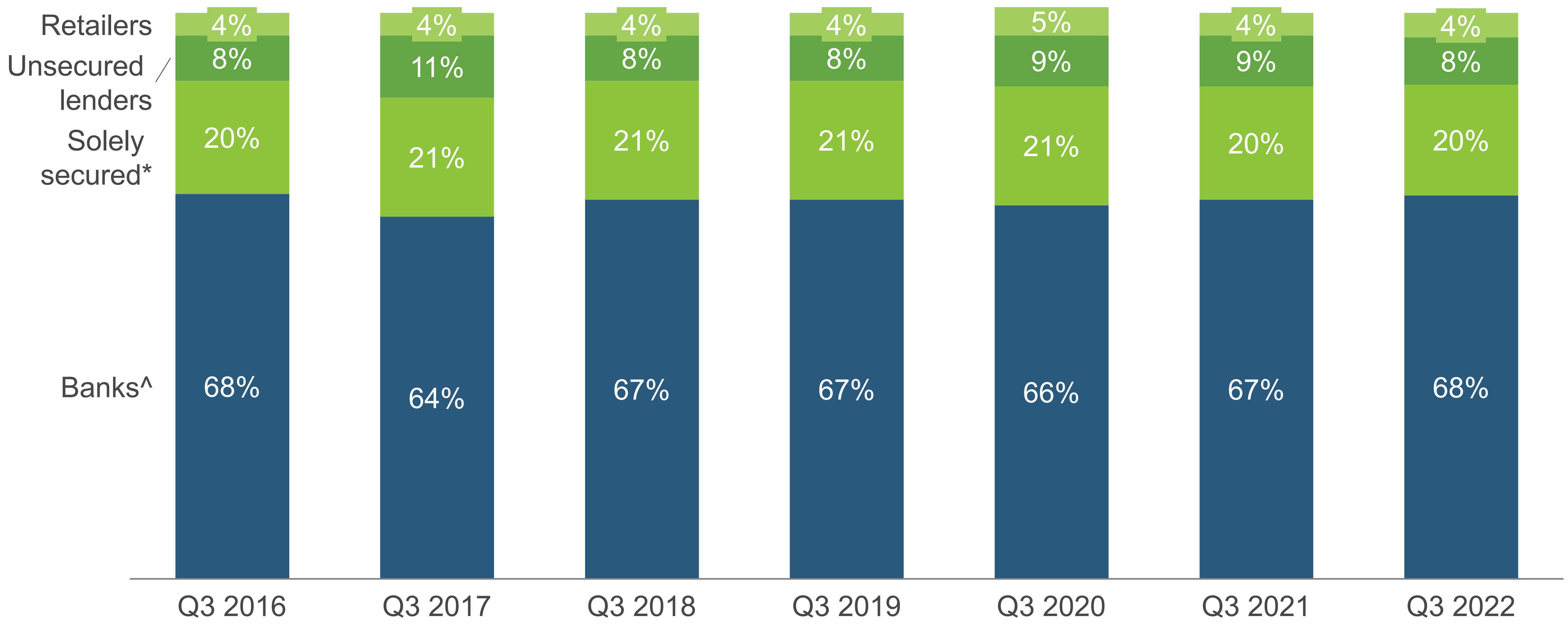
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Share of lending institutions is largely stable

Banks make up two thirds of debt; there is an increase in share of purely unsecured lenders over the past few years

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

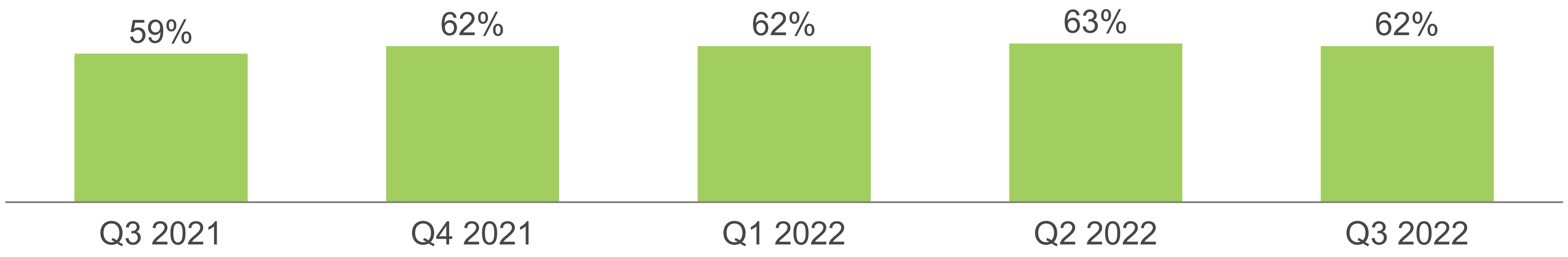
^ Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank

Source: DebtBusters

Compared to previous quarters, overall debt levels have remained elevated; almost all income groups need about two thirds of their take home pay to service their debt repayments…

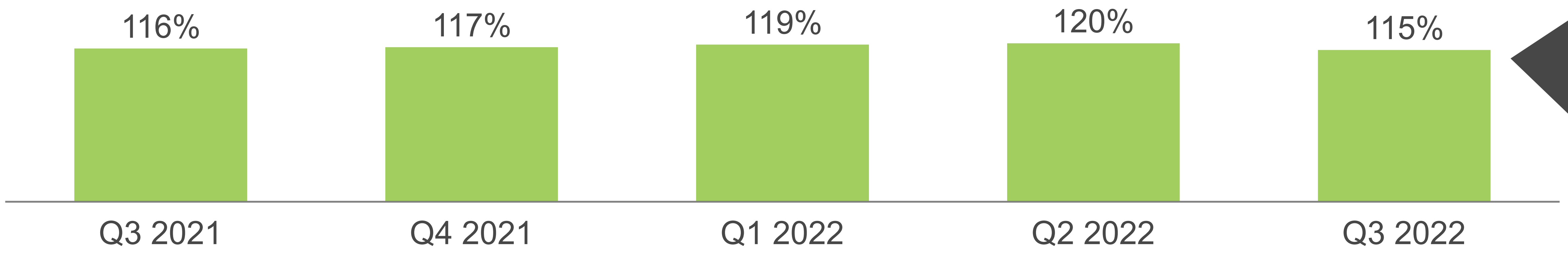
Original (median) monthly debt repayment to net income ratio[1] has stayed steady...

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



…however, quarter-on-quarter overall debt levels increased

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%

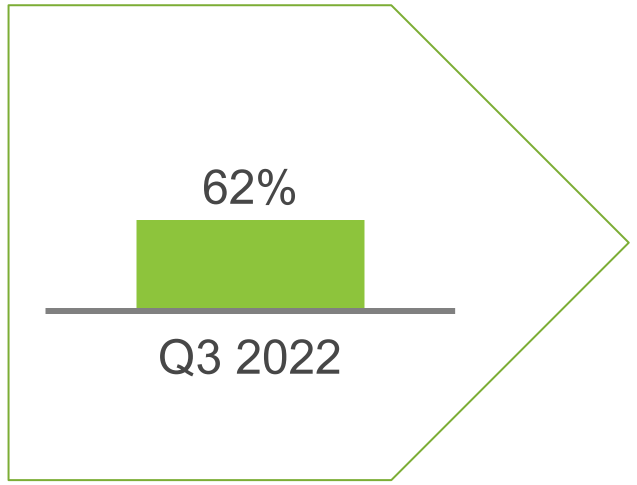
In many countries, debt is mostly mortgage debt, which has low interest rate

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

Source: DebtBusters

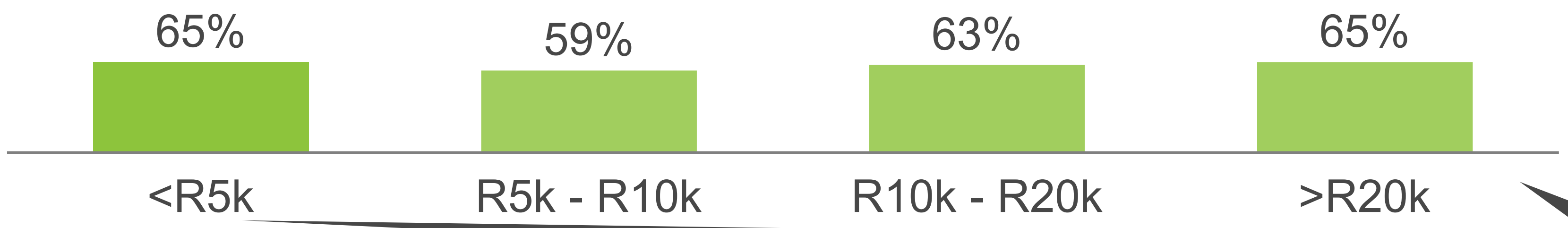
OECD (2022), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 26 January 2022)

…for those taking home more than R20k per month the total debt to annual net income ratio is 150%, making it the highest…

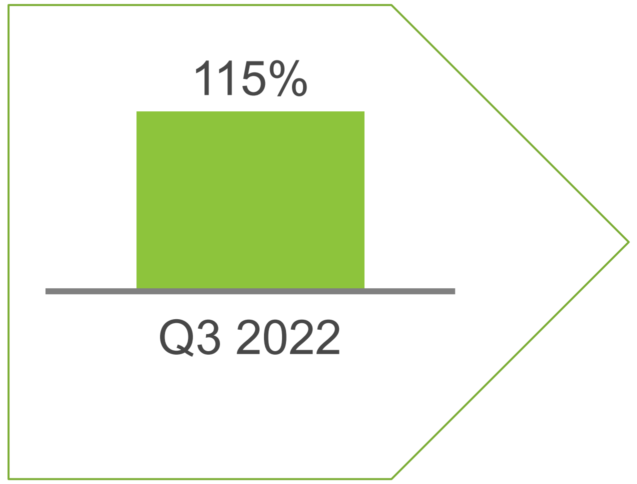


Original monthly debt repayment to net income ratio[1]

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

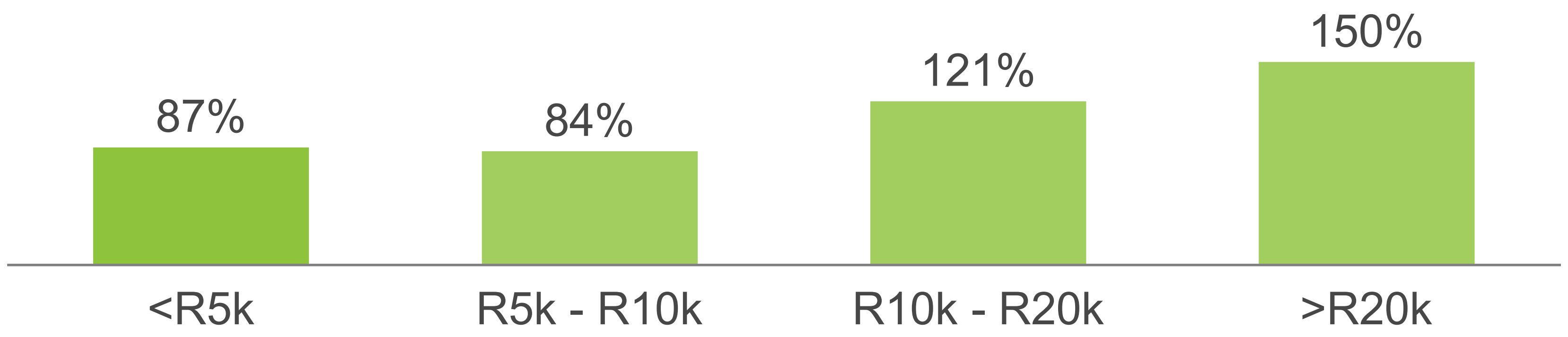


Highest monthly debt repayment ratio



Original overall debt to annual net income ratio[1]

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



Highest debt to income ratio

One of the lowest overall debt ratios at 87%, but still require 65% of net income to pay debt per month, which means interest rates charged are highest.

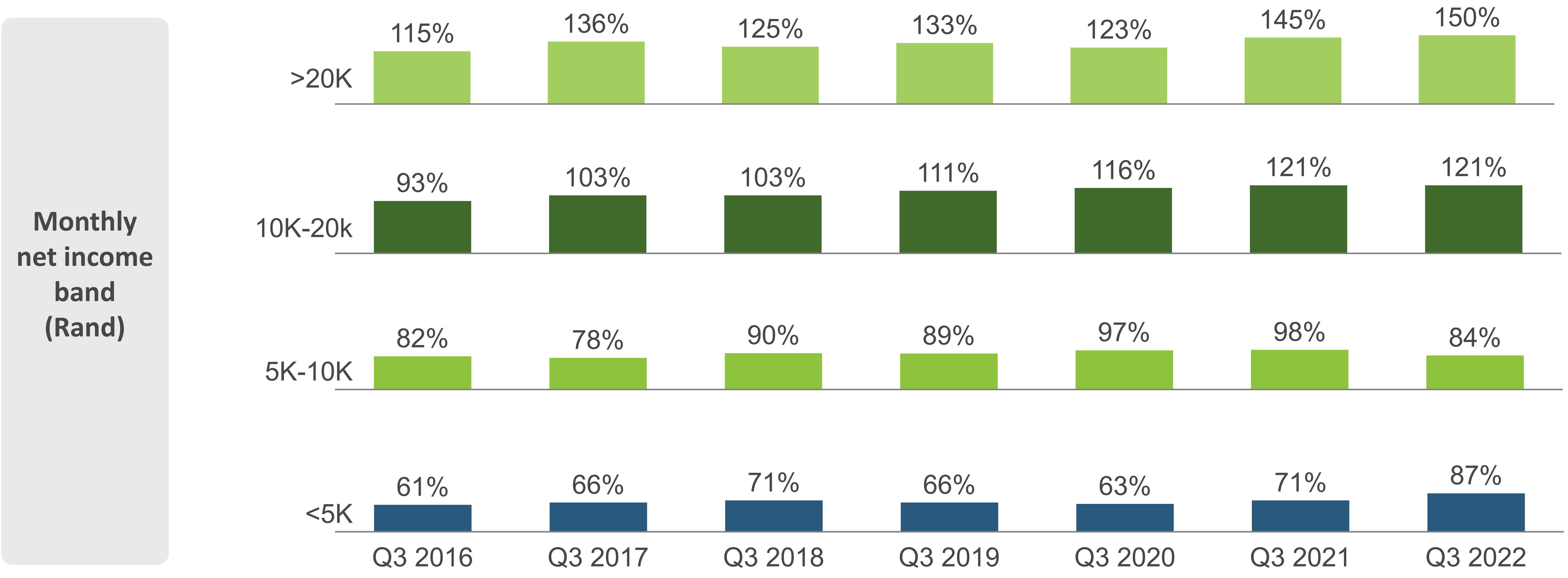
1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

…indicating those taking home R20k or more are under the most severe financial pressure we have ever seen with a debt-to-income ratio of 150%

Original overall debt to annual net income ratio[1]

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

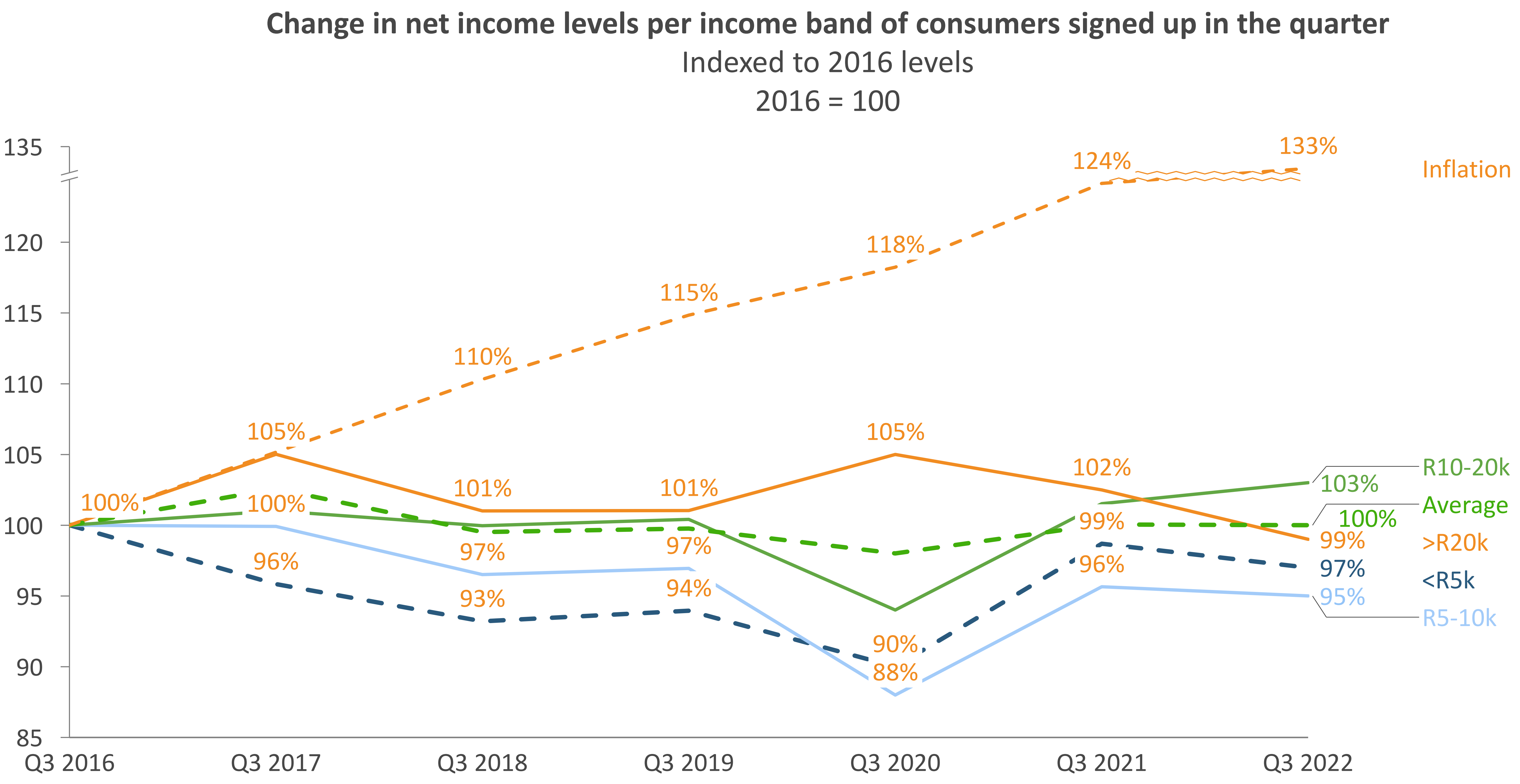


- **Those taking home R20k or more have the most elevated debt to income ratio we have ever seen**
- **Debt exposure significantly increased for lowest earners as well with a debt to income ratio of 87%, which is also the highest we have seen**

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 most South Africans had 33% 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 33%**
- **This means consumers had 33% less purchasing power in 2022 compared to 2016**

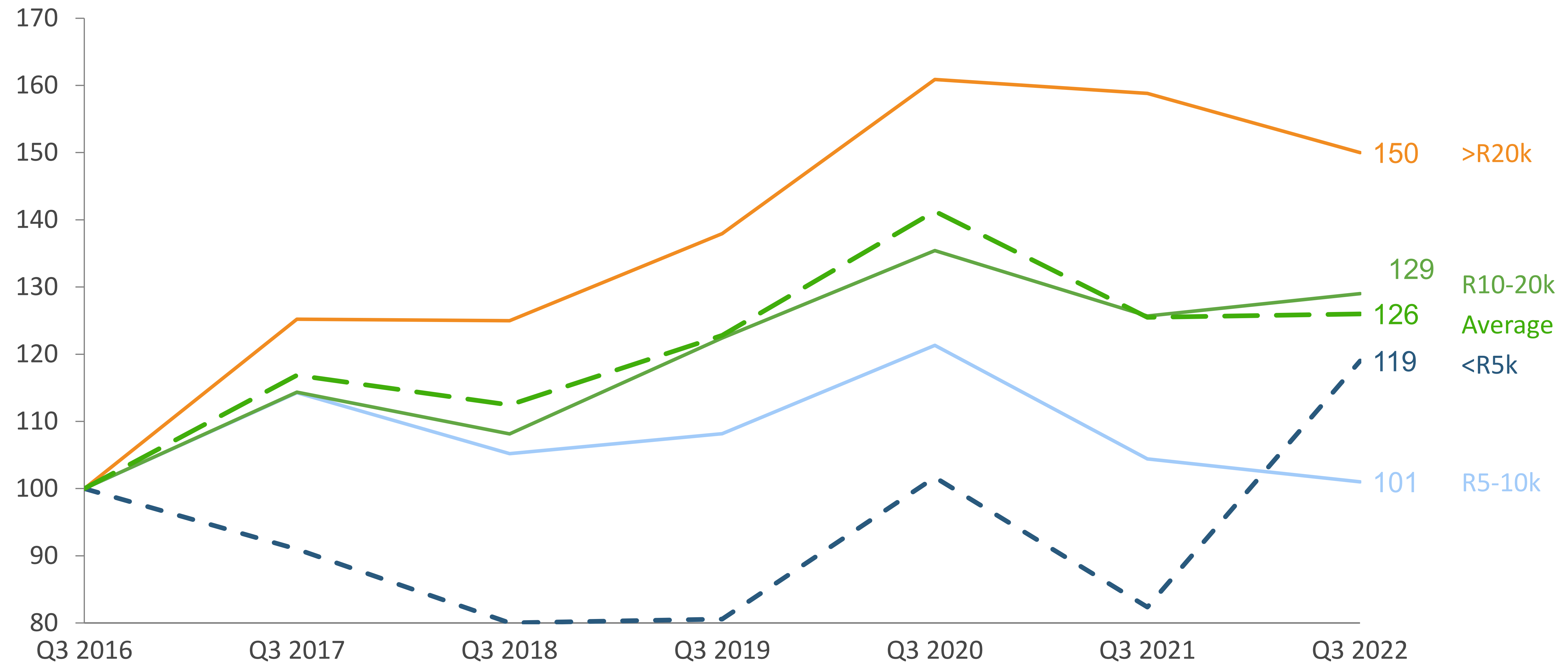
Source: DebtBusters for income information; Stats SA for inflation information

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 26% more unsecured debt in 2022 compared to 2016, those taking home R20k or more have unsecured debt levels that are 50% higher than 2016…

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

Indexed to 2016 levels

2016 = 100

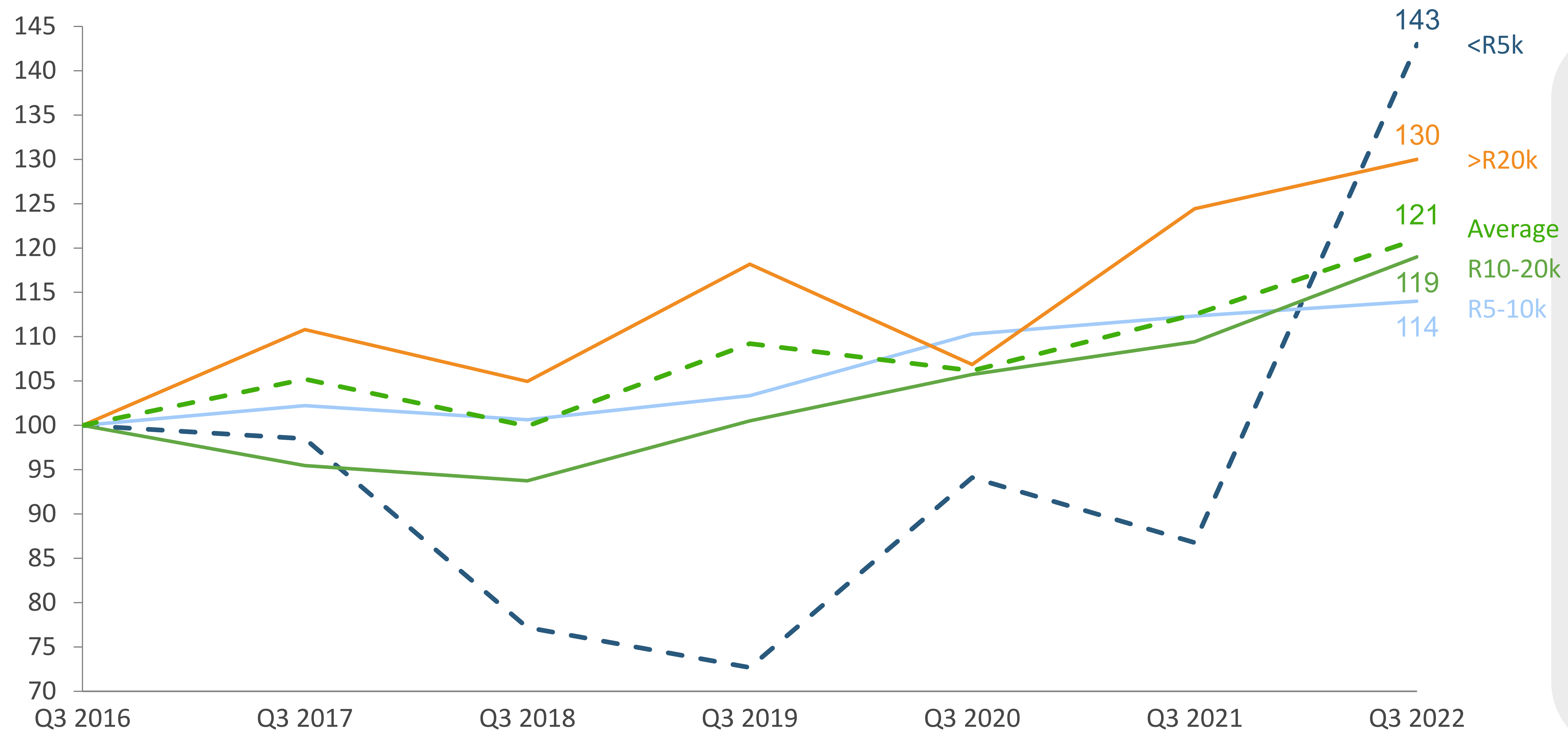


- **Unsecured debt for the average consumer is 26% higher than 2016 levels; for top earners the figure is 50%**
- **This indicates consumers continue to use unsecured credit to supplement their incomes**

Source: DebtBusters

Total debt levels (which include both secured and unsecured debt) have increased by 21% compared to Q3 2016; this increase is lower than inflation and much lower than unsecured debt growth

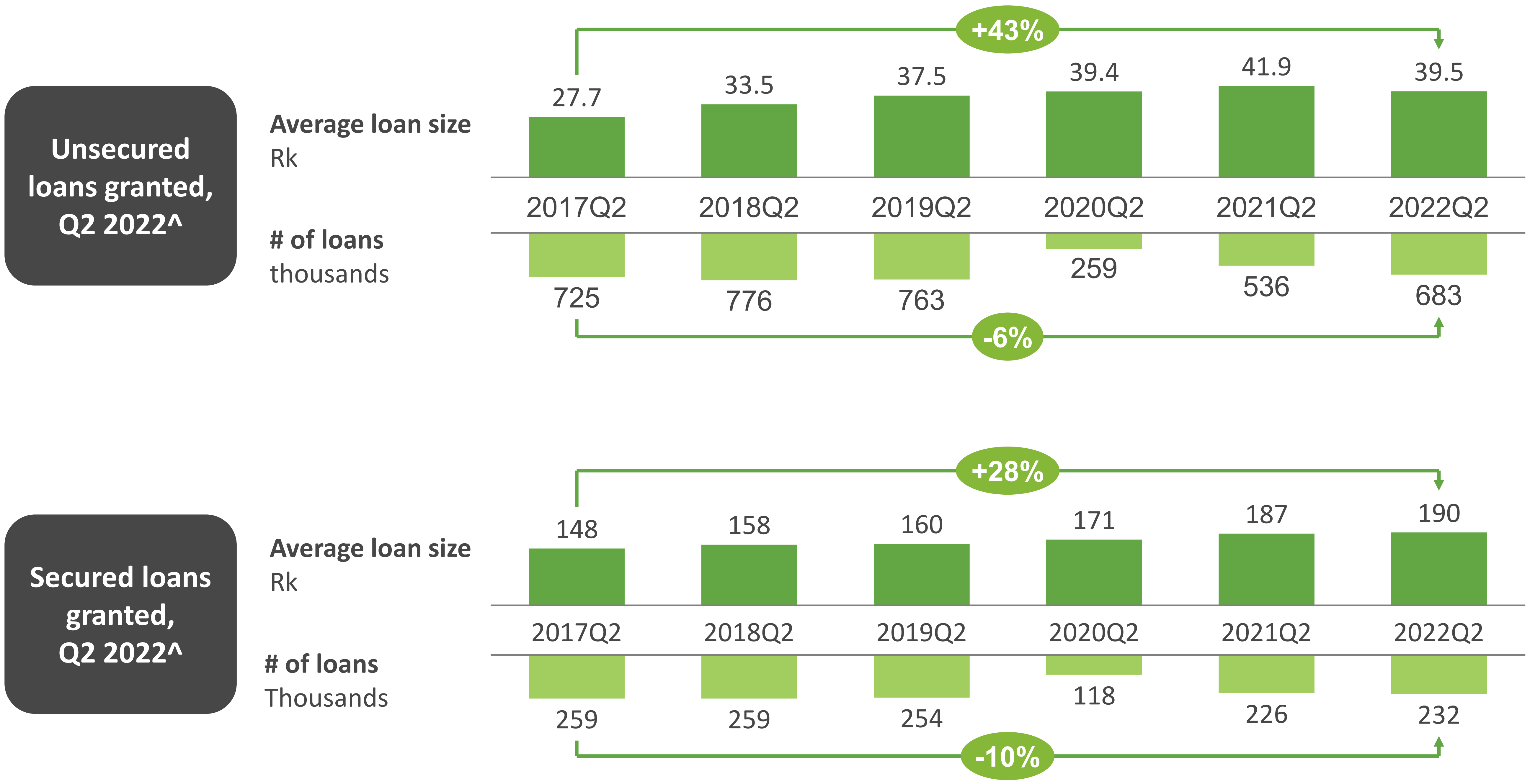
Change in total debt levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100



- Compared to 2016, the total debt level increased by 21% on average
- Those taking home >20k had the largest increase in overall debt levels, especially compared to 2020 levels, indicating that more consumers with assets acquired during low interest rates in 2020 are seeking help with debt counselling

Source: DebtBusters

This growth in average debt is also supported by NCR data; average unsecured loan size grew by 43% whereas number of new unsecured loans shrank by 6% in the last five years: this indicates an ever-smaller pool of consumers are receiving larger size unsecured loans



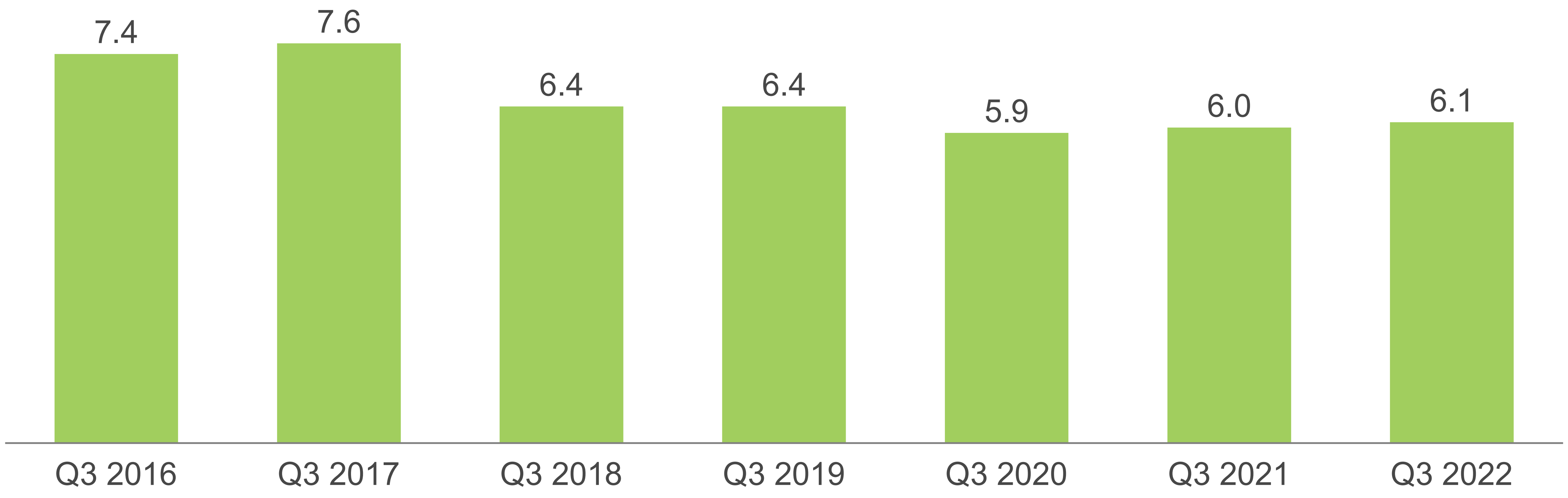
- There has been some recovery in the lending environment since lockdowns of 2020; however, volumes are not at the same levels as they were before 2020
- **Average unsecured loan size has grown by 43% in five years, whereas the number of loans has shrunk by 6%, indicating an ever-smaller pool of consumers are receiving unsecured loans**
- Average secured loan size has grown by 28%, which is significantly less when compared to unsecured loans

^: Q2 2022 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q1 2007 – Q2 2022

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

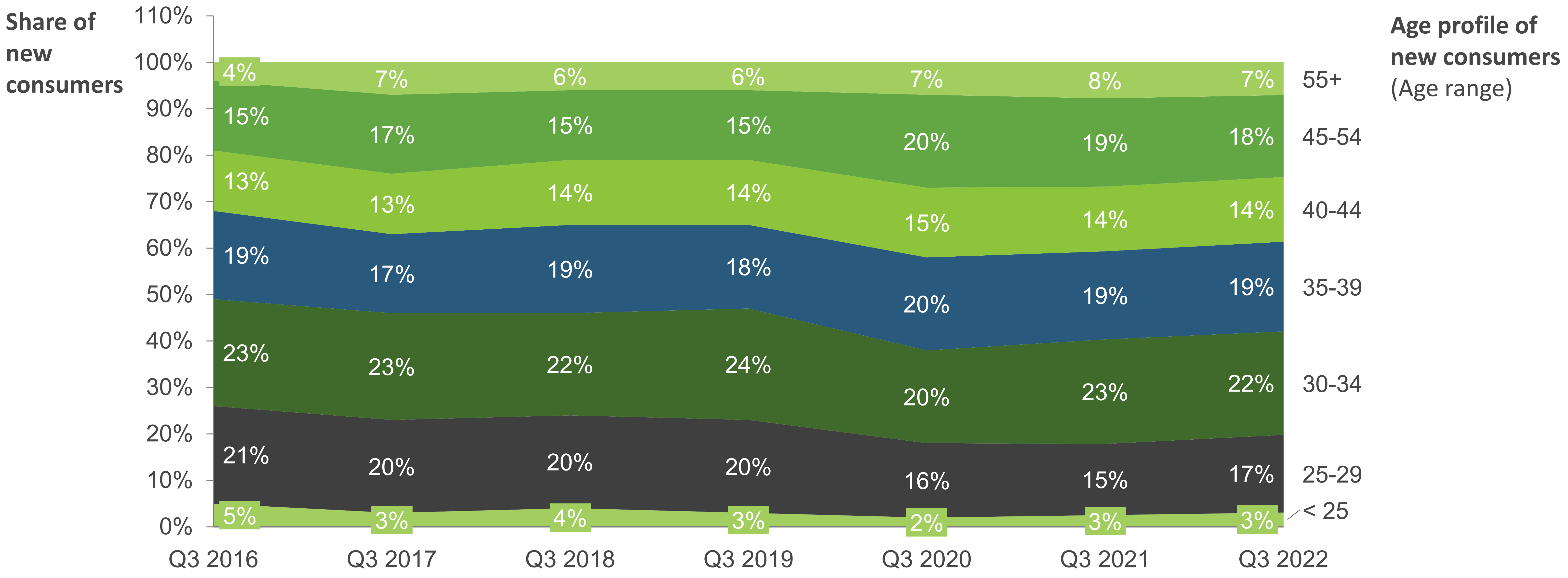
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Source: DebtBusters

Compared to a few years ago, the 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 19% to 25% over the past six years, indicating financial stress is becoming more prevalent in this age category

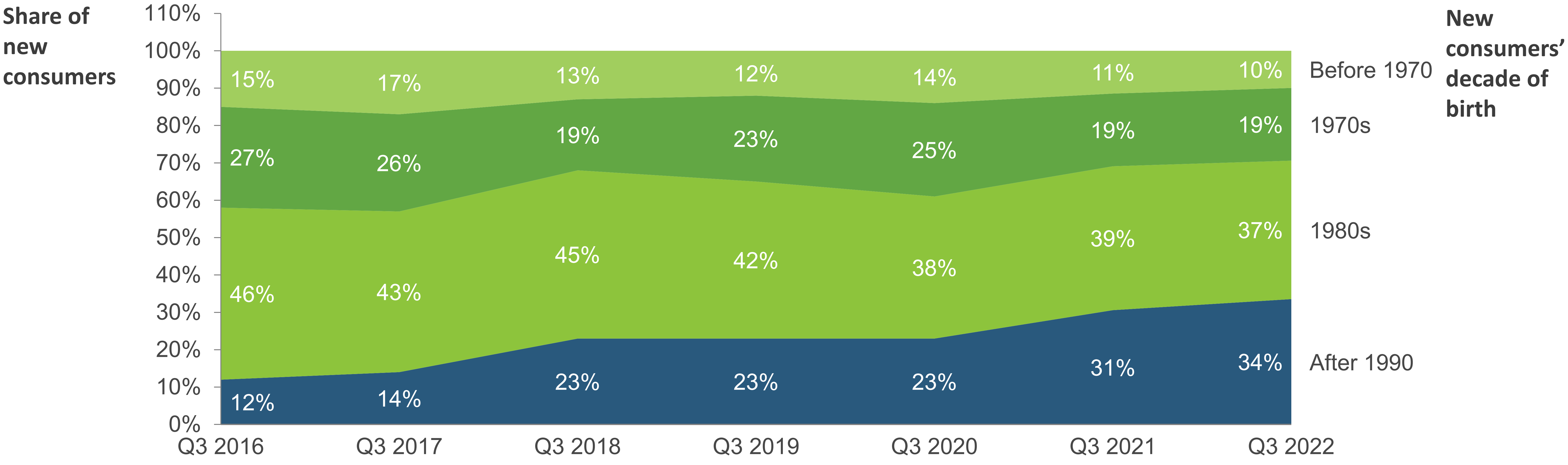


Average age of new consumers ->

37	38	37	37	38	38	38

Source: DebtBusters

The recent trend where more men than women are seeking help continued in Q3 2022. For the most recent quarter, 55% of applicants were male

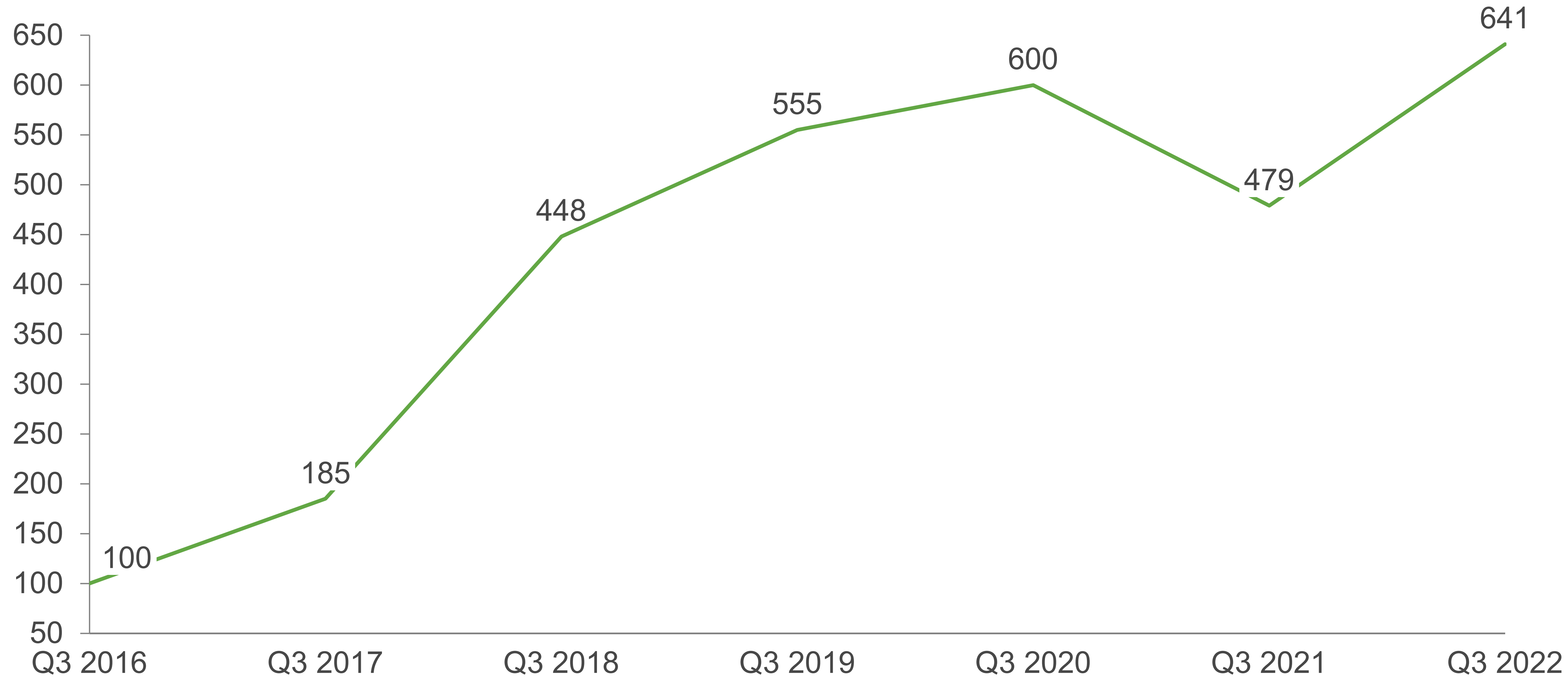


Share of consumers who are:		Q3 2016	Q3 2017	Q3 2018	Q3 2019	Q3 2020	Q3 2021	Q3 2022
	Male	48%	51%	53%	54%	57%	57%	55%
	Female	52%	49%	47%	46%	43%	43%	45%

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 Q3 2022 paid over R430m to their creditors while under debt counselling

Clearance certificates issued
Indexed to 2016 levels
2016 = 100



- **In Q3 2022, there were 6x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid over R430m to their creditors while under debt counselling**

Source: DebtBusters

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