TransUnion

TransUnion Industry Insights Report

Quarterly Overview of Consumer Credit Trends Released by TransUnion Financial Services

SECOND QUARTER 2022

The latest analysis covers a period of rising inflationary pressure, a high interest rate environment, and additional macroeconomic factors contributed by conflicts abroad. The report found a number of notable trends within the South African consumer credit industry pertaining to new business volumes, delinquencies and the level of outstanding debt.

The findings are in the context of the second lowest consumer confidence[1] reading in three decades (second only to Q2 of 2020 at the peak of the initial outbreak of the pandemic). That reading signaled a corresponding marked slowdown in consumer spending in the same months, with a 2.5% year-over-year (YoY) decline in retail sales from a year earlier in June[2]. Consumer sentiment was primarily impacted by the highest inflation rate in 13 years[3], as well as increased interest rates4. This was reflected in the Q2 TransUnion South Africa Consumer Pulse Study, published in July, with 60% of households surveyed indicating that they were focused on cutting back on discretionary spending

Despite overall consumer sentiment indicating a cutback on spend, new credit activity grew. Credit card origination volumes—the measure for new accounts opened—increased by 37.9% YoY in Q1 (the latest period for originations due to reporting lag), in stark contrast to the 42.7% YoY decrease in originations seen at the same point in 2021. The volume of credit card originations has been steadily growing since its low in Q3 2020, indicative of increased lender appetite for growth as well as higher consumer demand for credit. However, despite the resurgence in card originations current volumes remain below pre-pandemic levels (see chart 1). From an age perspective, 74% of all card originations came from Gen Z and Millennial consumers, indicating higher demand for credit from younger consumers and a willingness by lenders to extend credit to these borrowers. However, the growth in new cards is not yet reflected in outstanding balances, which have decreased by 3.8% YoY in Q2 2022.

The decrease in outstanding card balance levels can be attributed to several factors. Attrition from voluntary and involuntary account closures have resulted in the total number of active credit card accounts decreasing 2.3% YoY as of Q2 2022. New business volumes also recorded sixth consecutive quarters of negative growth prior to the recovery which began in Q3 2021, bringing down outstanding balances. As well, despite higher card origination volumes in Q1 2022, these new accounts carried lower average credit limits, down 5.2% YoY, limiting the capacity for consumers to spend and putting negative pressure on balances.

Clothing accounts and revolving retail credit also saw YoY originations growth of 29.8% and 17.8%, respectively, in Q1 2022. While serious account delinquency, measured as a percentage of accounts three or more months in arrears, remains high at 30.8% for clothing accounts and 16.1% for revolving retail credit, the delinquency rate on these types of accounts has improved by 460 basis points (bps) on clothing accounts and 110 bps on retail revolving credit, YoY in Q2 2022.

The Q2 TransUnion South Africa Consumer Pulse Study found that, for the second consecutive quarter, 56% of households said that they would be able to pay their current bills and loans. This positive ratio of consumers with sufficient debt service capacity could be due to a rise in household income levels in Q2 2022. 31% of consumers surveyed indicated an increase to their household income, a 5% increase from Q1 2022.

In addition, the South African unemployment rate for Q2 also decreased, by 60 basis points to 33.9%[5]. This decrease in the unemployment rate may have kept consumers somewhat optimistic regarding future income prospects, with 70% expecting their household income to increase in the next 12 months. As at Q2 2022, 35% of consumer surveyed stated they had paid down their debt faster over the past three months. This figure was more pronounced for younger consumers, with 39% of Gen Z and Millennials sharing these sentiments.

In addition, one in three consumers also intend to use money from their savings to service their bills and debt obligations, a sign that consumers are prioritizing their credit obligations. This was observed at the same time as the credit data showed improvements in delinquency performance across most credit products.

1. According to The Bureau of Economic Research FNB/BER Consumer Confidence Index, 29 June 2022
2. According to Statistics South Africa
3. According to Statistics South Africa
4. According to Trading Economics, the South African Reserve Bank raised its benchmark repo rate to 4.75% on 19 May 2022.
5. According to Statistics South Africa

Credit Card Summary

Credit card originations recorded growth for the third consecutive quarter. Card originations remain significantly under pre-pandemic levels despite the resurgence in new business volume in recent quarters.

CREDIT CARD METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	6.6 M	2.3%	-2.3%
Outstanding balance	R 139 B	1.1%	-3.8%
Total credit lines	R 242 B	0.1%	-15.3%
Average balance (per account)	R 21.2 K	-1.2%	-1.5%
Average credit line (per account)	R 36.8 K	-2.1%	-13.3%
*Origination volumes (Q1 2022)	138 K	5.4%	37.9%
Average new account credit line	R 27.5 K	-2.6%	-5.2%
Account-level delinquency rate (3+ MIA)	12.9%	-80bp	70bp
Balance-level delinquency rate (3+ MIA)	19.2%	-100bp	410bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Credit card originations have increased for the third consecutive quarter, increasing 37.9% YoY to 138 thousand and 5.4% over the previous quarter. However, origination volumes remain 21% below pre-pandemic levels (Q1 2020).

Credit card originations have increased for the third consecutive quarter, increasing 37.9% YoY to one hundred and thirty-eight thousand and 5.4% over the previous quarter. However, origination volumes remain 21% below pre-pandemic levels (Q1 2020). From risk distribution perspective, consumers with credit scores below 656 (also known as below-prime) were responsible for 66.1% of all originations for the quarter. Gen Z (born 1995-2010) and Millennials (born 1980-1994) accounted for 64% of new businesses. This aligns with the risk view, as younger consumers are often associated with low credit scores reflective of higher risk.

Average new credit lines declined by 5.2% YoY, potentially due to higher origination volumes from below-prime borrowers. Account attrition remains a concern, as the total number of active accounts fell 2.3% YoY. Outstanding balances are down 3.8% YoY, primarily due to the six consecutive quarters of negative new business volumes between Q1 2020 and Q2 2021. Existing account volumes continue to decline, and new businesses in recent quarters originated at lower limits.

The serious account-level delinquency rate for credit cards ended quarter two of 2022 at 12.9%, a decrease of 80 bps from the previous quarter but remains 70 bps higher than the same quarter in the last year. The consumer price index (representing consumer inflation) ended the quarter at 7.4%, the highest growth rate since May 2009 (8.0%). At current levels and continued increases in interest rates expected, lenders will need to monitor their portfolios closely and adopt tools to be more proactive in engaging borrowers at pre-delinquency.

Personal Loan Summary

Personal Loan—Bank

Bank personal loan originations improved for the fourth consecutive quarter, primarily driven by younger borrowers but remain well below pre-pandemic levels; however, opening balances for new loans are substantially higher than the prior year.

PERSONAL LOAN (BANK) METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	6.1M	2.1%	0.8%
Outstanding balance	R 283 B	3.1%	1.2%
Average balance (per account)	R 46.5 K	0.9%	0.4%
*Origination volumes (Q1 2022)	908.6 K	-8.3%	6.8%
Average new account loan amount	R 34.2 K	5.1%	14.7%
Account-level delinquency rate (3+ MIA)	32.3%	-10bp	0bp
Balance-level delinquency rate (3+ MIA)	33.3%	-20bp	90bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

The pace of origination growth recovery for personal bank loans continues for the fourth consecutive quarter. Origination volumes are up 6.8% YoY, to 908K in Q1 2022. At current levels, origination volumes remain 23.4% below pre-pandemic levels. Average origination amounts increased substantially by 14.7% YoY, indicating that although lenders have increased their appetite for new business, they remain cautious by giving new credit to lower-risk borrowers.

Younger consumers drove origination growth, with Gen Z and Millennial brooders accounting for 62.5% of all new card accounts, an increase of 0.8% from the prior year. The need for personal loan products may continue to rise through the strenuous macroeconomic environment consumers find themselves in, as these products provide borrowers with an additional source of liquidity to assist with servicing day-to-day expenses.

Despite more challenging economic conditions, severe account-level delinquency rates (reflective of accounts three or more months delinquent) for the quarter were flat YoY and down ten basis points from the previous quarter. A marginal improvement in the risk distribution (below-prime down 0.6%) of existing loan accounts may have prevented an increase in delinquency rates for the quarter.

Personal Loan—Non-bank

Origination volumes continues to recover, recording growth for the fourth consecutive quarter and closing the gap to pre-pandemic levels to single digits. Opening balances on new loans were also significantly higher than the prior year.

PERSONAL LOAN (NON-BANK) METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	5.5M	4.0%	13.9%
Outstanding balance	R 78 B	-5.0%	-6.1%
Average balance (per account)	R 14.2 K	-8.6%	-17.6%
*Origination volumes (Q1 2022)	2.8 M	-4.5%	2.4%
Average new account loan amount	R 6.3 K	5.4%	21.5%
Account-level delinquency rate (3+ MIA)	37.5%	140bp	-170bp
Balance-level delinquency rate (3+ MIA)	39.6%	40bp	-130bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Non-Bank personal loan originations are up 2.4% YoY, to 2.8M at the end of Q1 2022. At current volumes, originations are 5.0% below pre-pandemic levels (Q1 2020). At current volumes, originations are 5.0% below pre-pandemic levels (Q1 2020). Origination growth was driven primarily by younger and riskier consumers, with 52% of new business contributed by Gen Z and Millennial borrowers. From a risk perspective, Subprime and Near Prime borrowers accounted for 82.6% of new business, a 0.4% increase from the prior year.

Increases to new loan amounts were observed across the risk spectrum, with the most significant year-over-year increase observed for Super Prime consumers. The average new loan amount of R 6.3K significantly increased from the prior year (up 21.5% YoY). The substantial increase in new loan amounts reflects the economic times consumers find the4msleves in. With record high inflation, consumers increasingly need additional liquidity to accommodate the rising cost of living.

Serious account-level delinquencies for the quarter improved by 170 basis points compared to the prior year. Overall personal loans are consumption credit products, meaning no future utility exists on these products and delinquency rates are usually higher. While both bank and non-bank personal loans carry high delinquency levels, non-bank personal loans are generally higher as lenders providing these products have a higher appetite for risk and thus carry riskier consumers on their portfolios. Lenders should continue to monitor their portfolios closely as the economic pressure continues to weigh-in on consumers, payment priorities will play a role in how consumers service their obligations and Payment hierarchy will play a role in how consumers service their obligations. Previous TransUnion research indicates that consumption loans are not ranked among the top priorities for South African consumers.

Vehicle Finance Summary

Demand for vehicles remains high despite the rise in the cost of living. Vehicle finance originations for the period recorded growth compared to the prior year and are marginally below pre-pandemic volumes.

VEHICLE FINANCE METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	2.2M	0.5%	-0.3%
Outstanding balance	R 479 B	2.5%	-1.6%
Average balance (per account)	R 218 K	2.0%	-1.3%
*Origination volumes (Q1 2022)	132 K	-2.8%	3.1%
Average new account loan amount	R 362 K	2.3%	10%
Account-level delinquency rate (3+ MIA)	7.0%	0bp	-30bp
Balance-level delinquency rate (3+ MIA)	7.3%	10bp	20bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Originations on vehicle finance loans are up 3.1% YoY, to 132 K in Q1 2022. Current volumes' originations are 0.9% below pre-pandemic levels (Q1 2020). From an age distribution perspective, Millennials accounted for 47% of new business, followed by Gen X at 34.2%. Gen Z consumers grew by 36% YoY, albeit off a lower base. In terms of risk, consumers with a credit score above 721 (Super Prime) contributed 26% of originations, with actual volumes up 15.2% YoY. The average new loan amount increased by 10% YoY, surpassing the previous high in Q4 2021 to R 362 K. The increase in new loan amounts aligns with the TransUnion Q1 2022 Vehicle Price Index findings, which reflected price inflation for new vehicles at 4.0% and used vehicles at 7.9% compared to Q1 2021, with the ratio of used vehicles sold to new at 2.2 to 1.

The reduction in the number of accounts (down 0.3%), outstanding balances (down 1.6%), and average balances (down 1.3%) were due to several factors. A decline in new business volumes for two consecutive quarters between Q3-Q4 2021 and consumer sentiments on prioritising paying down their debt faster (as identified in the Q2 TransUnion Consumer Pulse Study) may be contributing to the decrease in balances.

The serious account-level delinquency rates at 7.0% is an improvement of 30 basis points from the prior year. Delinquencies are stablising at the current level, potentially due to the shift in risk distribution where higher risk below prime accounts (credit scores below 656) has reduced by 1.1% year over year.

Home Loan Summary

Home loan origination volumes increased marginally compared to the prior year, but balances on home loans have decreased.

HOME LOAN METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	2.3M	-0.1%	20.4%
Outstanding balance	R 1.09T	2.1%	-3.8%
Average balance (per account)	R 466 K	2.3%	-20.1%
*Origination volumes (Q1 2022)	44.9 K	-15.7%	1.3%
Average new account loan amount	R 812 K	-4.0%	-5.2%
Account-level delinquency rate (3+ MIA)	5.1%	0bp	-10bp
Balance-level delinquency rate (3+ MIA)	4.3%	0bp	-10bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

New home loans were up 1.3% YoY and 15.7% below the prior quarter at 45 K as of Q1 2022. Despite the increase in origination volume, the market is expected to slow due to rising inflation and interest rate pressure deterring consumers from large purchases. The average new loan amount is down 5.2%, despite home prices continuing to increase which indicates consumers are likely purchasing more affordable homes. Millennial consumers are the primary contributors to new business accounting for 52% of new business volume.

Despite the number of accounts increasing, both outstanding and average balances declined YoY. From an outstanding balance perspective this could be due to the lower value loans originated over recent quarters. In terms of average balances this could be due to borrowers who have managed to maintain or even improve their income paying down their home loan obligations in response to the rising cost of living environment.

Serious account-level delinquency rates (3+ MIA) were down 10 basis points YoY to 5.1% in Q2 2022. This is the fifth consecutive quarter where rates have stayed at 5.1%, indicating that severe account-level delinquencies have stabilize at current levels.

Clothing Account Summary

Clothing account originations growth continues for a fourth consecutive quarter and closing the gap to pre-pandemic levels. Increased management actions and careful risk selection has resulted in an improvement to serious delinquency performance.

CLOTHING ACCOUNT METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	14.8M	-2.2%	-4.9%
Outstanding balance	R 32.8 B	0.3%	0.1%
Average balance (per account)	R 2,221	2.6%	5.2%
*Origination volumes (Q1 2022)	505 K	-10.1%	29.8%
Average new account credit line	R 4.6 K	12.8%	8.3%
Account-level delinquency rate (3+ MIA)	30.8%	-80bp	-460bp
Balance-level delinquency rate (3+ MIA)	29.5%	-170bp	-820bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Clothing account originations increased by 29.8% YoY, to 505K. The growth in clothing account originations coincides with overall retail sales (Textiles, clothing, footwear and leather goods) increasing in the first quarter of 2022 by 7.2% compared with the first quarter of 2021 (StatsSA). Clothing account originations have recorded growth for four consecutive quarters. Current levels remain 4.8% below the pre-pandemic period, but the gap is closing. Millennials and Gen Z contributed 74% of all originations, growing at 26% and 54% YoY, respectively.

The total number of accounts fell 4.9% YoY to 14.8 M in Q2 2022 matching the lowest level since Q3 2017 (14.8 M). The average balance per account for the period increased by 5.2% YoY in Q2 2022 driven by existing clothing account holder usage.

Clothing account for serious delinquency decreased to 30.8% (down 460bp YoY) in Q2 2022. The improvement in severe account-level delinquencies may be due to increased management action from lenders as the share of higher risk subprime (credit scores below 625) accounts decreased from 8.2 M to 7.8 M (down 3.7% YoY).

Retail Revolving Summary

Origination volumes grew substantially for the quarter when compared on an annual basis. The average new account credit line also increased significantly year-over-year.

RETAIL REVOLVING METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	1.9 M	1.1%	-4.5%
Outstanding balance	R 11.9 B	1.8%	-5.2%
Average balance (per account)	R 6,200	0.7%	-0.7%
*Origination volumes (Q1 2022)	143 K	12.3%	17.8%
Average new account credit line	R 9.2 K	-7.5%	21.5%
Account-level delinquency rate (3+ MIA)	16.1%	-70bp	-110bp
Balance-level delinquency rate (3+ MIA)	17.4%	-40bp	-60bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Retail revolving origination growth recorded a substantial 17.8% growth YoY in Q1 2022 and is marginally below pre-pandemic levels by 1.4%. Origination volume growth was observed across the risk spectrum except for super prime accounts (down 16.1% YoY). Below prime consumers contributed 77% of total origination volume, increasing their contribution to the prior year by 1%. This is indicative of lenders widening their appetite for new business. Millennial and Gen Z consumers contributed 61% of originations for the quarter (up 2% YoY).

Outstanding balances for the quarter declined by 5.2%, primarily due to the number of account closures from voluntary and involuntary action. Average balances for the period remained relatively flat.

Serious account-level delinquency rates were down 110 basis points, the latest decline continues the trend of improving delinquency rates for the fourth consecutive quarter since Q3 2021.

Retail Instalment Summary

New retail instalment loans continued to lag prior year and did not experience the resurgence in growth in retail lending as observed for clothing and retail revolving accounts.

RETAIL INSTALMENT METRICS	Q2 2022	QoQ change	YoY change
Number of accounts	1.3M	6.4%	8.1%
Outstanding balance	R 10.3 B	-10.8%	-12.6%
Average balance (per account)	R 8.1 K	-16.2%	-19.1%
*Origination volumes (Q1 2022)	136 K	22.8%	-6.7%
Average new account credit line	R 12.5 K	-1.3%	6.4%
Account-level delinquency rate (3+ MIA)	31.2%	-210bp	-850bp
Balance-level delinquency rate (3+ MIA)	39.2%	370bp	-140bp

* Originations have been updated and are viewed one quarter in arrears to account for reporting lag

Retail instalment originations were down 6.7% YoY to 136K. At current volumes, origination remains 13.2% below pre-pandemic levels Q1 2020. Millennials accounted for 43% of new business, followed by Gen X at 25%. Average new loan amounts increased by 6.4% YoY.

Serious account-level delinquencies continued to improve for the third consecutive quarter, as of Q2 2022 serious account-level delinquencies improved by 850 basis points compared to the prior year.

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