TransUnion

TRANSUNION INDUSTRY INSIGHTS REPORT

Quarterly Overview of Consumer Credit Trends Released by TransUnion South Africa

Fourth Quarter 2023

TransUnion’s Industry Insights Report highlights the latest trends within the South African economic and credit industry. With the monetary policy committee not being convinced inflation is under control, the South African Reserve Bank (SARB) has kept the repo rate unchanged at 8.25% and lending rate at 11.75%. Moreover, retail trade sales have increased by 2.7% year over year. In the last quarter of 2023, the South African Gross Domestic Product (GDP) grew by 0.1% following a decrease of 0.2% in Q3 2023 — helping South Africa escape a recession. The annual GDP growth rate for 2023 came to 0.6%.

The South African unemployment rate increased by 0.2% in the fourth quarter of 2023 to its all-time low 32.1% in the year, suggesting the volatility of the economy. The South African credit landscape, however, continued to show a resilient atmosphere of consumers with a significant growth in originations across all segments, except for the auto industry. Overall, originations saw year-over-year growth of 11%, which continues to be driven by younger consumers. This growth was led mostly by Gen Z (born 1995 to 2010) and Millennial (born 1980 to 1994) consumers who together accounted for 61% of new products originated during the quarter, with Gen Z comprising 15% of the country’s credit-active population (having grown by 1.7% YoY). Personal loans and home loans were the credit products that showed double-digit, year-over-year (YoY) growth of 13.4% and 17.5%, respectively. Credit card and other retail sectors saw an increase of 4.3%, while retail revolving and retail instalments recorded YoY growth of 1.3% and 3.5%, respectively. Financial institutions continued to exercise caution as evidenced by a 9% year-over-year decrease in average credit limits across all revolving credit products. This careful approach seemed to pay off as delinquencies showed modest improvements with a 100 basis points or more decrease across most products.

The fourth quarter of 2023 saw total balances of R2.33T — which grew 6.1% year over year across the industry following an upward trajectory since 2022 Q1. When looking at consumption products collectively (i.e., credit card, personal loans and retail revolving), the market experienced 4.3% YoY growth, indicating consumers are demanding and leveraging credit to cope with the rising cost of living.

Despite continued macroeconomic uncertainty, account-level delinquencies (three or more months in arrears) improved by 100 basis points (bps) across the credit market. When assessing individual products, delinquencies improved across all unsecured products, with vehicle finance flat YoY and home loans the only credit product with deteriorating delinquencies (by 140 bps). This deterioration in home loans delinquencies could be attributed to payment shock (a sudden change in monthly payment obligations caused by external factors) caused by a high interest rate environment and high inflation, which in turn led to a higher cost of living.

In summary, the South African consumer credit landscape in Q4 2023 showed there’s still demand for credit and supply is still met with caution — while some sectors like vehicle finance continued to face challenges in acquisitions.

Source:

1. StatSA (Q4 2023 Unemployment Labour Force Survey)
2. StatSA (Q4 2023 Gross Domestic Product)
3. Interest Rates (South African Reserve Bank)

Age Distribution Key:

- Gen Z (Born 1995–2010)
- Millennials (Born 1980–1994)
- Gen X (Born 1965–1979)
- Baby Boomers (Born 1946–1964)
- Silent (Born 1945 and earlier)

Risk Distribution Key:

- Subprime (0–625)
- Near prime (626–655)
- Prime (656–695)
- Prime plus (696–720)
- Super prime (721–999)

Scores are based on TransUnion CreditVision® Generic scoring methodology.

Credit Card Summary

CREDIT CARD METRICS	Q4 2023	QoQ change	YoY change
Number of accounts	7M	1.6%	2.0%
Outstanding balance	R 166B	3.8%	9.2%
Average balance (per account)	R 23,564	2.2%	7.0%
Origination volumes	191K	1.9%	4.3%
Average new account credit line	R 27,815	0.02%	-1.3%
Account-level delinquency rate (3+ MIA)	12.3%	20 bps	-30 bps
Balance-level delinquency rate (3+ MIA)	17.4%	0 bps	-120 bps

The South African credit card sector registered an increase of 4.3% year-over-year growth in new account openings after a drop in volumes observed in 2023 Q3. This increase in originations was witnessed across all risk tiers. Baby Boomers and Silent consumers were the only generations that contributed negatively to the overall origination growth, while Gen Z contributed double-digit YoY growth of 17.8%. Despite an increase in originations, average credit limits dropped by 1.3% YoY for newly issued cards across all risk tiers.

In terms of market size, the total number of active credit card accounts saw a consistent uptick, growing by 2% year over year. Concurrently, outstanding balances and average balances per account increased by 9.2% and 7.0%, respectively. This increase in balances was primarily stimulated by the need for consumers to use credit as a means to finance day-to-day expenses as current economic conditions remain uneasy.

On the risk management front, there was a modest improvement in account-level delinquencies, categorised as accounts with three months or more missed payments. Delinquencies continued to show a decrease in volumes; the fourth quarter dropping by 30 basis point and a further 120 bps drop in balance-level delinquencies.

Personal loans

PERSONAL LOAN (ALL) METRICS	Q4 2023	QoQ change	YoY change
Number of accounts	12.2M	5.4%	2.1%
Outstanding balance	R 383B	5.6%	1.7%
Average balance (per account)	R 31,268	0.2%	-0.4%
Origination volumes	5.3M	10.4%	13.4%
Average new loan amount	R 8,946	-4.1%	-19.4%
Account-level delinquency rate (3+ MIA)	31.4%	-280 bps	-210 bps
Balance-level delinquency rate (3+ MIA)	30.6%	-180 bps	-210 bps

In the fourth quarter of 2023, the South African consumer credit landscape saw a substantial increase in personal loan originations, growing by 13.4% compared to last year with non-bank personal loans contributing 78% to the origination book. All risk profiles showed growth with below prime growing by 26% and prime and above by 60.2% at account level. This significant growth in account originations came with a drop of 19.4% YoY in average loan amounts. This drop could be associated with the enormous increase in volumes from younger consumers (Gen Z). Gen Z consumers with bank personal loans saw growth of 49.4% YoY, while non-bank personal loans grew by 46.9%.

During the same period, accounts on book grew by 2.1%, and outstanding balances for personal loans in the South African consumer credit market grew by 1.7% year over year, while average balances per loan decreased by 0.7%. This is believed to be driven by short-term loans.

Regarding credit risk, serious account-level delinquencies saw an improvement, dropping by 210 basis points year over year. Despite the larger balance being carried by subprime consumers, this quarter further showed balance-level delinquencies significantly improved, declining by 210 basis points year over year.

Vehicle finance summary

VEHICLE FINANCE METRICS	Q4 2023	QoQ change	YoY change
Number of accounts	2.1M	-0.3%	-1.5%
Outstanding balance	R 516B	1.5%	4.1%
Average balance (per account)	R 237,458	1.7%	5.7%
Origination volumes	125K	6.1%	-3.2%
Average new loan amount	R 394,643	0.8%	2.5%
Account-level delinquency rate (3+ MIA)	4.7%	-80 bps	0 bps
Balance-level delinquency rate (3+ MIA)	5.6%	-120 bps	-30 bps

In Q4 2023, the vehicle asset finance market experienced another quarterly decline year over year since Q4 2022, dropping by 3.2%. This was primarily influenced by broader macroeconomic conditions, including a high interest rate environment and the ongoing depreciation of the rand, contributing to the rising cost of vehicle ownership. Amidst these emerging trends, Gen Z consumers have been the consistent, positive contribution toward originations (by 25.4%) compared to same quarter last year. The quarter further showed the increase in vehicle prices with the average new amount going up by 2.5% YoY to R349,643.

Despite the decline in new vehicle asset finance originations, the average loan amount for each financed vehicle increased by 2.5% year over year. This rise in loan amounts is likely a direct response to the escalating costs of vehicles. Consequently, outstanding balances in the vehicle asset finance sector grew by 4.1% annually. This trend suggests while fewer consumers may be entering the market, those who do are talking on larger loans, and thereby contributing to the growth in outstanding balances.

Serious account-level delinquency rates in the vehicle asset finance sector were flat at account-level and dropped by 30 bps year over year at balance-level, shifting to 5.6%. This was attributed to the 17% YoY increase of accounts that were below prime. A brighter spot in the delinquency picture was in the most recent quarter's data, as the Q4 2023 account-level serious delinquency rate dropped 80 basis points quarter over quarter from Q3 2023 to 4.7%, while balance-level delinquencies dropped by 120 basis points from 5.5% to 4.7% over the same period.

Home loan summary

HOME LOAN METRICS	Q4 2023	QoQ change	YoY change
Number of accounts*	1.8M	0.2%	2.8%
Outstanding balance	R 1.2T	0.9%	7.9%
Average balance (per account)	R 648,158	0.7%	5.0%
Origination volumes	63K	11.2%	17.5%
Average new loan amount	R 895,777	-0.9%	-8.8%
Account-level delinquency rate (3+ MIA)	6.9%	0 bps	140 bps
Balance-level delinquency rate (3+ MIA)	6.3%	20 bps	200 bps

*Joint accounts reflected as one single account

The home loan market displayed an all-time high (in two years) of 17.5% year-on-year growth in originations. With the persisting economic strain, the housing market is still resilient — with working from home possibly being one of the driving factors for demand. However, there was a decrease in average new loan amounts which dropped 8.8% year over year. The risk profiles of new accounts originated registered positive growth with below prime accounts, amounting to 31.2% YoY and prime and above growing by 9.5% YoY.

Overall accounts on book grew slightly by 2.8% to 1.8M, with both outstanding and average balances growing by 7.9% and 5%, respectively as compared to the previous year.

With high interest rates and increases in household expenditures from food to electricity leading to less disposable income, Q4 2023 delinquencies of accounts (3+ MIA) rose by 140 bps, while the balance-level delinquency increased by 200 bps. Active accounts in prime and above also decreased by 1.4% YoY.

Clothing account summary

CLOTHING ACCOUNT METRICS	Q4 2023	QoQ change	YoY change
Number of accounts	16.5M	4.3%	9.2%
Outstanding balance	R 38.3B	4.6%	11.0%
Average balance (per account)	R 2,311	0.3%	1.7%
Origination volumes	958K	14.3%	6.9%
Average new account credit limit *	5,688	-5.1%	60.0%
Account-level delinquency rate (3+ MIA)	27.8%	-230 bps	-90 bps
Balance-level delinquency rate (3+ MIA)	29.2%	-130 bps	140 bps

In the fourth quarter of 2023, clothing accounts in South Africa maintained their upward trajectory, registering a 6.9% year-over-year increase in new accounts. This growth aligns with the broader expansion observed in the retail sector for clothing, textiles and footwear which rose 2.7% over the same period. Notably, the average limit on new clothing accounts grew substantially, increasing by 60% year over year. This significant rise is likely attributable to lenders implementing 'shadow limit' campaigns for new accounts. Shadow limits are additional credit allowances granted beyond the initial issue limit based on a consumer's credit history, providing them greater purchasing power.

Year-over-year, outstanding and average balances for clothing accounts grew by 11% and 1.7%, respectively. This was likely driven by the increase in active accounts by 9.2% YoY and festive expenditures which are associated with higher utilisation and consumption.

Account-level and balance-level delinquencies showed a mixed outcome. Account-level had a marginal improvement of 90 bps on year on year, while we observed an increase of 140 basis points YoY to 29.2% for balances.

Retail revolving summary

RETAIL REVOLVING METRICS	Q4 2023	QoQ change	YoY change
Number of accounts	2.0M	-1.2%	-3.4%
Outstanding balance	R 13.7B	2.5%	3.3%
Average balance (per account)	R 6,676	3.8%	6.9%
Origination volumes	185,971	7.8%	1.3%
Average new account credit line	11,018	3.0%	9.7%
Account-level delinquency rate (3+ MIA)	19.4%	40 bps	-220 bps
Balance-level delinquency rate (3+ MIA)	17.8%	20 bps	-370 bps

New retail revolving accounts slightly picked up by 1.3% YoY from a drop of 10.3% YoY seen in the third quarter of 2023. Furthermore, total accounts on book also continued to decline, dropping by 3.4%. Outstanding balances continued to increase, indicating existing consumers are driving the growth in balances by utilising the revolving lines.

A decrease in total account volumes may also be a result of lenders' ongoing efforts to close non-performing accounts to take on new business. For the period under review, serious account-level delinquency rates improved by 220 bps YoY and by 370 bps on the balances.

Retail instalment summary

RETAIL INSTALMENT METRICS	Q4 2023	QoQ change	YoY change
Number of accounts	1.1M	1.0%	5.3%
Outstanding balance	R 11.3B	3.5%	10.8%
Average balance (per account)	R 9,516	2.5%	5.3%
Origination volumes	174,043	23.7%	3.5%
Average new account credit line	R 15,938	0.9%	14.8%
Account-level delinquency rate (3+ MIA)	29.5%	-40 bps	-190 bps
Balance-level delinquency rate (3+ MIA)	33.3%	-90 bps	-350 bps

Retail instalment originations were up by 3.5% YoY. This new credit growth has continued consecutively for the last two years. From the supply level, it was also observed the average credit limit saw an increase of 14.8%, primarily driven by prime and above consumers. The positive growth in industry metrics might suggest an increase in consumer appetite, especially since this product enables consumers to meet household essentials.

Outstanding and average balances both increased by 10.8% and 5.3%, respectively YoY, tallying back to the latest retail trade sales.

As of Q4 2023, the retail instalment book was dominated by 88% of the accounts in below prime risk tiers. Despite market concerns around performance, seriously delinquent accounts (3+ MIA) dropped YoY by 190 basis point to 29.5%, and balance-level delinquencies also showed a significant YoY decrease of 350 bps, indicating consumer resiliency.