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TRANSUNION INDUSTRY INSIGHTS REPORT

Quarterly Overview of Consumer Credit Trends Released by TransUnion South Africa

Second Quarter 2024

The TransUnion Industry Insights Report highlights the latest South African consumer credit industry trends. The second quarter of 2024 continued to experience mixed macroeconomic trends with unemployment reaching a two-year high of 33.5%. However, on a more positive note, inflation began to trend downward, ending June 2024 at 5.1%, below the upper range set by the South African Reserve Bank (SARB). This downward trend will weigh significantly on SARB's decision to begin cuts toward the base interest rate (8.25%) — which has remained at peak levels and is a top-of-mind concern for many South African consumers. This downward trend has had a positive impact on interest rates, which were brought down to 8% after many months at peak levels.

Despite the challenging performance of the labour market, demand for consumption, particularly for retail goods, remained strong as evidenced by retail trade sales rising 4.1% in June 2024 YoY and 1.5% in the second quarter, leading to a strong quarter of new credit activity. The South African credit market's originations (new account openings) grew 15.2% YoY. Younger consumers, Gen Z (born 1995–2010) and Millennials (born 1980–1994), accounted for 62% of new accounts opened during Q2 2024, reiterating the importance of younger generations in credit inclusion. Consumption-led products grew 16.8% YoY, primarily led by clothing which constituted 83% of overall originations in Q2 2024. In secured lending, vehicle finance remained in a soft environment due to declining new vehicle sales. However, positive momentum in the home loan market resumed with double-digit growth fuelled by first-time homebuyer activity, some continuation in semigration patterns, and emerging trends in reverse emigration.

The South African consumer credit market's asset value (represented by the overall outstanding balances) grew to R 2.3 trillion at the end of Q2 2024, a 3.7% increase from the same quarter the prior year. Growth in balances was primarily due to the combination of positive new credit activity and leveraging behaviour of existing borrowers to meet their consumption needs. Looking ahead, TransUnion's Q3 Consumer Pulse Survey found 21% of consumers surveyed said their household incomes decreased, and 42% said it stayed the same over the past three months. Furthermore, 44% of consumers believed their household incomes were not keeping up with the current inflation rate despite inflation falling further in July 2024 to 4.6%. These sentiments point to the growing importance of credit access and liquidity needs of South African consumers in the months ahead.

On the performance front, consumers continued to demonstrate resiliency with stable or improved payment behaviours, as well as the importance of preserving access to existing facilities. Lenders should continue to find and fund good customers for smart, sustainable growth while adopting enhanced predictability practices around early signs of default risk and enabling financial education programs to improve literacy for more significant financial inclusion efforts.

Source:

1. TransUnion consumer credit database
2. StatSA (Q2 2024 Unemployment Labour Force Survey)
3. TransUnion Q3 2024 Consumer Pulse Survey
4. 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 Generation (born 1945 and earlier)

Consumption products:

- Credit cards
- Personal loans (including non-bank)
- Retail revolving

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	Q2 2024	QoQ change	YoY change
Number of accounts	7.1M	0.9%	3.2%
Outstanding balance	R 174B	1.6%	10.3%
Average balance (per account)	R 24,323	0.7%	6.9%
Origination volumes	195K	7.3%	9.3%
Average new account credit line	R 28,284	-1.7%	5.9%
Account-level delinquency rate (3+ MIA)	12.4%	0 bps	0 bps
Balance-level delinquency rate (3+ MIA)	17.9%	30 bps	50 bps

Credit card originations for the Q2 2024 period were up 9.3% YoY, primarily due to the continued growth within the Gen Z (up 22.7% YoY) and Millennial (up 7.5% YoY) consumer base. Gen Z's share of credit card originations increased 2.3% from 19% to 21.3%. As more of this demographic reach working age, the preferences toward meeting their consumption needs through e-commerce platforms and on-demand services will continue to fuel growth in demand for credit cards. From a risk perspective, the share of below prime originations fell 1.1%, which shows lenders are willing to meet demand from younger consumers. Still, they do so cautiously by targeting better risks — which allows them to extend higher limits as evidenced by the average new account credit line increasing 5.9% YoY.

The total number of accounts at the end of Q2 2024 was 7.1 million, representing a 3.2% increase from last year's quarter. From a risk distribution perspective, there was a slight increase in the share of below prime risk (up 1.36% YoY), which explains why lenders targeted better risk consumers on new bookings. Outstanding and average balances grew 10.3% and 6.9% YoY, respectively; a deeper look into the risk dynamics showed below prime consumer outstanding balances grew significantly, with subprime growing 22% YoY in particular.

Lenders should closely monitor the growing outstanding balance exposure from higher-risk borrowers. Balance-level delinquencies on three or more months overdue increased by 50 basis points at the end of Q2 2024 from a year ago. However, account-level delinquencies remained stable due to the market's resilience. Yet, with a mixed macroeconomic environment, lenders should still adopt early warning signals to prepare for payment shock-induced defaults that may impact some higher-risk segments.

Personal Loans Summary

PERSONAL LOAN (ALL) METRICS	Q2 2024	QoQ change	YoY change
Number of accounts	12.3M	-2.0%	4.7%
Outstanding balance	R 386B	0.5%	2.6%
Average balance (per account)	R 31,299	2.6%	-2.0%
Origination volumes	5.4M	-3.4%	16.7%
Average new loan amount	R 8,793	-0.4%	-14.2%
Account-level delinquency rate (3+ MIA)	32.6%	120 bps	-240 bps
Balance-level delinquency rate (3+ MIA)	31.6%	100 bps	-90 bps

Personal loan originations increased 16.7% year over year in Q2 2024. Non-bank lenders accounted for 80% of new credit originations; the primary reason for the 14.2% YoY decrease in average new loan amounts as non-bank lenders focused on short-term, lower-value loans. Furthermore, the average bank personal loan amount fell 29.8% YoY from R30,560 to R21,459 between Q2 2023–24 as some lenders began to reduce long-term exposure in favour of shorter-term loans, while others tightened their risk appetites extending lower values to similar risk profiles.

Lenders are understandably examining risk profiles more closely. During Q2 2023, 77% of consumers who successfully applied opened personal loans under R5,000 held a below prime risk profile, and this proportion decreased to 74% during the same quarter in 2024. During Q2 2023, 90% of loans of R5,000 or less were granted by non-bank lenders compared to 86% during Q2 2024. Over this time, 10% of these loans were granted by bank lenders in Q2 2023 compared to 14% in 2024. These trends clearly indicate lower amount loan seekers are driving growth in account volumes for both bank and non-bank personal loan lenders.

Outstanding balances for the period grew 2.6% due to the surge in new loan activity, but given these are lower-value loans, the impact on balance growth was capped. Regarding the shares in outstanding balances, bank personal loans accounted for 75.4%, down 2.9% YoY.

Throughout this period, account-level delinquency rates improved by 240 basis points YoY to 32.6%, demonstrating lenders' more cautious risk management helped reduce delinquencies — while supporting consumers in managing their debt levels. Demand for personal loans is likely to remain strong as 33% of Consumer Pulse Survey respondents stated their intent to apply for a new personal loan in the next 12 months — more than any other credit product.

Vehicle Finance Summary

VEHICLE FINANCE METRICS	Q2 2024	QoQ change	YoY change
Number of accounts	2.1M	-0.8%	-2.2%
Outstanding balance	R 520B	0.2%	3.0%
Average balance (per account)	R 242,565	1.1%	5.2%
Origination volumes	112K	-2.5%	-5.0%
Average new loan amount	R 394,670	0.5%	-0.2%
Account-level delinquency rate (3+ MIA)	5.4%	-10 bps	-10 bps
Balance-level delinquency rate (3+ MIA)	6.8%	0 bps	10 bps

Vehicle finance remained in a soft market aligned to auto sector trends as new passenger vehicle sales for May and June 2024 performed dismally, falling 11.7% and 9%, respectively. Consumers increasingly turned to quality used vehicle options as affordability challenges regarding price and costs associated with financing remained high due to macroeconomic factors (i.e., high interest rate environment), resulting in vehicle finance origination activity decreasing 5% compared to the prior year.

Analysing recent originations by generations, Gen Z remained a positive growth driver, generating 18.1% YoY growth in volume and accounting for a 16.8% share of new vehicle finance facilities (up 3.3% YoY). Although Gen Z represented a substantial growth engine for lenders, more needs to be done in financial literacy to help these consumers build strong credit profiles to qualify for and manage more complex credit products like vehicle finance. From a risk perspective, below prime accounts fell 7%, primarily due to affordability concerns — which further indicates the challenges this industry faces in balancing growth and risk. Average vehicle prices remained flat at -0.2% YoY to R394,670.

Given persistent growth challenges, the most recent quarter experienced a further decrease in active accounts as existing borrowers begin to settle their facilities; the shortfall in origination activity is beginning to leave a gap.

Performance remained relatively stable with serious account-level delinquency rates falling by 10 basis points year over year, highlighting payment priorities but also a shift in consumer preferences in recent years where many have opted to include a balloon payment. Balloon payments can make monthly repayments more affordable, but we encourage lenders to engage with consumers to make sure they fully understand the long-term impacts of this structure — which in turn will provide protection against the rising balance exposure within their portfolios.

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Home Loan Summary

HOME LOAN METRICS	Q2 2024	QoQ change	YoY change
Number of accounts*	1.9M	-0.5%	-0.4%
Outstanding balance	R 1.2T	0.6%	3.2%
Average balance (per account)	R 660,249	1.1%	3.6%
Origination volumes	65K	17.1%	16.2%
Average new loan amount	R 940,675	4.9%	1.7%
Account-level delinquency rate (3+ MIA)	7.2%	0 bps	50 bps
Balance-level delinquency rate (3+ MIA)	6.7%	0 bps	90 bps

*Joint accounts reflected as one single account

Despite the sustained 15-year high interest rate during Q2 2024, home loan originations continued to grow by 16.2% YoY, and the average new loan amount increased 1.7% to R940,675. Semigration trends continued in the first half of 2024, but property experts believe they have begun to normalise. During the first half of 2023, 32% of home loans were granted to subprime and near prime consumers, and this ratio increased to 36% of home loans being granted to below prime risk tiers during the first half of 2024. Mortgages granted to super prime borrowers declined from 41% in the first half of 2023 to 37% during the first half of 2024.

The growth in home loans in the affordable housing bracket and increase in home loans granted to below prime borrowers seem to highlight banks' intentions to support South Africans in their quests to own property, and promote greater financial inclusion. The rate of growth in originations also increased substantially. This may in turn indicate increased homeowner confidence supported by banks' confidence in the country's property market and their risk strategies to accommodate more lenders.

However, given the growth in riskier segments participating in the home loans market, serious delinquencies at account and balance level have increased, and lenders will need to monitor repayment performance closely, engage borrowers more proactively, and leverage tools to pre-emptively manage default risk early on.

A forward-looking trend (identified by property experts in the market) lenders may need to pay attention to is reverse emigration where affluent South Africans are returning to the country and purchasing local property in the higher-price segments. These are consumers who may fill the declining super prime consumer base.

Clothing Account Summary

CLOTHING ACCOUNT METRICS	Q2 2024	QoQ change	YoY change
Number of accounts	17.1M	1.8%	10.6%
Outstanding balance	R 38.9B	0.4%	8.9%
Average balance (per account)	R 2,277	-1.4%	-1.5%
Origination volumes	871K	22.6%	12.2%
Average new account credit limit *	R6,134	3.3%	-13.8%
Account-level delinquency rate (3+ MIA)	28.5%	-30 bps	-150 bps
Balance-level delinquency rate (3+ MIA)	31.0%	70 bps	210 bps

With the backdrop of strong retail sector performance, clothing accounts in South Africa maintained its upward trajectories, registering a 12.2 % YoY increase in new accounts. Clothing accounts for many South Africans are the gateway into the credit ecosystem, particularly for younger consumers. Gen Z's share of originations in Q2 2024 stood at 28%, increasing 3.1% from the prior year. The average limit on new clothing accounts decreased by 13.8% despite lower subprime originations — which indicates lenders may be dialling back their appetites or revising their shadow limit strategies.

The rapid growth in clothing account originations increased the total number of accounts by 10.6% year over year, but more importantly, the outstanding balance growth is reflective of the utility consumers are getting out of these facilities to meet their retail consumption needs. As a gateway product for many South Africans, two in three consumers who have at least one clothing account are subprime borrowers. Despite the high concentration in riskier segments, account-level delinquencies have improved. Lenders should pay closer attention to accounts with higher balances as serious balance-level delinquencies worsened in Q2 2024.

With the introduction of new tariffs on low-cost, online retailers enforced by the South African Revenue Services, retailers may see more traffic return to their stores. However, given the current economic climate, retailers should see more credit bookings as consumers continue to leverage their clothing accounts to meet their retail consumption needs.

Retail Revolving Summary

RETAIL REVOLVING METRICS	Q2 2024	QoQ change	YoY change
Number of accounts	2.2 M	-8.4%	6.9%
Outstanding balance	R 14.6B	-0.1%	12.2%
Average balance (per account)	R 6,760	9.0%	5.0%
Origination volumes	251,030	24.4%	25.2%
Average new account credit line	11,420	-15.5%	14.1%
Account-level delinquency rate (3+ MIA)	17.4%	-100 bps	-230 bps
Balance-level delinquency rate (3+ MIA)	17.5%	-90 bps	-50 bps

New retail revolving accounts saw double-digit growth in the most recent quarter. Steady growth in this sector led to a strong rise in overall total consumers with a retail revolving account. Driven by new credit activity, but somewhat offset by five percentage points lower utilization, outstanding balances increased 12.2% to R14.6B.

While overall active accounts held by below prime consumers grew 20% YoY, serious account-level delinquency rates improved 230 bps YoY, further highlighting the need for and preference of the retail revolving product to afford daily living expenses.

Retail Instalment Summary

RETAIL INSTALMENT METRICS	Q2 2024	QoQ change	YoY change
Number of accounts	1.2M	-0.4%	7.5%
Outstanding balance	R 11.9B	-0.8%	12.9%
Average balance (per account)	R 9,639	-0.4%	5.0%
Origination volumes	153,752	7.1%	-6.6%
Average new account credit line	R 15,890	-3.5%	15.7%
Account-level delinquency rate (3+ MIA)	27.9%	-60 bps	-180 bps
Balance-level delinquency rate (3+ MIA)	31.9%	-20 bps	-170 bps

Retail instalment products attract Millennials who hold a 39% share of this category when compared to all other generational categories. For the second quarter of 2024, the share of Millennials dropped significantly in originations, resulting in an overall decline — having dropped by 6.6%. While the supply of new accounts dropped, the average credit limit increased by 15.7% YoY. During the second quarter of 2024, below prime originations accounted for 89.6% of all new accounts, an increase of 7% YoY.

Despite strong growth in balances, primarily driven by below prime consumers, credit performance remained healthy and improved further.