Debt Index | Q3 2024

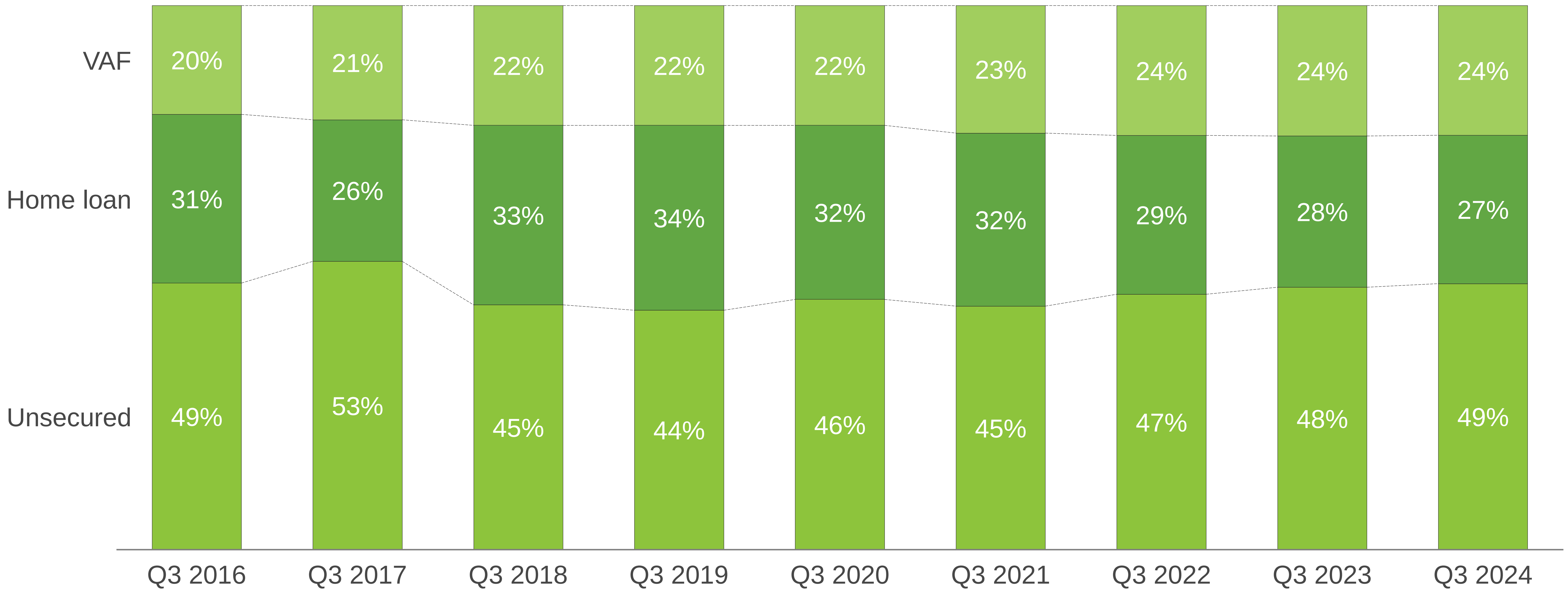
Overview - Benay Sager, Executive Head of DebtBusters

- In Q3 2024, **there was a slight increase in demand from consumers for debt management, with debt counselling inquiries up by 6% and online debt management up by 10% compared to the same period last year**. During the most recent quarter, there have been many positive developments for consumer finances and sentiment: reduced inflationary pressures (particularly lower petrol prices), first interest rate cut (albeit this happened near the end of the quarter) in several years, access to retirement funds (enabled via the so-called two-pot retirement system), no load shedding, and a new coalition government.
- **At the same time, income growth has not kept up with significant expenses: since 2016 electricity tariffs increased by 135%, petrol price doubled, and inflation's compounded impact is 46%. As a result, it is perhaps not surprising that consumers who applied for debt counselling in Q3 2024 needed 66% of their take-home pay to service their debt expenses. 82% of these consumers had a personal loan. A further 53% of consumers had a one-month (payday) loan** –indicating that consumers continue to supplement their income with short-term unsecured credit, and personal loans, especially one-month loans have become a lifeline for many. Compared to 2016, **those consumers who applied for debt counselling in Q3 2024 had**:
  - **44% less purchasing power**: Nominal incomes were 2% higher than 2016 levels, however when cumulative inflation growth of 46% is factored in for the same eight-year period, consumers' purchasing power diminished by 44% over this period. While the inflation impact has subsided, consumers are feeling like they are taking home 44% less today in real terms than they did in 2016.
  - **High debt service burden with 66% of net incomes going towards paying debt**: Consumers need to spend around 66% of their take home pay to service their debt before coming to debt counselling, which is up sharply compared to last several quarters and is the highest recorded level since 2017. Those taking home R35k or more p.m. need to use 72% of their income towards debt repayments and their total debt to annual net income ratio is 176%. Those taking home R5k or less p.m., who are our most vulnerable, need to use 75% of their income towards debt repayments. **These ratios are at their highest-ever levels**.
  - **Unsustainably high levels of unsecured debt for top earners:** Unsecured debt levels were on average 22% higher than that in 2016 levels – this is lower than same time last year and is a welcome development. For those taking home R35k or more, the unsecured debt levels were 52% higher. While this is only slightly higher than inflation growth, in absence of meaningful salary increases, it signals that consumers still need to supplement their incomes with unsecured credit.
- Alarmingly**, the average interest rate for unsecured debt is now at an eight-year high level of 26.7% p.a. and is very close to the maximum allowable interest rate (ceiling rate) of 29% p.a. Against this backdrop, debt counselling is the best tool to help consumers restructure their debt so that**:
  - Unsecured debt interest rates can be reduced from an **average of 26.7% p.a. to ~2.6% p.a., allowing consumers to pay back expensive debt quicker**.
  - **Vehicle debt and balloon payments can be paid over a meaningful period** by getting the average financed vehicle interest rate of 15.3% p.a. negotiated down to a more manageable level.
  - Consumers can get back on their feet and creditors can get back their money: **The number of consumers who successfully completed debt counselling has increased nine-fold since 2016. Moreover, the consumers who successfully completed debt counselling in Q3 2024 paid back over R665m worth of debt to their creditors as part of the debt counselling process**.
- We continue to observe increasing levels of interest from consumers for free **online debt management on** www.debtbusters.co.za. New (free) subscriber base increased by 10% during the period under review compared to the same period the previous year. Consumers manage their debt using proprietary tools such as **Debt Radar and Debt Sustainability Indicator (DSI)** and recognise that if addressed early in their professional career, management of debt can become part of daily life. In the next few months, we also plan to launch Moneysavers and additional tools to help consumers not only protect their money, but also to stretch and grow it!

Nature of debt is mostly stable, but unsecured debt contribution appears to be increasing

Share of vehicle debt has increased in the last few years, indicating that more consumers with financed vehicles are seeking financial assistance

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management
Percent by type, by value at end of Quarter

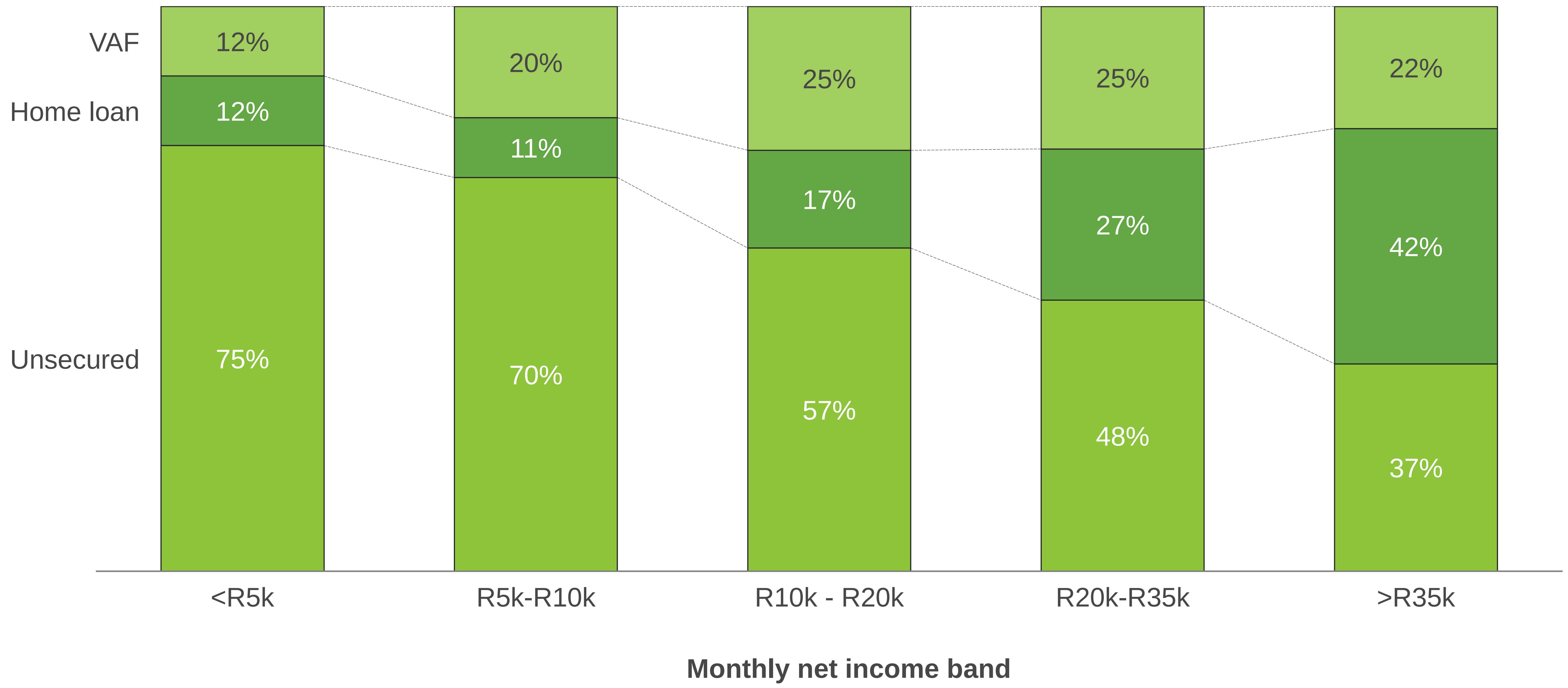
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore, it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Nature of debt varies for each income group; predictably higher income earners have a larger proportion of secured debt

TOTAL DEBT BOOK

Breakdown of DebtBusters debt under management
Percent by type, by value at end of Quarter



Share of debt that is asset-based increases to 52% for those taking home R20k-R35k; for those taking home R35k or more the share of debt that is asset-based goes up to 64%

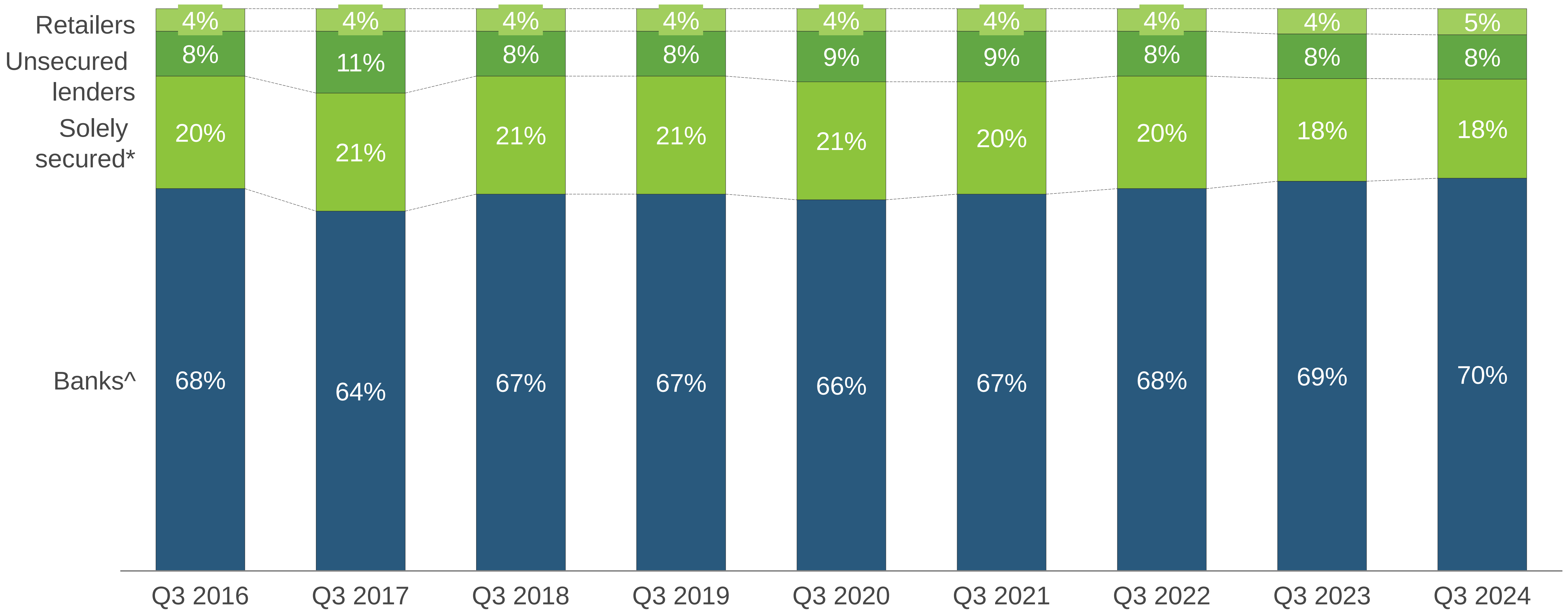
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore, it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Share of lending institutions is largely stable

Banks make up ~70% of credit(more so with affiliates); there is slight increase in retailer lending compared to a few years ago

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management

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

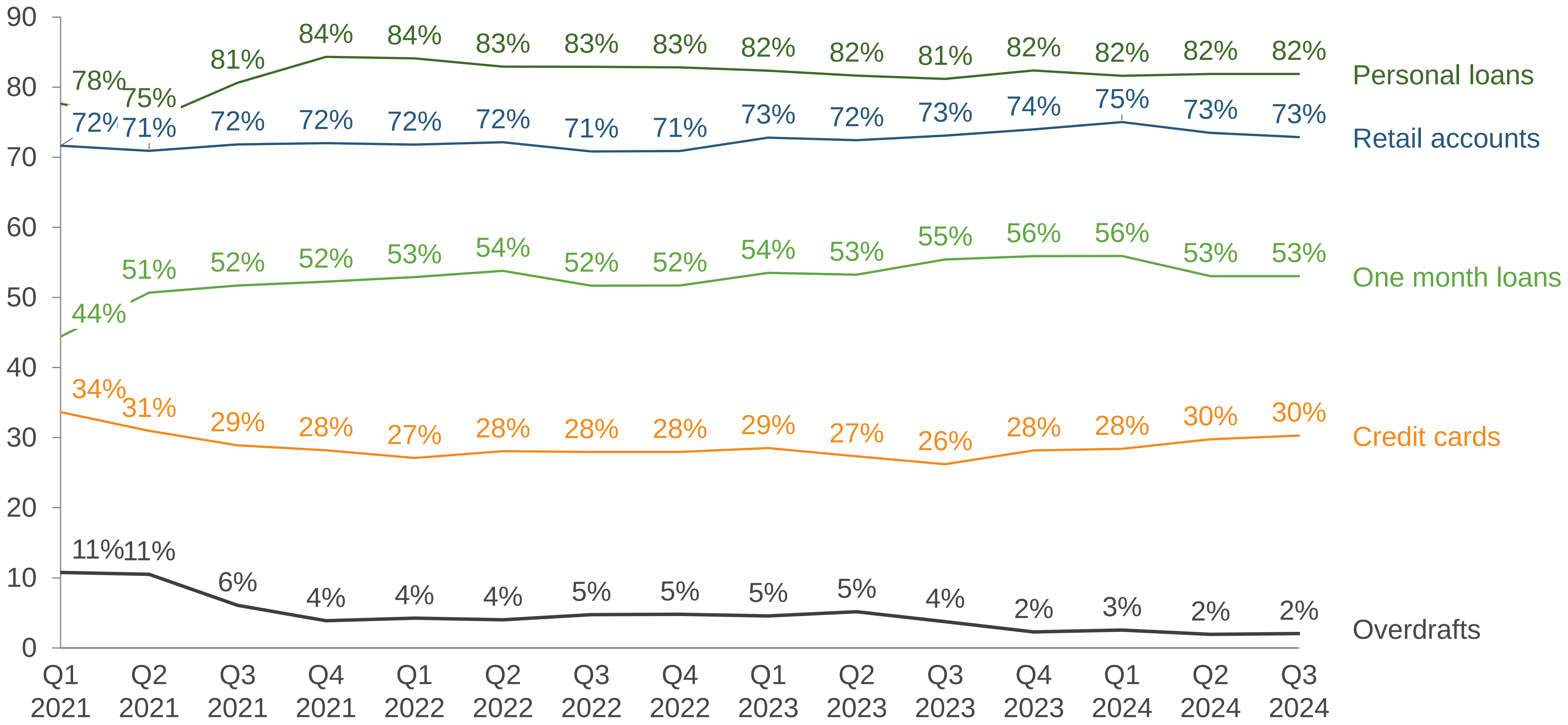
* Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW Finance who grant secured credit only (some of these institutions are linked to the banks)

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

Source: DebtBusters

Looking more closely at unsecured debt… 82% of new applicants have a personal loan (at the time they apply for debt counselling); more alarmingly 53% come with a one-month (payday) loan

Share of new applicants with…



- 82% of new applicants have a personal loan at time of application for debt counselling
- 53% have a one-month (payday) loan
- 30% of new applicants rely regularly on their credit cards
- The prevalence of personal loans, one-month loans and credit cards all indicate SA consumer continues to be under significant cash flow pressure

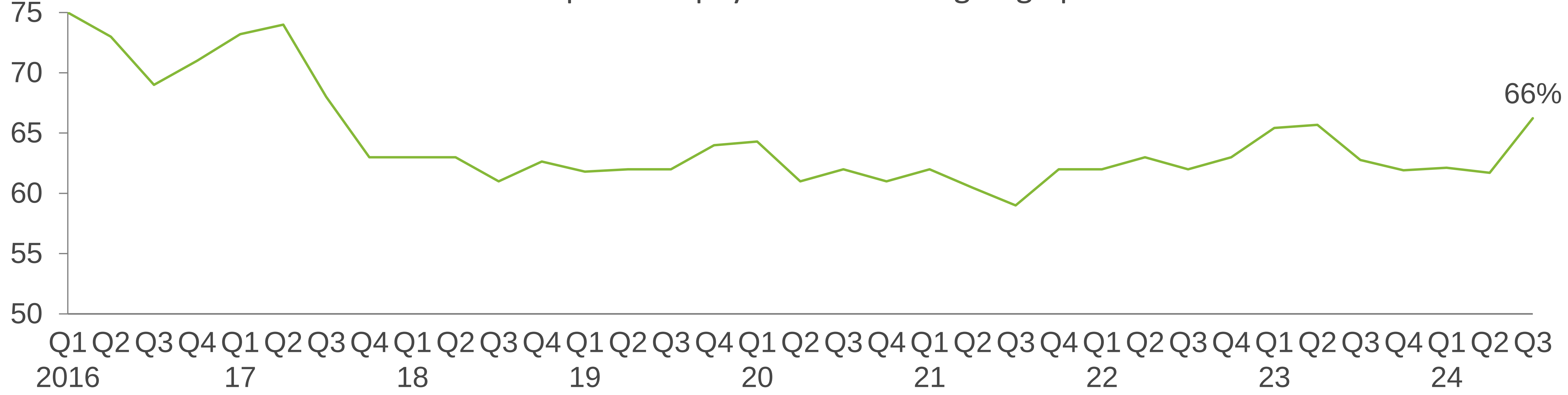
One month loans refers to personal loans that have a repayment period of one month
Personal loans refers to all other personal loans that have a repayment term of more than one month. As a result of enhanced data granularity, as of Q2 2024 personal loans and one-month loans were reclassified.
Retail refers to clothing accounts, store cards, furniture accounts and similar
Credit Cards refers to revolving credit facilities excluding those linked to stores or retail

Source: DebtBusters

Compared to previous quarters, debt to income ratio is lower, however debt service ratio is higher. In fact, consumers need 66% of their take home pay to service debt, which is a significant increase from previous quarters and is at the highest level since 2017…

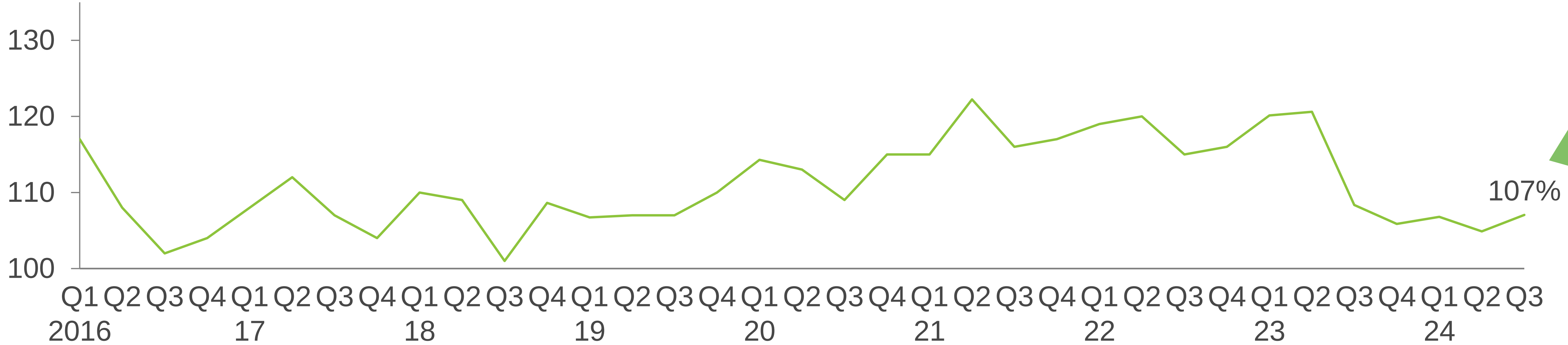
Original (median) monthly debt repayment to net income ratio[1] has increased...

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



…even though quarter-on-quarter overall debt levels are slightly lower compared to previous years

Total debt exposure to annual net income ratio, when consumers sign up with DebtBusters



Comparable figure for other select countries (from OECD):

Mexico 27%	Poland 49%
Italy 88%	Germany 99%
USA 110%	UK 147%
Korea 191%	Norway 253%

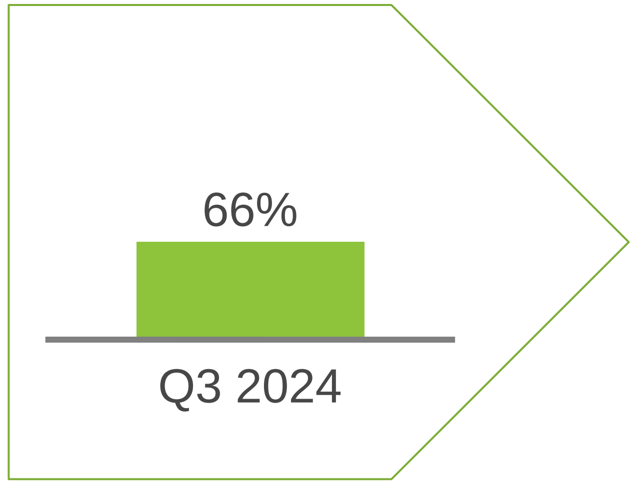
In many countries, debt is mostly mortgage debt at very low interest rates

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

Source: DebtBusters

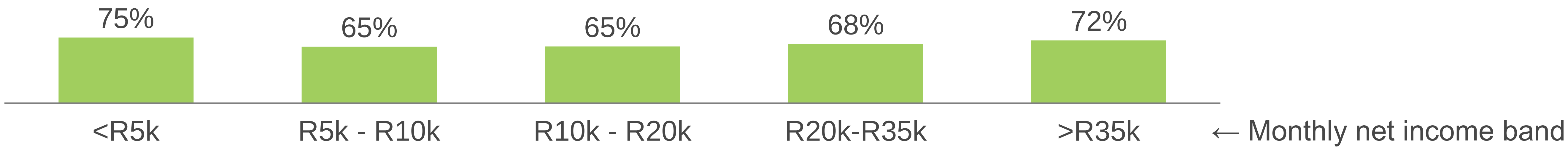
OECD (2024), "Household debt" (indicator), https://doi.org/10.1787/f03b6469-en (accessed on 6 Nov 2024).

…for those taking home more than R35k per month the total debt to annual net income ratio is 176% and they need 72% of their take home pay every month to service their debt repayments. Similarly, those taking home less than R5k per month need 75% of their take home pay to service debt repayments…



Original monthly debt repayment to net income ratio[1]

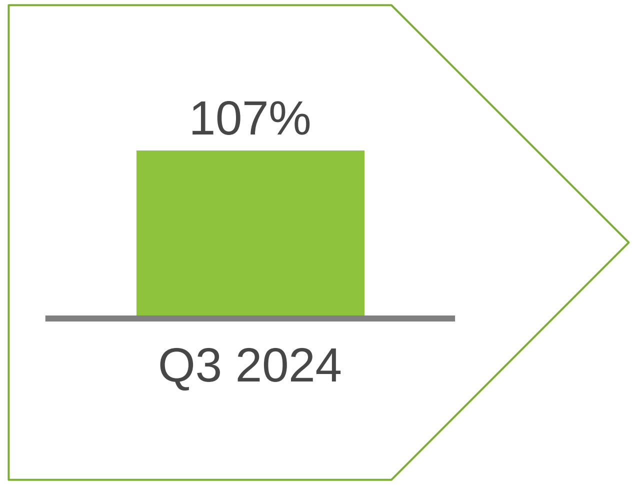
Percent of net income that was required to pay debt before signing up with DebtBusters

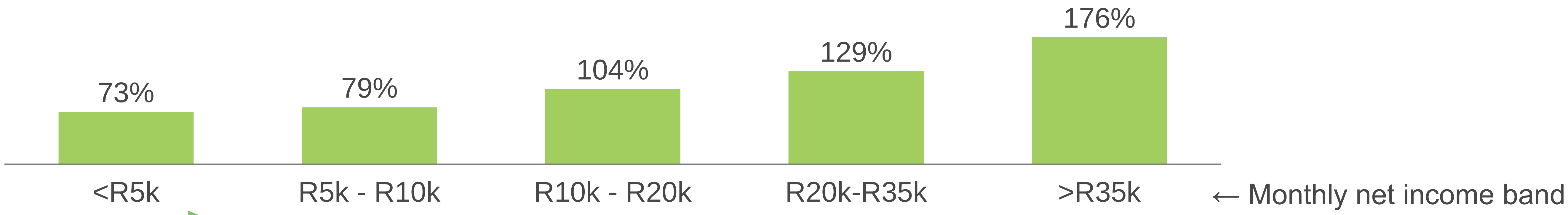


Second highest monthly debt repayment ratio

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 73% but require 75% of net income to pay debt each month(highest monthly debt repayment ratio), 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

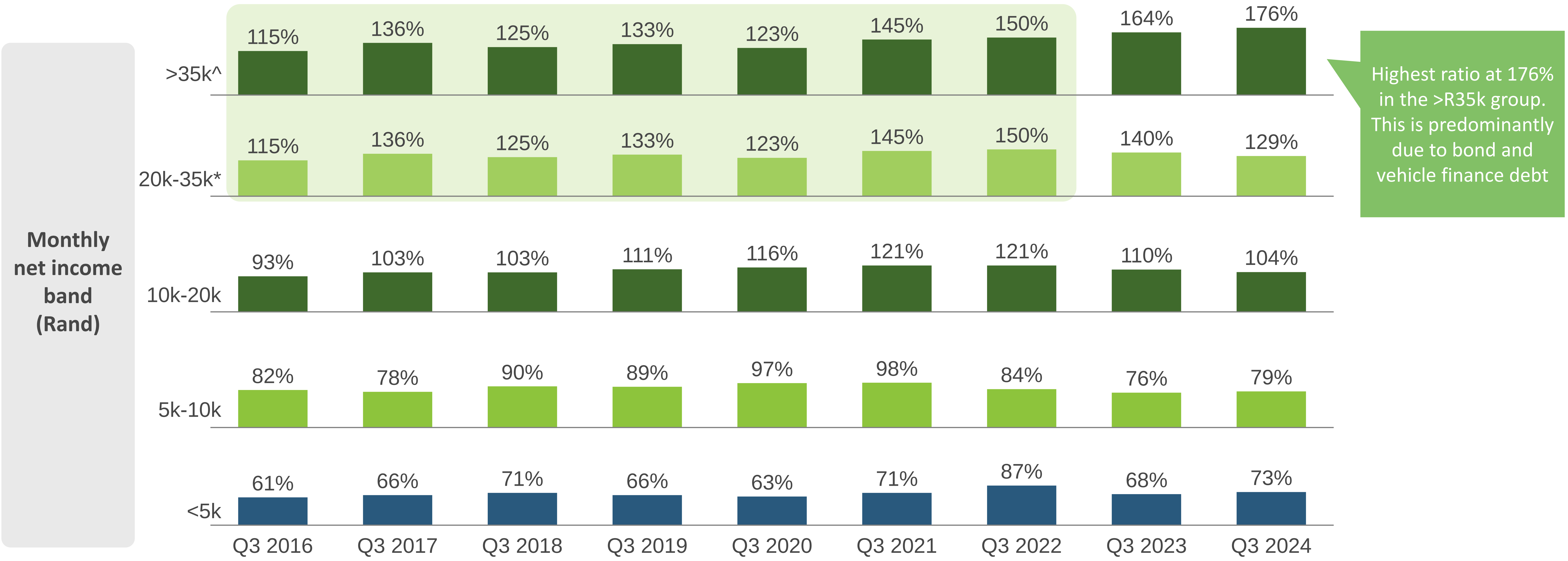
Source: DebtBusters

…the debt to annual net income ratio for most income bands appears to have improved compared to the last few years, however those taking home R35k or more have a debt-to-income ratio of 176%

Ratios are the same for this period because these two income groups were tracked together until 2023

Original overall debt to annual net income ratio[1]

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



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

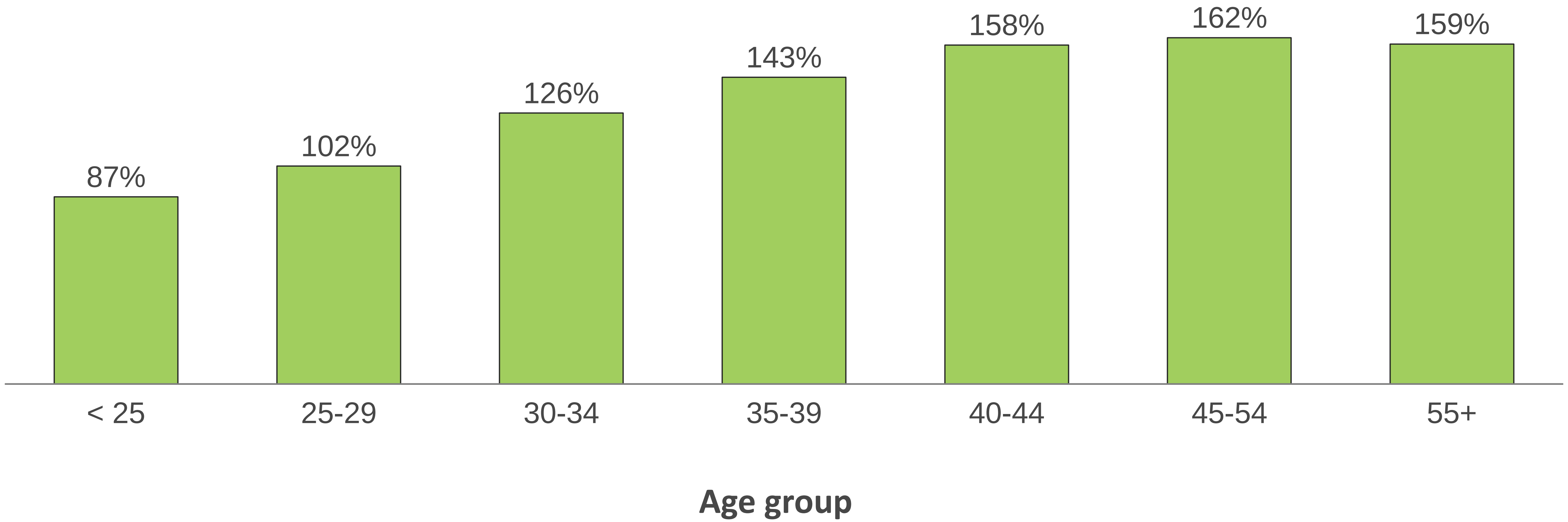
^ New income band reported from Q1 2023 (Split from a broader group of >R20k); previously was part of the >20k income band. Previous quarters' ratios are attributed to this group as well as R20k-35k income band

* New income band reported from Q1 2023 (Split from a broader group of >R20k); previously was part of the >20k income band. Previous quarters' ratios are attributed to this group as well as >R35k income band

Source: DebtBusters

Debt-to-income ratio varies with age group; indicating there is an opportunity for younger consumers to address their debt earlier in their professional lives

Original overall debt to annual net income ratio[1]
Debt exposure to net income ratio, when consumers sign up with DebtBusters

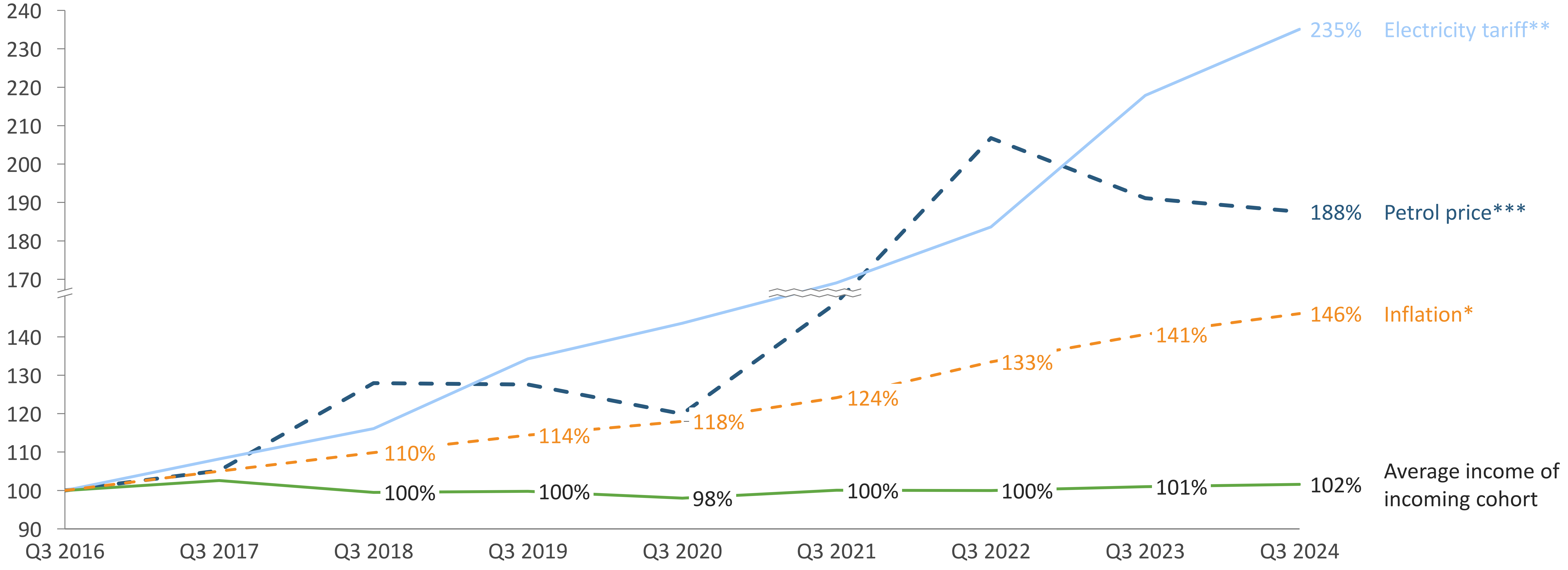


1 Debt to Income ratio is calculated by looking at the median for each age group; for most recently completed quarter

Source: DebtBusters

Since 2016, primary indicators of cost of living have moved substantially faster than income growth. During this period inflation increased by 46%, petrol price by 88% and electricity tariffs by 135%…

Change in primary indicators at end of the quarter
Indexed to 2016 levels
2016 = 100



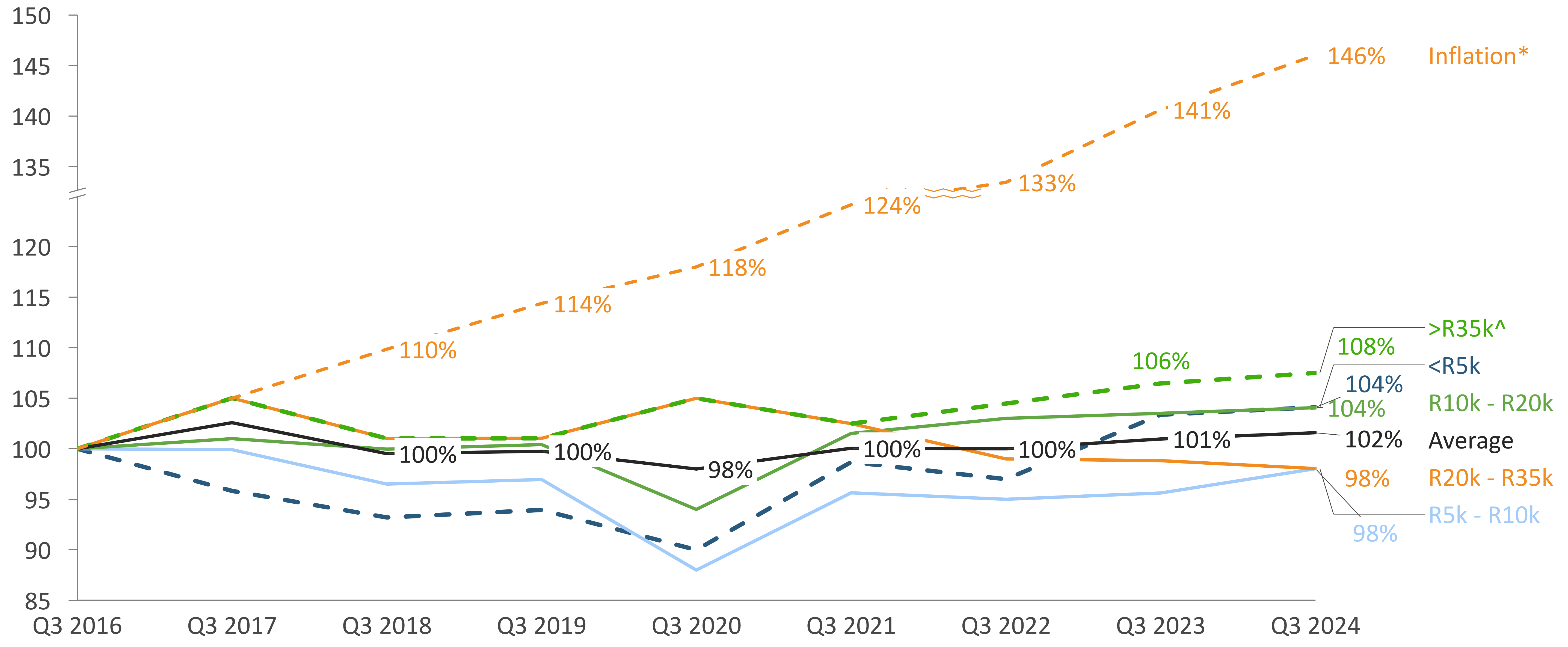
Source: DebtBusters
- Source: Stats SA CPI history; Stats SA report P0141; https://www.statssa.gov.za/?page_id=1854&PPN=P0141; last accessed on 23 October 2024

** Source: Eskom municipal rate increases ; https://www.eskom.co.za/distribution/5189-2/; last accessed on 23 October 2024

*** Source: AA; inland price of Unleaded 93 petrol per litre; https://aa.co.za/fuel-pricing/; last accessed on 23 October 2024

In the last eight years, average net incomes (take home pay) increased by 2% while inflation went up by 46%. This means that in real terms most South Africans had 44% less disposable income in 2024 compared to 2016 due mainly to the impact of high inflation…

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



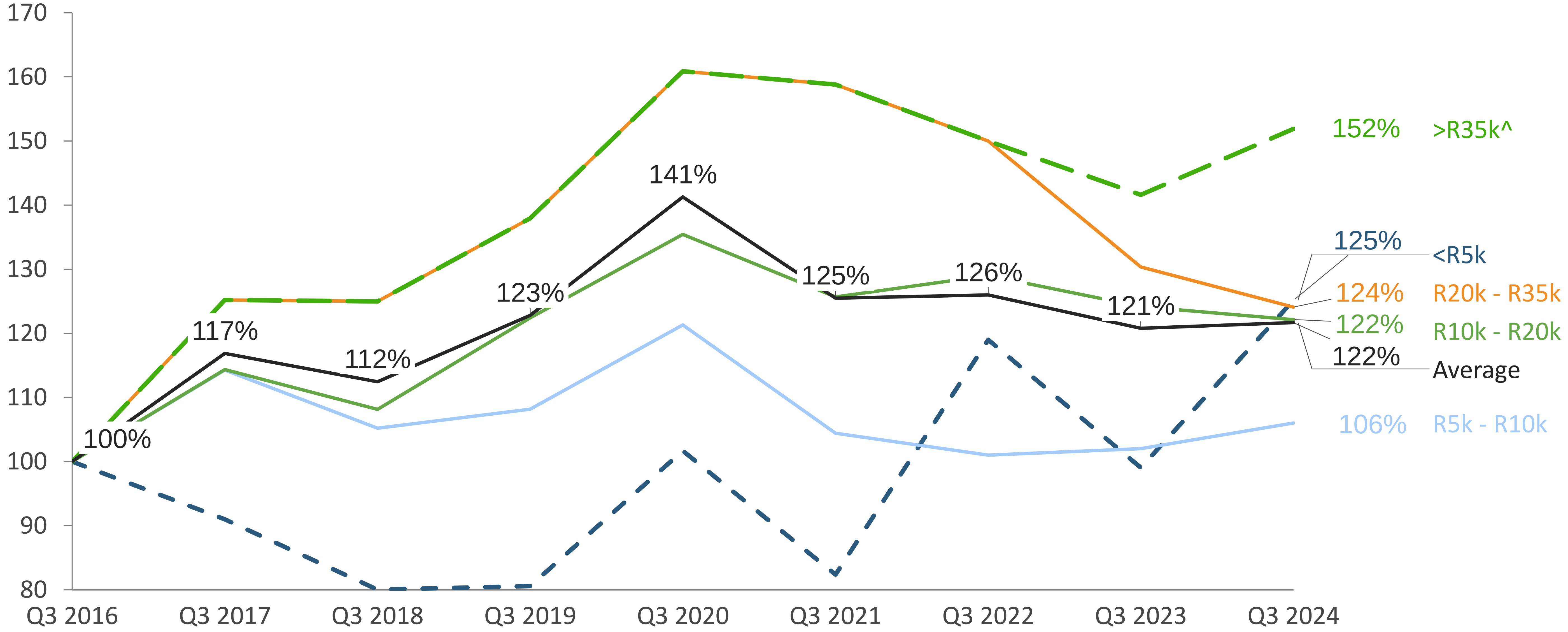
- **On average, net incomes increased by ~2% in the last eight years; during the same period compounded increase in inflation was 46%**
- **This means disposable incomes shrank by almost 44% during the past eight years**

Source: DebtBusters
- Source: Stats SA CPI history; Stats SA report P0141; https://www.statssa.gov.za/?page_id=1854&PPN=P0141; last accessed on 23 October 2024

** ^ New income band reported from Q2 2023; previously was part of the >20k income band

… On average, consumers have 22% more unsecured debt in 2024 compared to 2016, those taking home R35k or more have unsecured debt levels that are 52% higher than in 2016. This growth outpaces inflation (CPI) growth and is much higher than salary growth

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



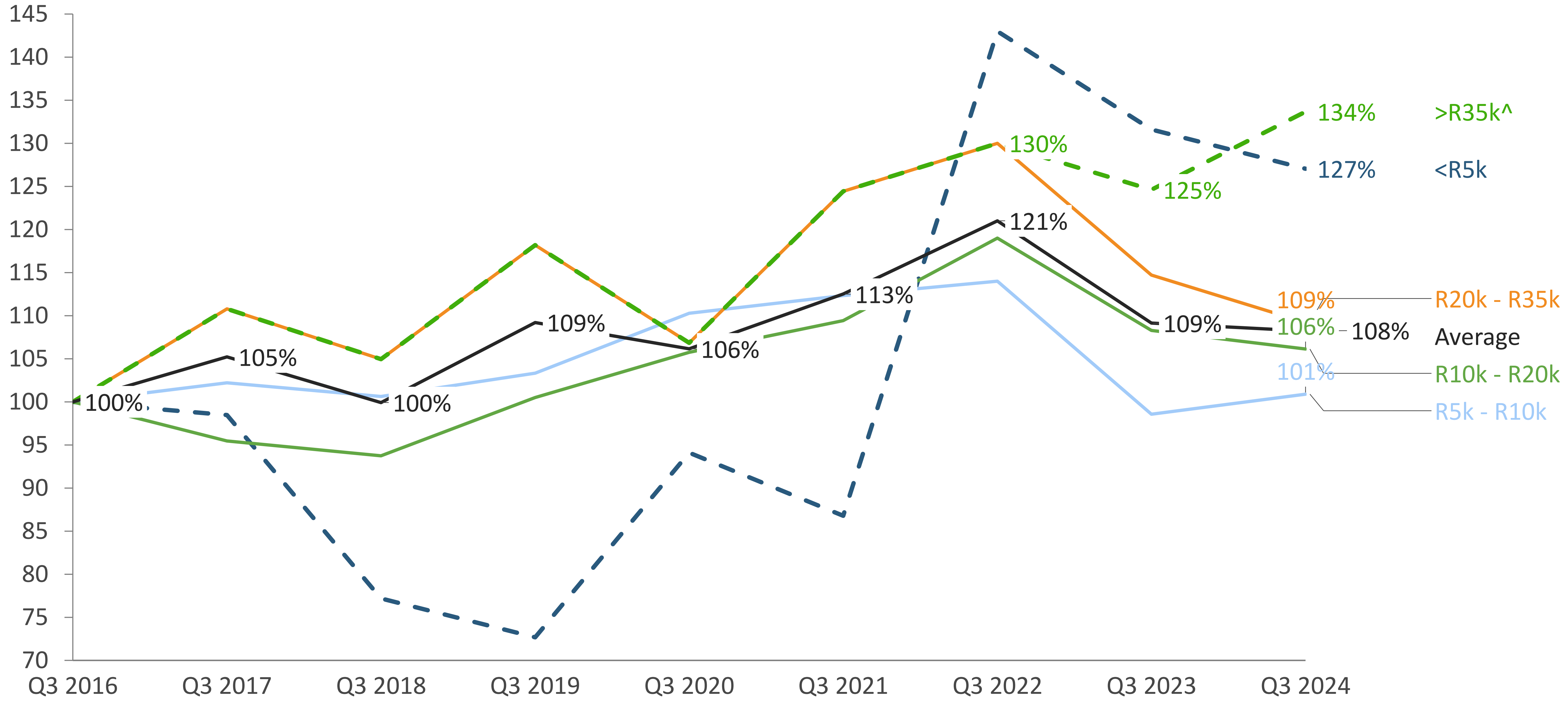
- **Unsecured debt for the average consumer is 22% higher than 2016 levels; for top earners the figure is 52%**
- **For top earners, growth in unsecured debt has slowed down, which is a welcome development, but still far outpaces inflation (CPI) growth of 46% and salary increase of 8% over the same period**
- **Top earners still under lots of financial pressure**

Source: DebtBusters
^ New income band reported from Q2 2023; previously was part of the >R20k income band

Total debt levels (which include both secured and unsecured debt) are 8% higher than they were in 2016. While this looks healthy overall, for top income earners, overall debt levels are 34% higher than 2016 levels

DEBT BUSTERS

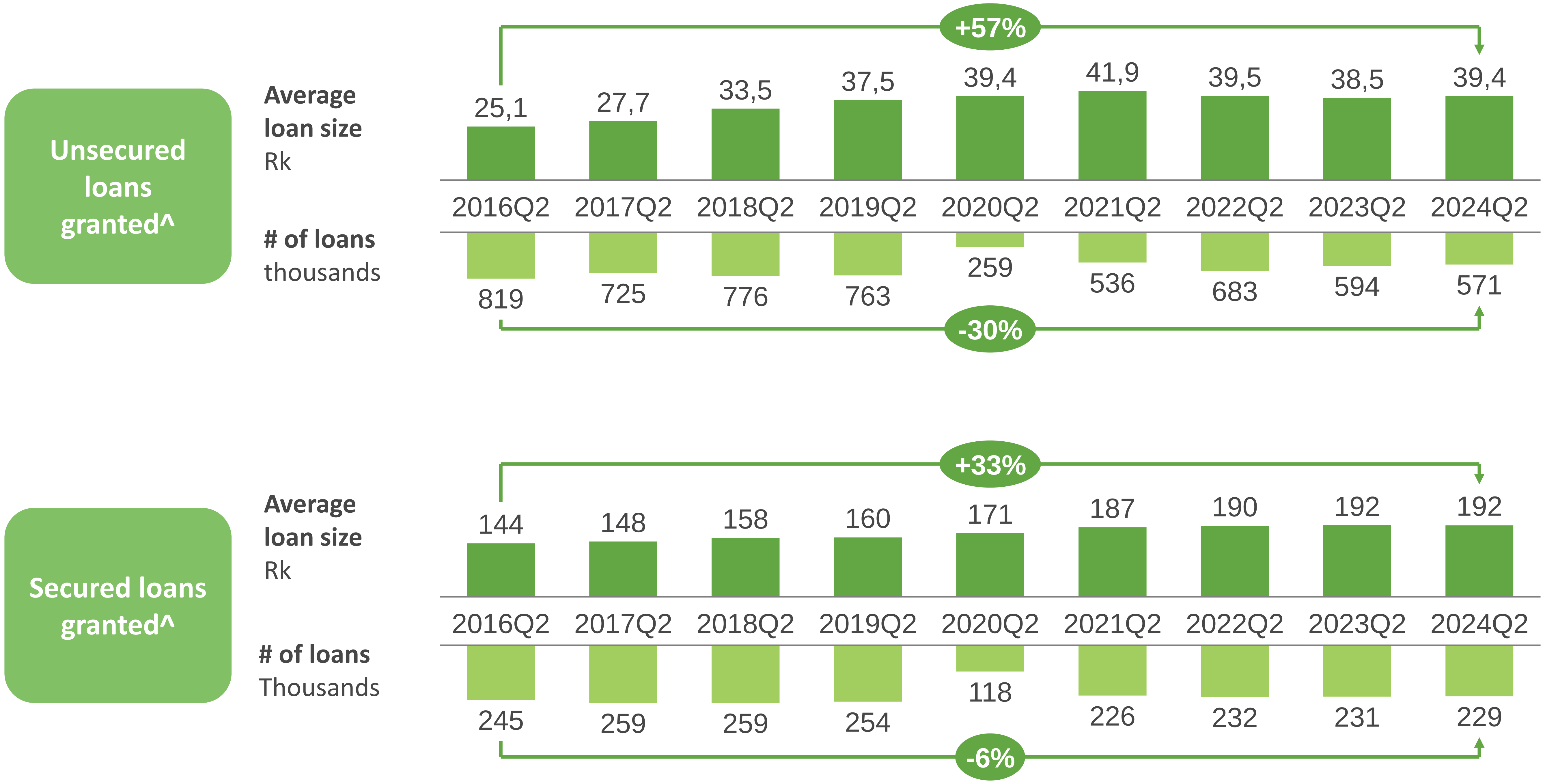
Change in total debt levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100



- **Compared to 2016, the total debt levels are higher, but the increase has been below inflation**
- **Those taking home more than R35k had 34% increase in overall debt levels since 2016**

Source: DebtBusters
^ New income band reported from Q2 2023; previously was part of the >20k income band

Since 2016, average unsecured loan size increased by 57% whereas the volume of new unsecured loans declined by 30%. This means larger unsecured (personal) loans are being granted to a smaller number of consumers, highlighting that risk is being concentrated on an ever-smaller group of consumers



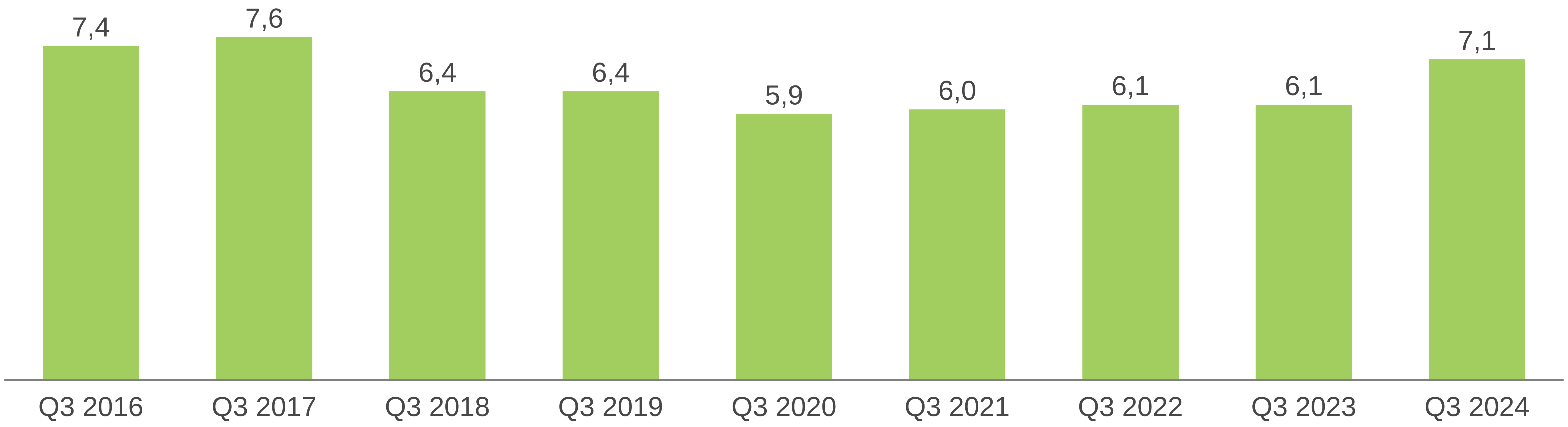
- Since 2016, average unsecured loan size increased by 57% whereas the number of loans decreased by 30%. This indicates that unsecured lending is extended largely to smaller pool of consumers.
- For secured loans, in contrast, the number of loans decreased by 6%, but the average loan size increased by 33%

^: Q2 2024 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q4 2007 – Q2 2024

The average number of credit agreements (open trades) a consumer has increased compared to previous few years. When factoring in higher debt levels as well, this indicates consumers' multi-lender borrowing relationships have expanded recently

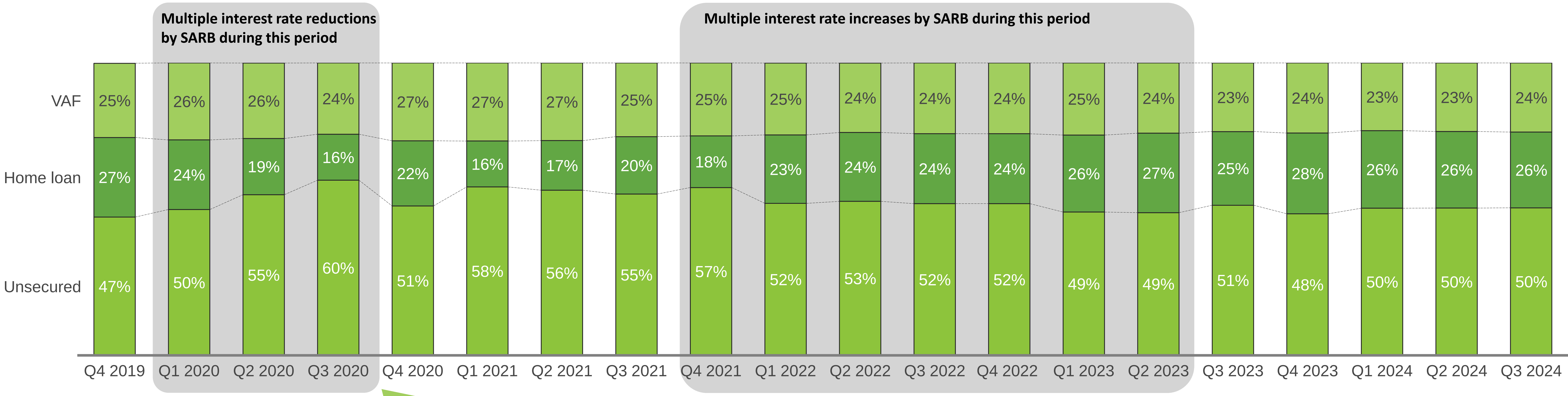
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Source: DebtBusters

The debt mix for new applicants has shifted over the last few years driven by change in interest rates. Since early 2022, the share of home loan debt has increased and now makes up 26% of new applicants' debt

Breakdown of new applicants' debt
Percent by type



- Interest rate reduction combined with bank payment holidays in first three quarters of 2020 resulted in dip in asset debt share
- With interest rates increasing from November 2021 till May 2023, we have seen an increase in the home loan share from Q1 2022 onwards, stabilizing around the 26% mark recently

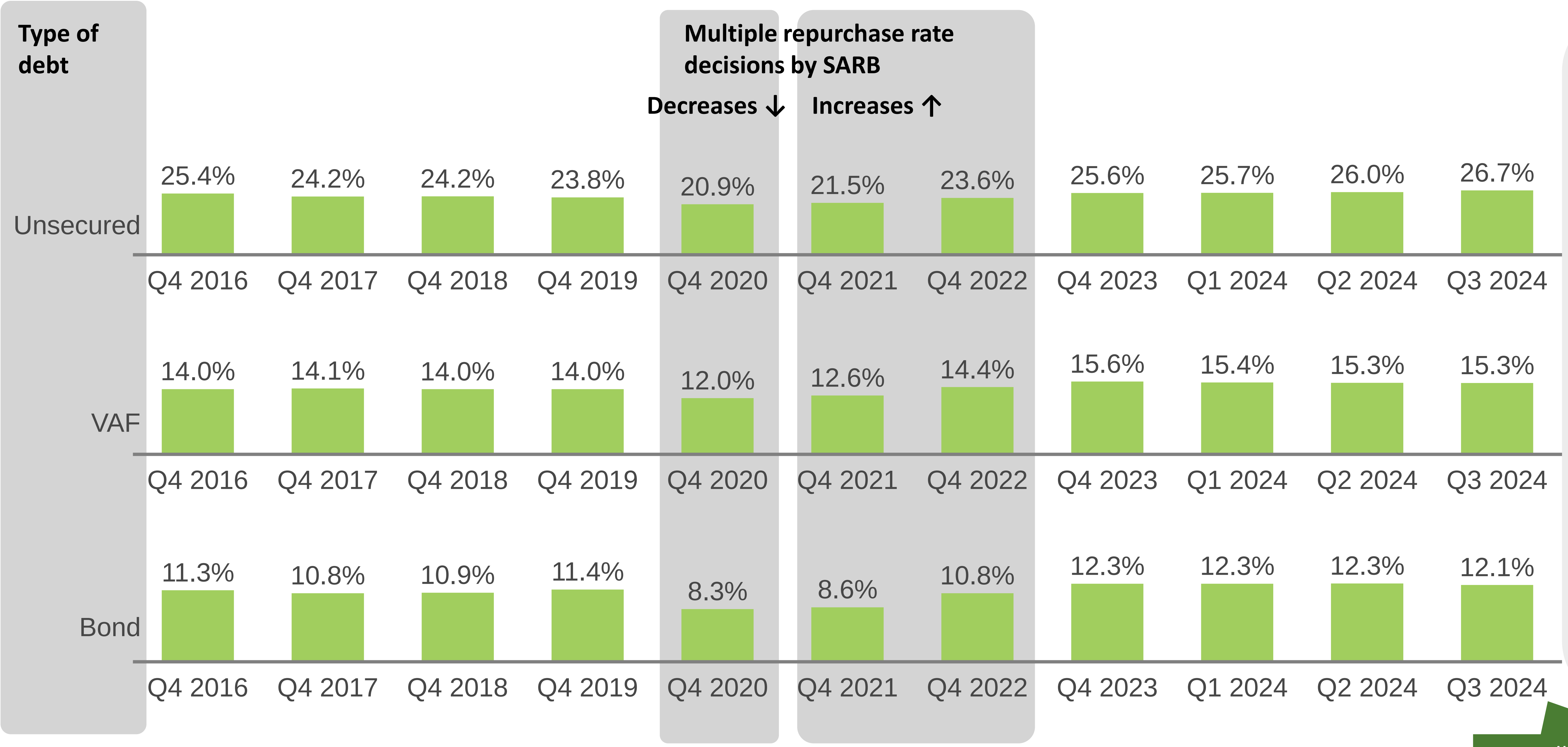
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Since late 2021, the impact of successive interest rate increases resulted in higher average interest rate of new applicants: in Q3 2024 average interest rate for unsecured debt was 26.7% p.a., the highest on record since 2016 – and closest to the maximum allowable rate of 29% p.a.

Average interest rate for new applicants (before debt counselling)

Percent, per annum



- Unsecured debt interest rates have been increasing and are at the highest level in the last eight years
- Unsecured debt interest rate has big impact on what percent of incomes are needed to service debt
- Bonds also very sensitive to changes in interest rates – big swing from 2020 to 2024

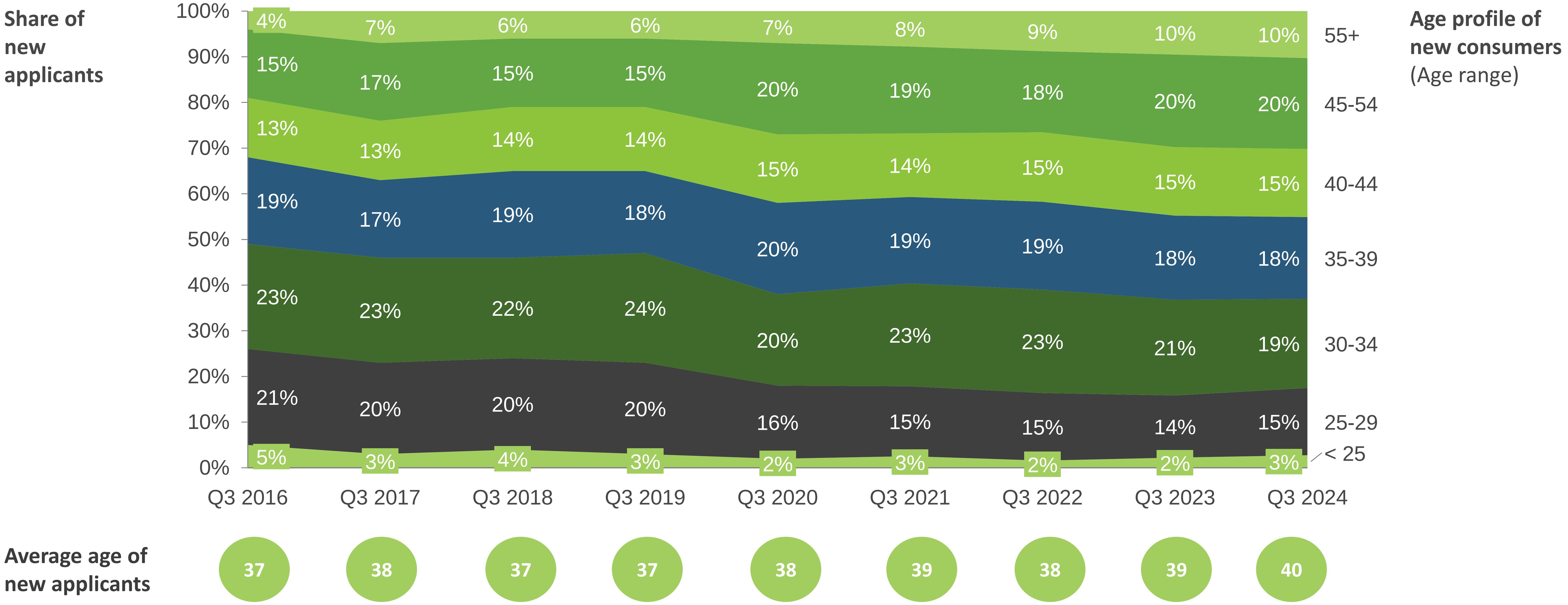
Max. allowed at end of quarter*:
- Unsecured: 29.0% p.a.
- VAF: 25.0% p.a.
- Bond: 20.0% p.a.

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.
* Maximum rate allowed for newly originated credit agreements in that quarter per dtic guidelines

Source: DebtBusters

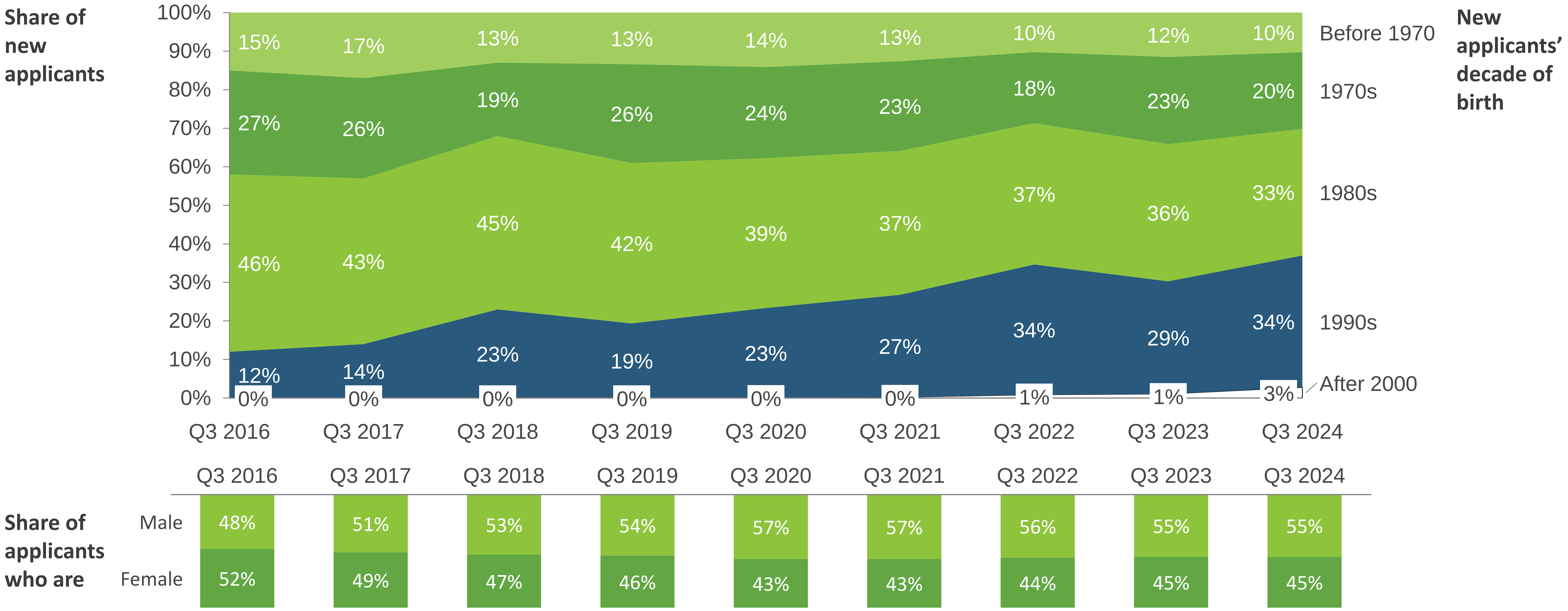
Consumer age profile indicates increasing financial stress in 45+ age group, which now make up ~30% of new applicants

Average age of new applicants has increased to 40. In addition, the share of applicants who are 45 or older has increased from ~19% in 2016 to ~30% in 2024, indicating financial stress is becoming more prevalent in this age category



Source: DebtBusters

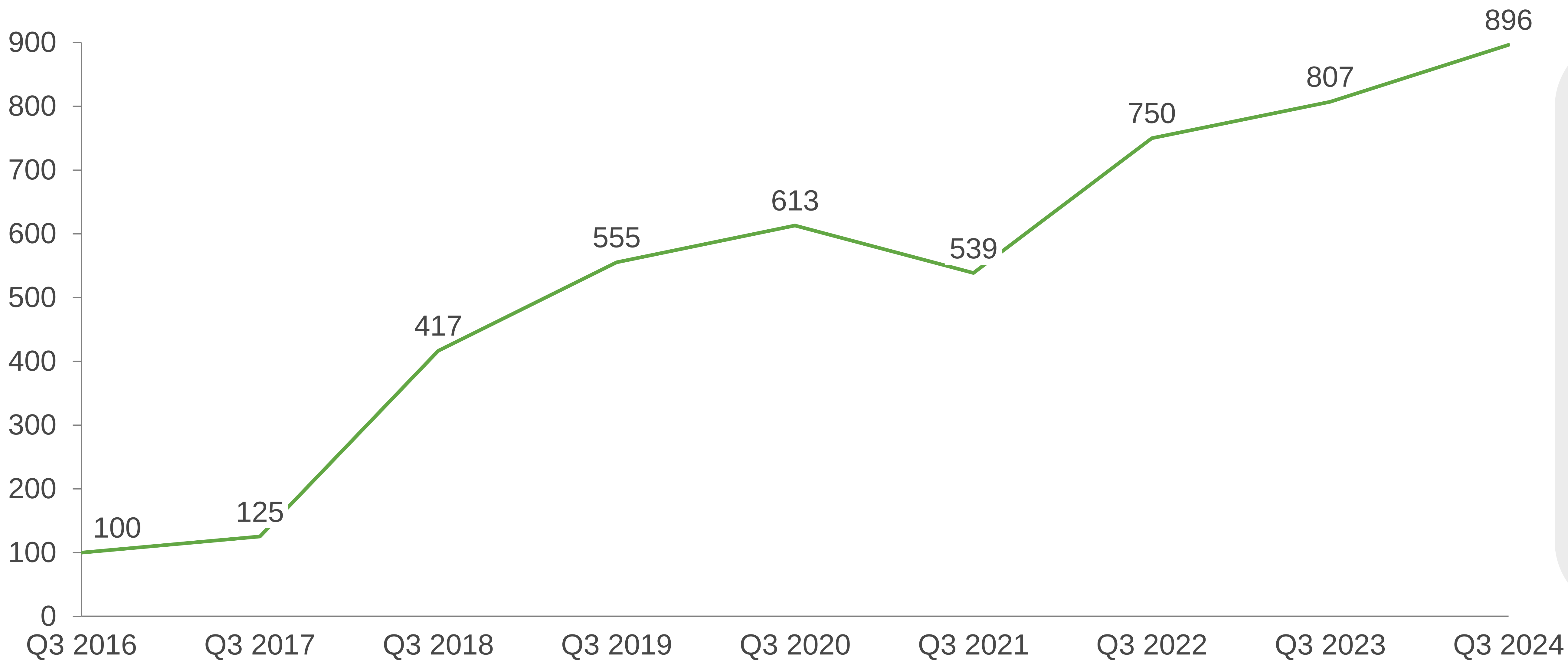
The ratio of male applicants is consistently above 50%, indicating men are becoming more proactive about addressing financial distress. During the most recent quarter, 56% of applicants were male.



Source: DebtBusters

In the most recent quarter, the number of consumers graduating from debt counselling (successfully receiving their clearance certificates) was almost nine times higher than the same period in 2016; consumers who graduated in Q3 2024 paid more than R665m to their creditors while under debt counselling

Clearance certificates issued
Indexed to 2016 levels
2016 = 100

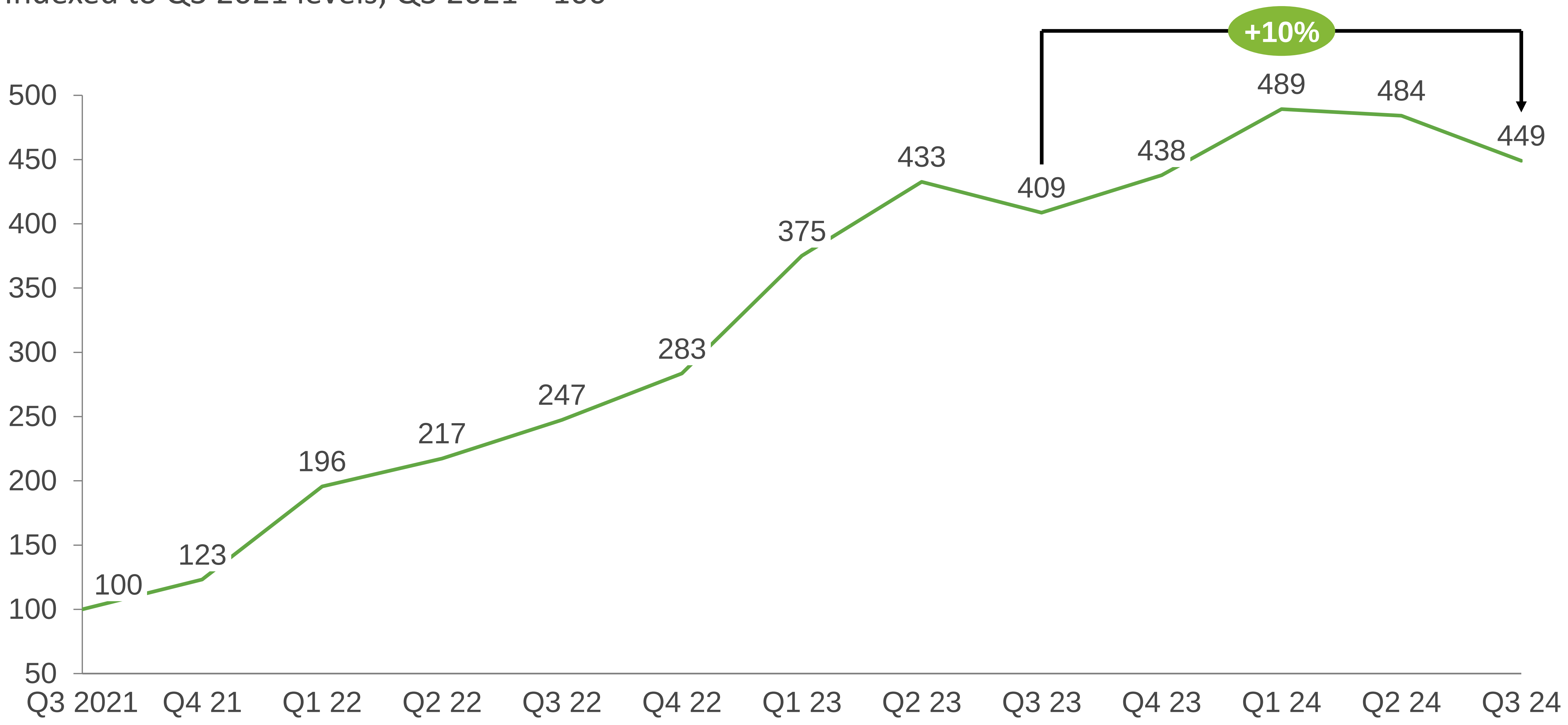


- **In Q3 2024, there were almost 9x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid R665m to their creditors while under debt counselling**

Source: DebtBusters

Consumers' interest in online debt management continues to increase. We have observed that the non-debt counselling userbase for DebtBusters website has grown 10% over the past year

Number of new non-debt counselling subscribers to DebtBusters website
Indexed to Q3 2021 levels; Q3 2021 = 100



- **10% increase in last year in new subscribers for online debt management on DebtBusters website**
- **Consumers enjoy the freedom of managing their debt profile at their own time and have access to debt management tools, such as budgeting, Debt Radar, and others**

Source: DebtBusters

For further information, contact our Marketing Manager Amelia de Milander at:
amelia.demilander@idmgroup.co.za.