DEBT BUSTERS

# DEBT METER

# Q2 2020



For further information, contact our Public Relations office at debtometer@idmgroup.co.za or call us on 021 206 9913.

# Foreword by Benay Sager, Chief Operating Officer

- Welcome to the Q2 2020 edition of the Debtometer

- The consumers who came to us in Q2 2020 **were severely impacted by the national lockdown in SA**. As a result, we saw **heavily escalated debt levels compared to previous years** – compared to similar cohorts, the debt exposure of these consumers was the highest in the past several years, led by an increase in unsecured debt levels

- Reflecting the current economically difficult times, perhaps the most difficult in our lifetime due to impact of coronavirus and national lockdown in SA, **our Q2 2020 clients, when they came to us**:
  - **Had fewer credit agreements** (6.2 on average) compared to previous years (was 7.4 agreements in 2016), **indicating that consumers are becoming over-indebted and seeking help more quickly compared to previous years**
  - **Required ~62% of their net income to service their debt every single month; with higher income levels requiring more of their income to service their debt**
  - **Had debt to income ratio of 113% on average - those earning a net income of R20,000 or more had a debt to annual income ratio of 138% - which is not sustainable**

- **It is clear that in absence of meaningful increase in real income growth, SA consumers are supplementing their income with more debt on a large scale.** Compared to 2016, those clients who applied for debt counselling in Q2 2020 had:
  - **Negative real income growth: Nominal incomes were 1% lower compared to 2016 levels; when cumulative inflation growth of 19% is factored in for the same period, real incomes shrank**
  - **Unsecured debt that was 18% higher than that in 2016 levels; for those earning R10 000 or more, the unsecured debt levels were 30-40% higher**

- **On a positive note, the number of clients completing debt counselling successfully has increased by 43% per annum over the last four years, indicating that for SA consumers under financial strain, debt counselling is an effective mechanism to get financially fit again**

# Contents – Debtometer

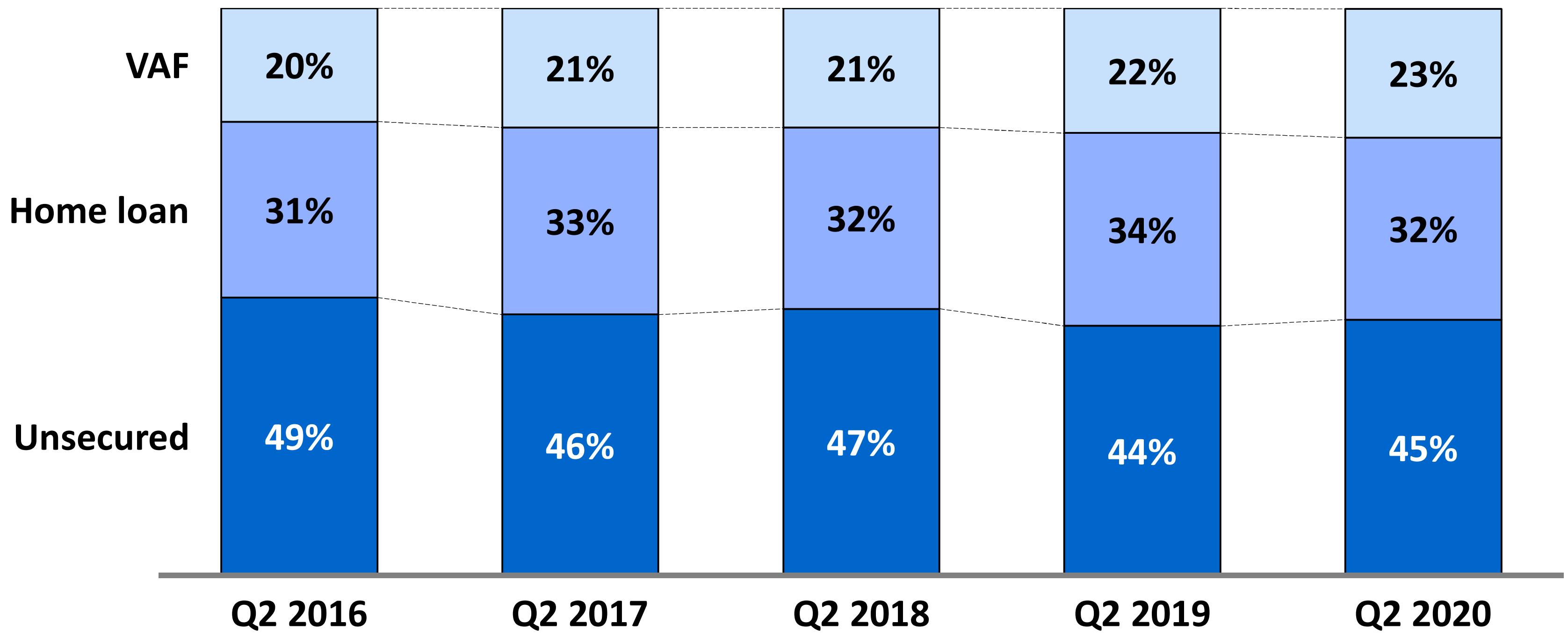
- **Consumer debt profile**
- Debt counselling industry consumer profile

TOTAL DEBT BOOK

# Nature of debt: The share of clients with home loans and VAF who come to us has increased in the last few years, indicating that more consumers with assets are becoming over-indebted

**Breakdown of DebtBusters debt under management**

Percent by type, by value at end of Quarter



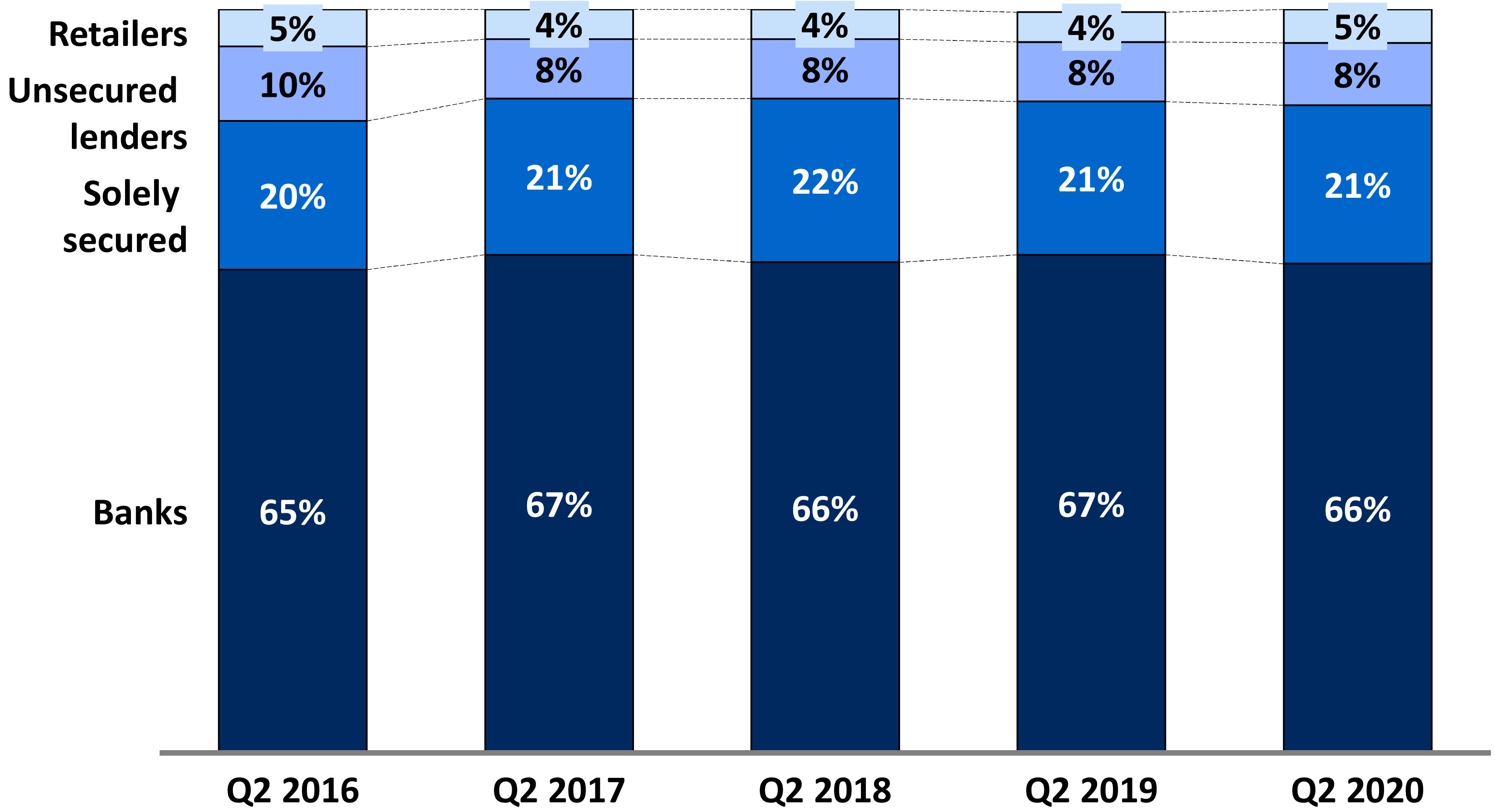

Source: Debtbusters

## Lending institutions, total debt book: Banks' share of debt has remained consistent in the past few years with a slight increase in solely secured lending

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

# Contents – Debtometer

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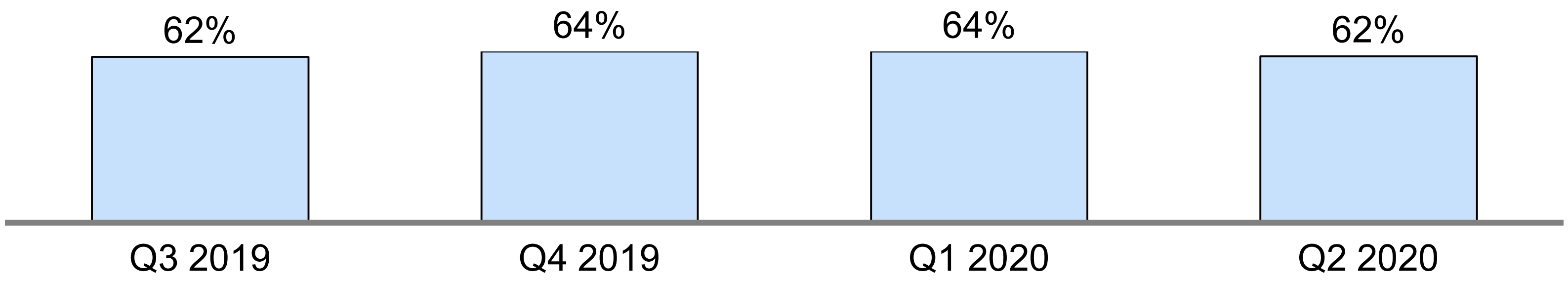
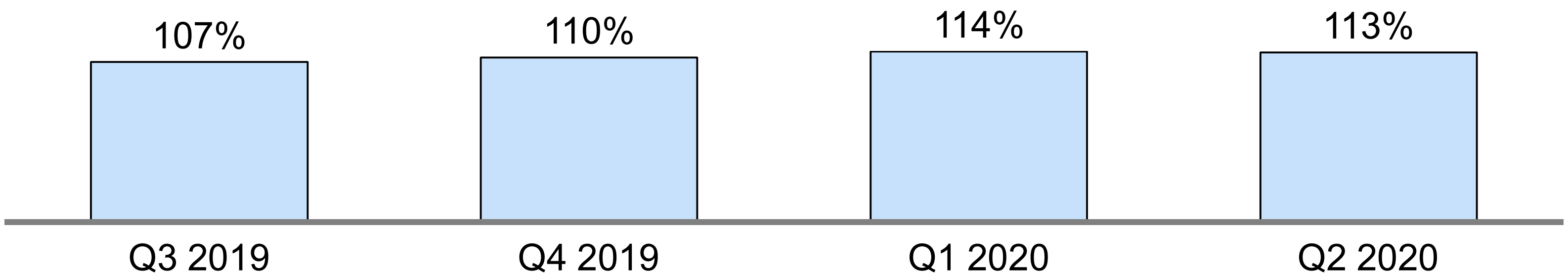
# Debt repayment to net income[1] ratio and debt exposure for our clients are both above sustainable levels

**Original (median) monthly debt repayment to net income ratio remained the same..**
Percent of net income that was required to pay debt before signing up with DebtBusters




**…and quarter-on-quarter overall debt levels remained high**
Total debt exposure to annual net income ratio, when clients sign up with DebtBusters



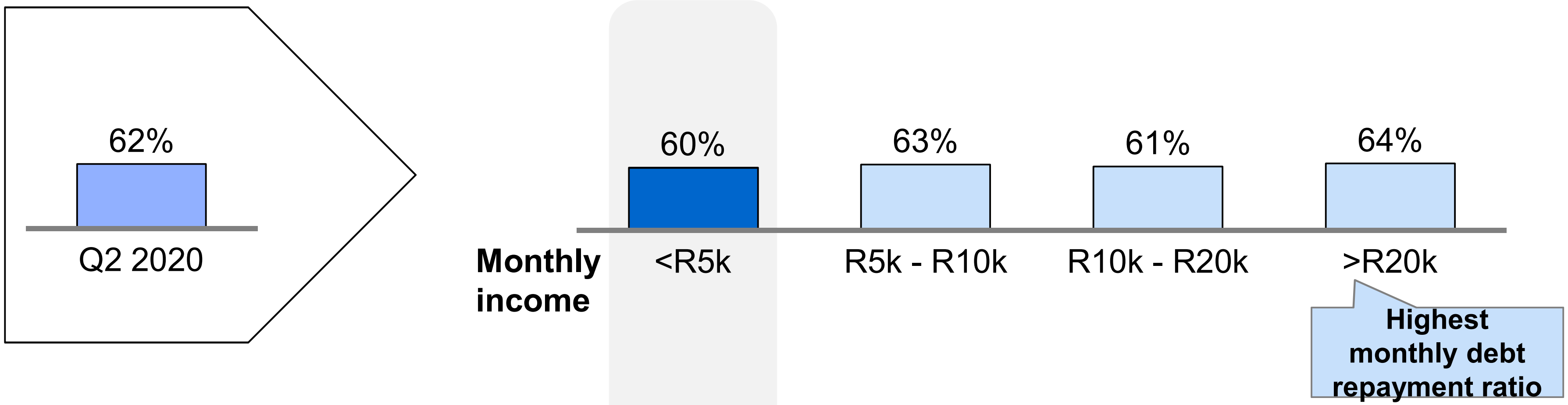

1 Median debt to net income ratio for all new clients signed up in that quarter

Source: Debtbusters

# Monthly debt repayment to net income ratio appears to have been similar for all income groups, but overall debt levels are the highest for high-income groups

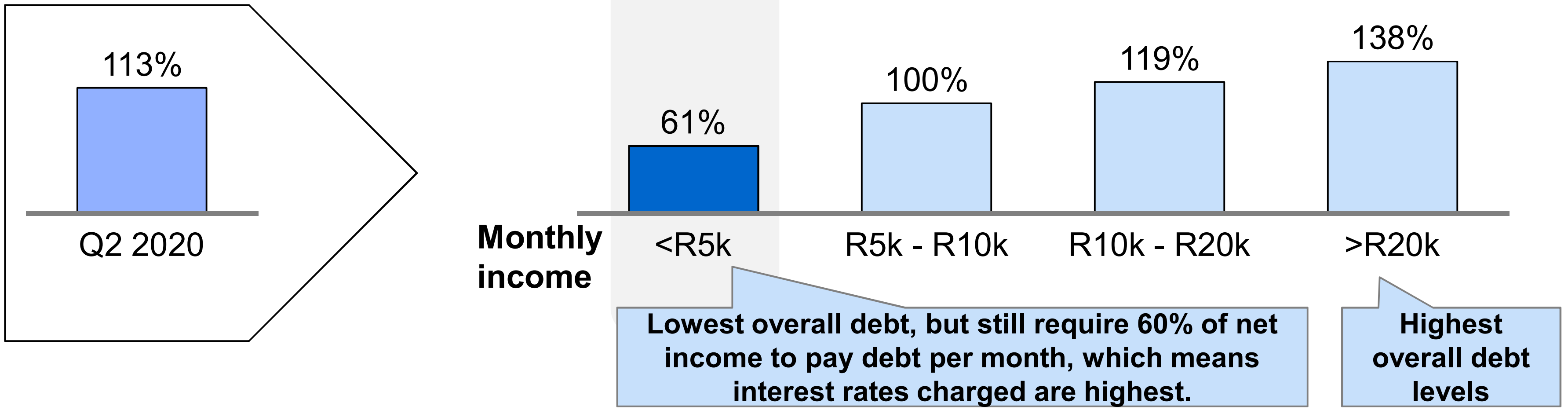
**Original monthly debt repayment to net income ratio[1]**

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




**Original overall debt to annual net income ratio[1]**

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

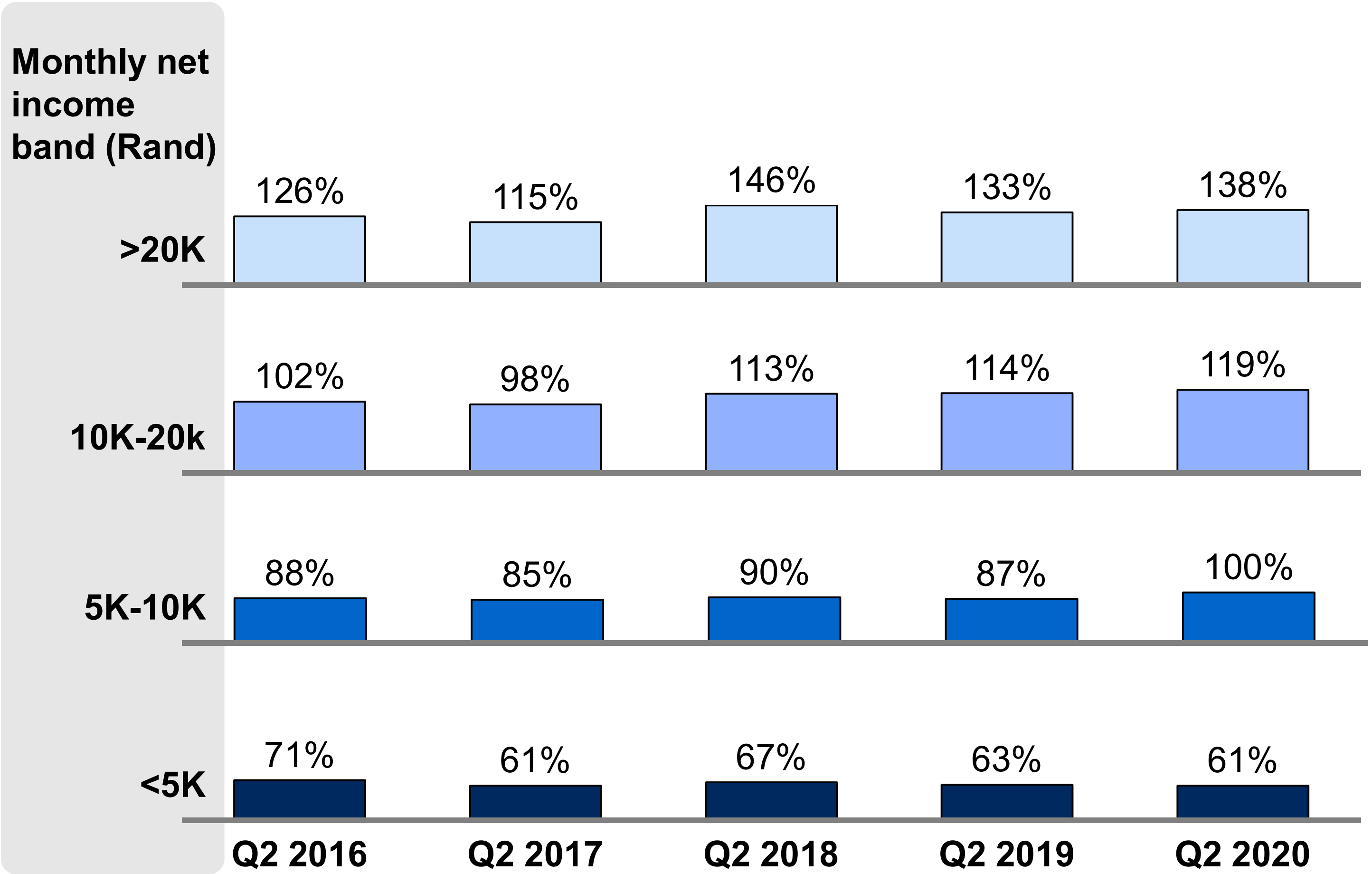



1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: Debtbusters

# Debt exposure to net income[1] ratio comparison by income bands indicates middle income earners (between R5k-R20k p.m.) have come under huge debt pressure over the last few years

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




- Debt exposure worsened for clients in the R5K-R10K and R10K-20K brackets
- South Africans in the highest income brackets still maintain the highest exposure to debt

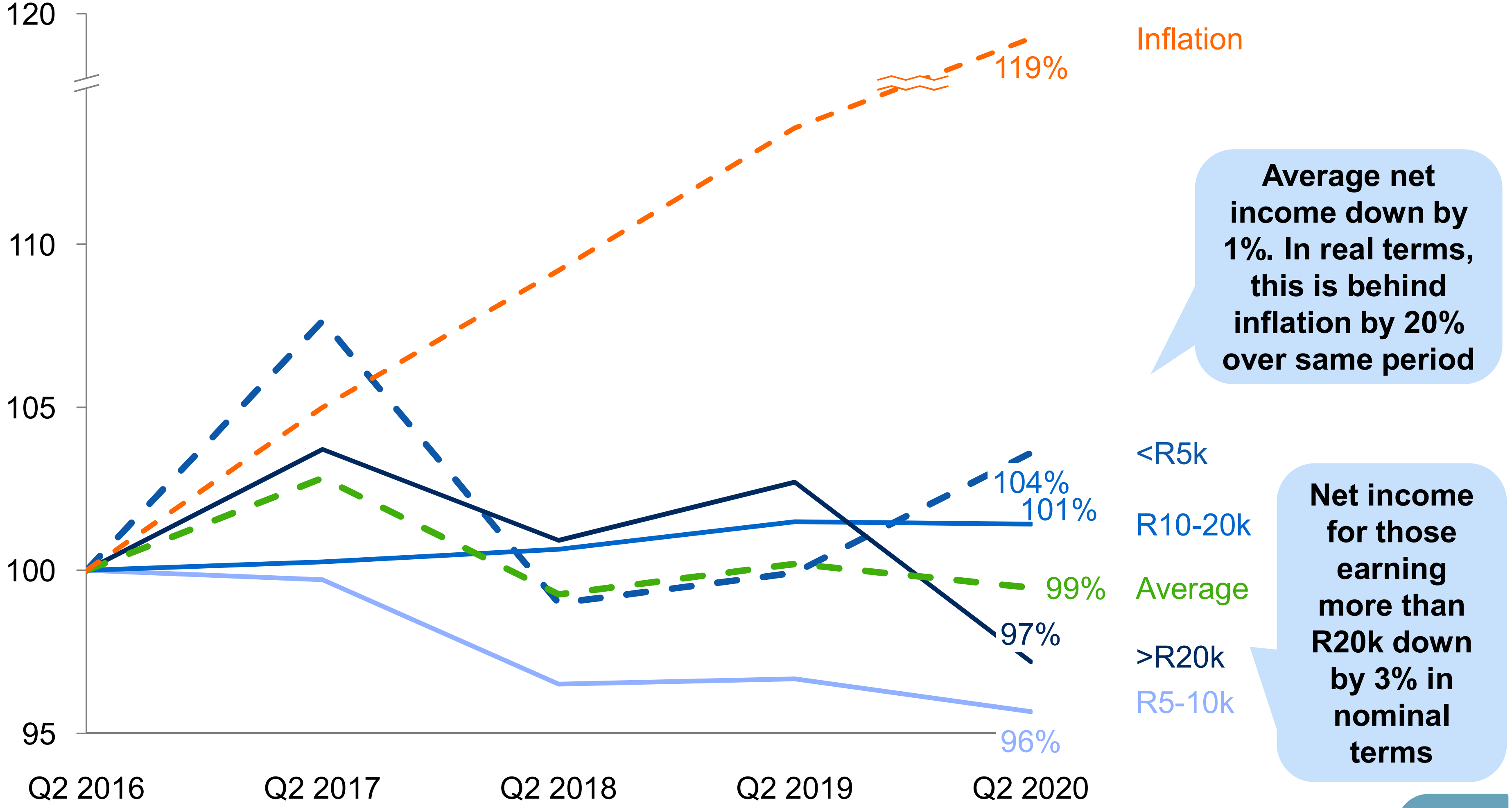
1 Debt exposure to Income ratio is calculated by looking at the median in each quarter

Source: Debtbusters

**This is driven by the fact that the average net income was down by 1% in four years compared to 19% growth in inflation over the same period, resulting in -20% growth in real income over that period…**

## Clients signed up in the quarter

**Change in net income levels per income band**
**Indexed to 2016 levels**
**2016 = 100**

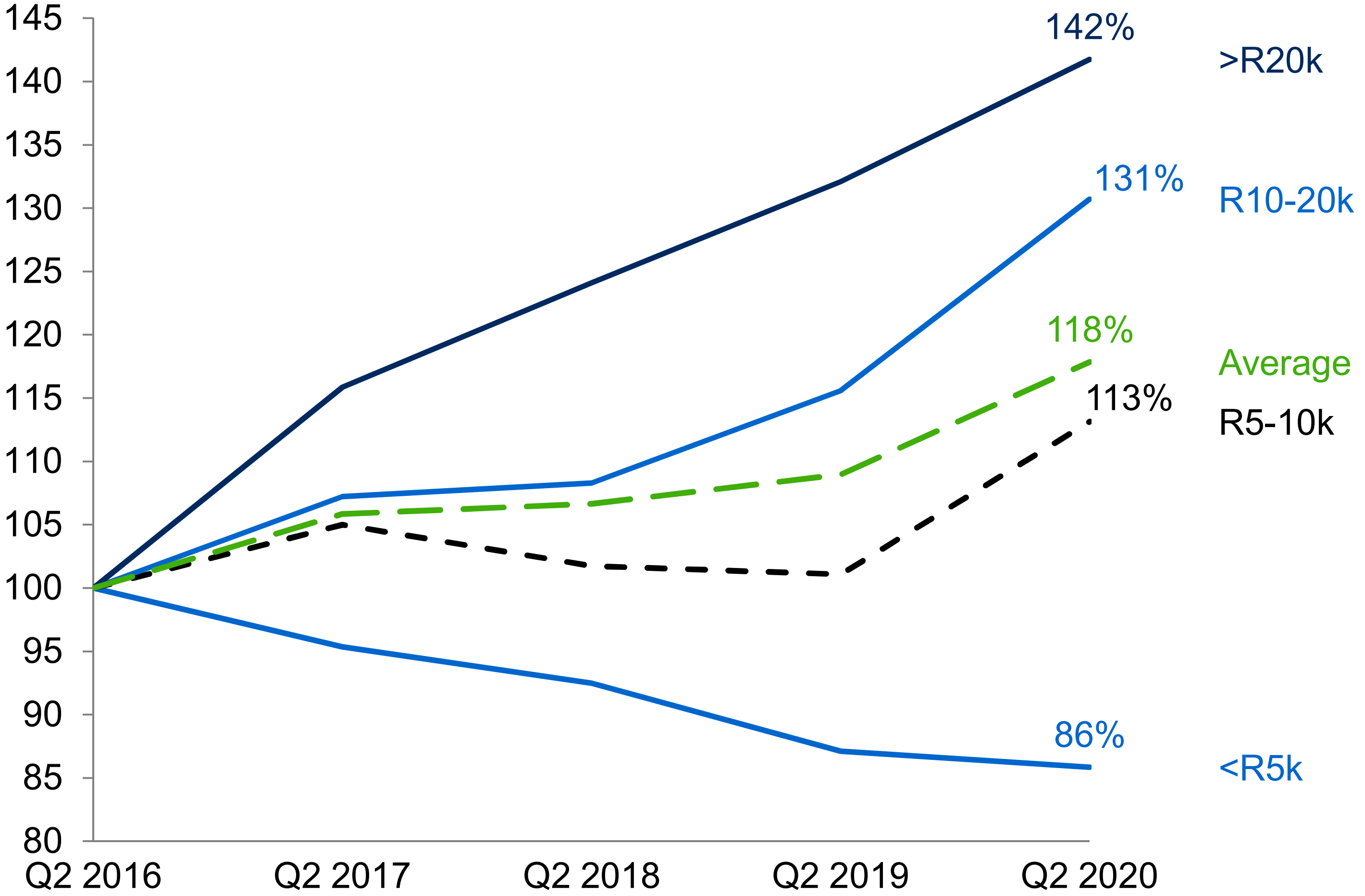



Source: DebtBusters

## …and growth in unsecured debt levels on average was +18% over the same four year period. This means consumers are increasingly using unsecured loans to supplement their incomes

### Clients signed up in the quarter

**Change in unsecured debt levels per income band**
**Indexed to 2016 levels**
**2016 = 100**



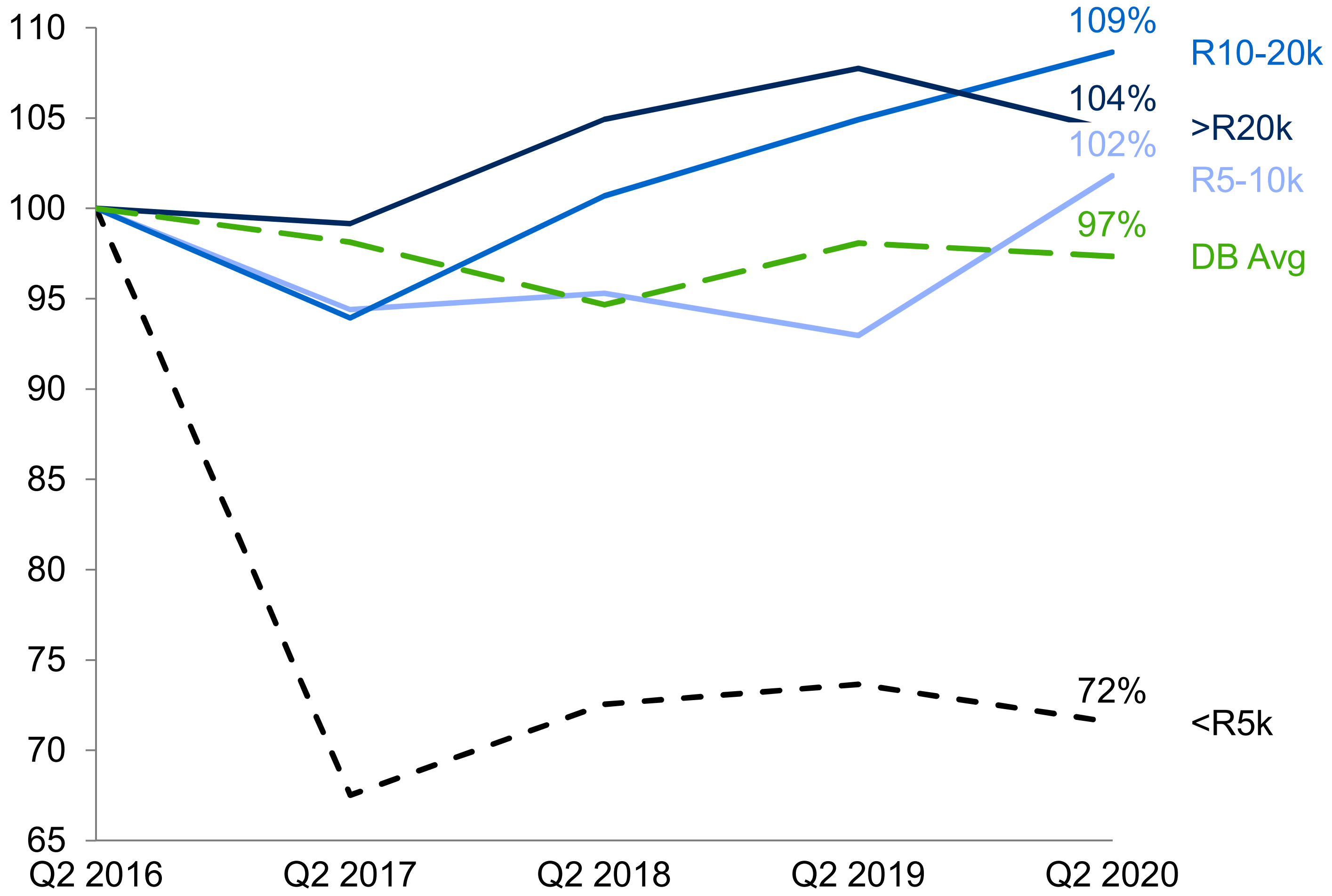

- **Unsecured debt for the average client is 18% higher than 2016 levels; for top earners the figure is 42%**
- **This indicates consumers are using unsecured loans to supplement their incomes**

Source: Debtbusters

Total debt levels have decreased by 3% compared to Q2 2016, indicating that debt growth is really driven by growth in unsecured debt

## Clients signed up in the quarter

**Change in total debt levels per income band**
**Indexed to 2016 levels**
**2016 = 100**

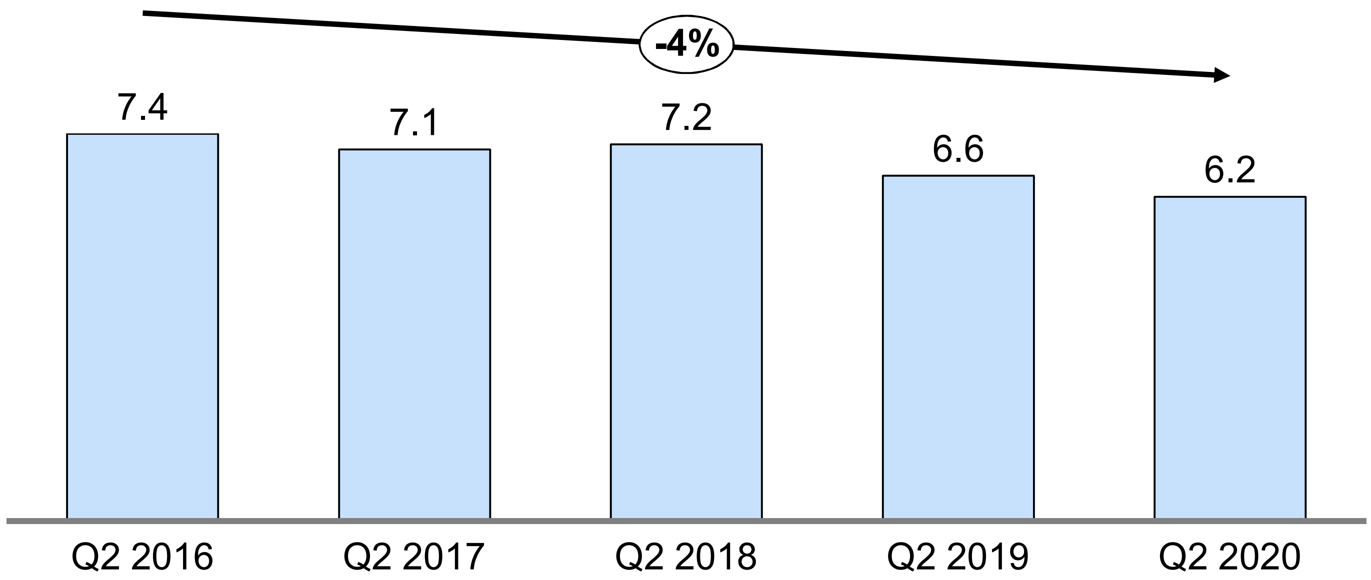



Source: DebtBusters

**In comparison to 2016, the total debt level decreased by 3% on average; for high income earners this increase was between 4% and 9%**

## The average number of credit agreements for new clients was around six. This shows clients are consistently becoming over-indebted faster than before

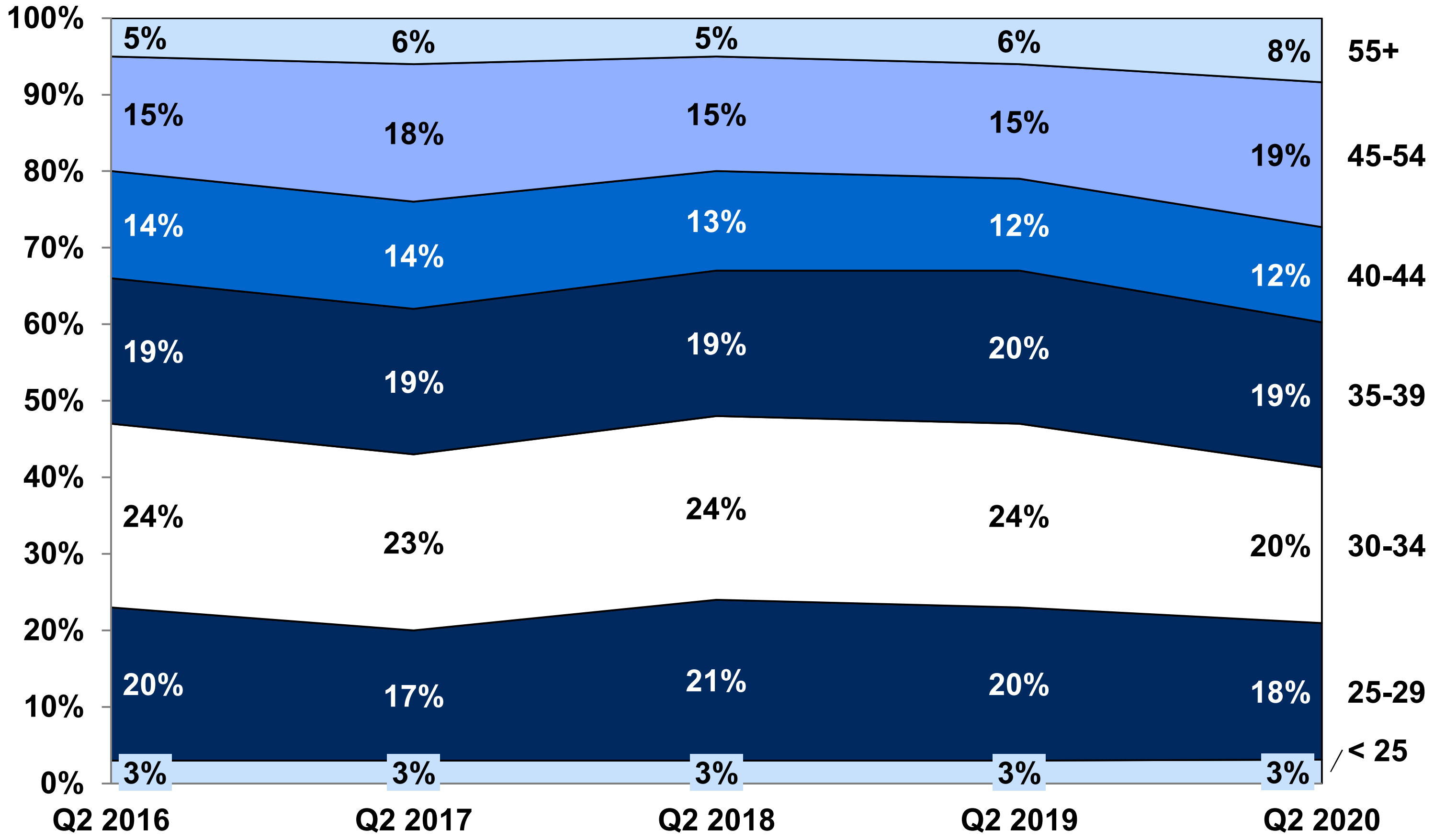
**Credit agreements per new client: Year-on-Year**
Number, when clients sign up with DebtBusters




Source: Debtbusters

## Client age profile: Age distribution of new clients has increased in older age groups (45+); the average age of new clients is 38

**Age profile of new clients**
Age range

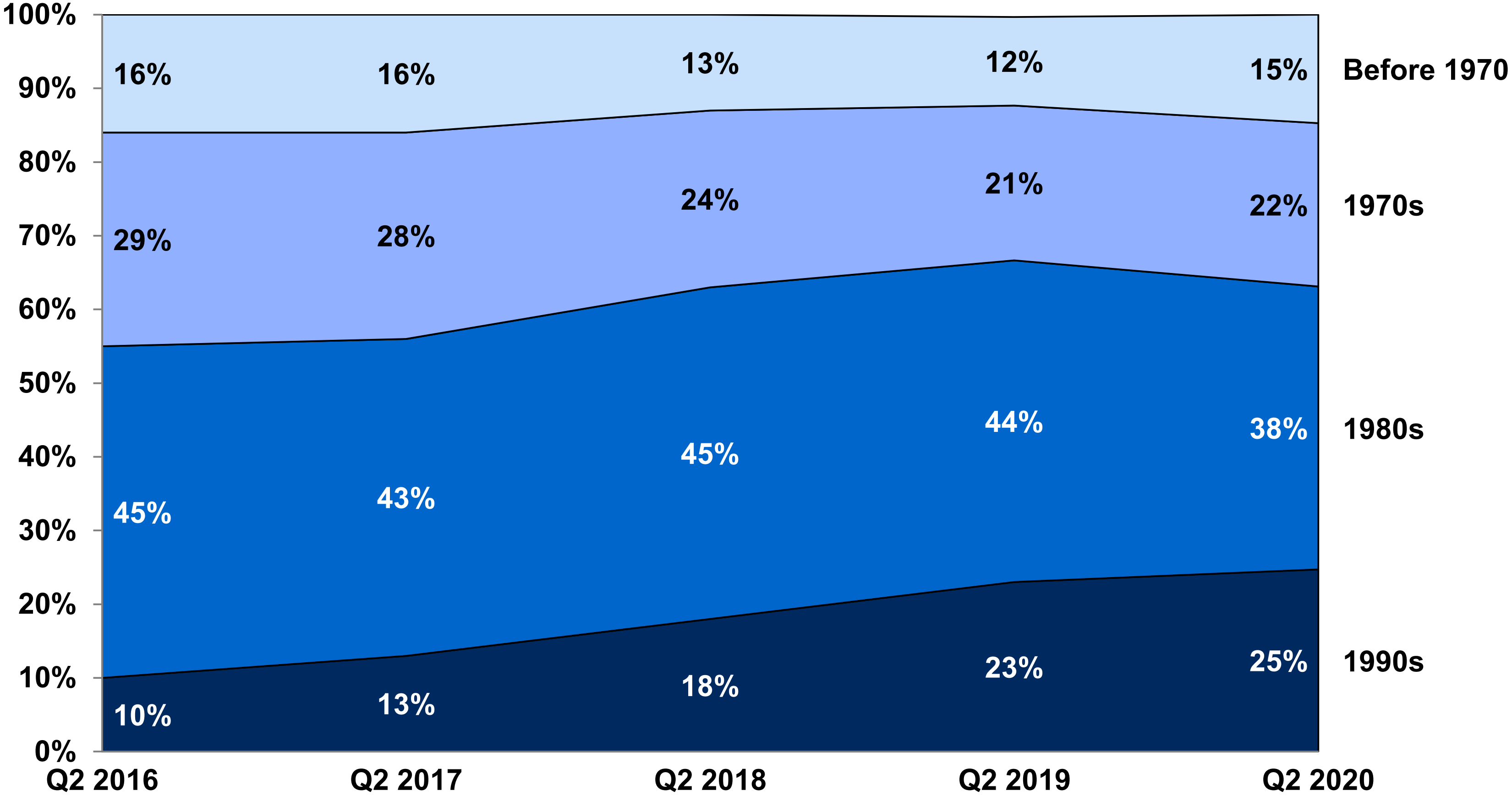



| Average age of new clients | Q2 2016 | Q2 2017 | Q2 2018 | Q2 2019 | Q2 2020 |
|---|---|---|---|---|---|
| | 37 | 38 | 37 | 37 | 38 |

Source: Debtbusters

## Clients born in the both the 1990's now make up 25% of all new applicants respectively; it appears that more men are becoming proactive about their debt

**Decade profile of new clients**
Decade of birth



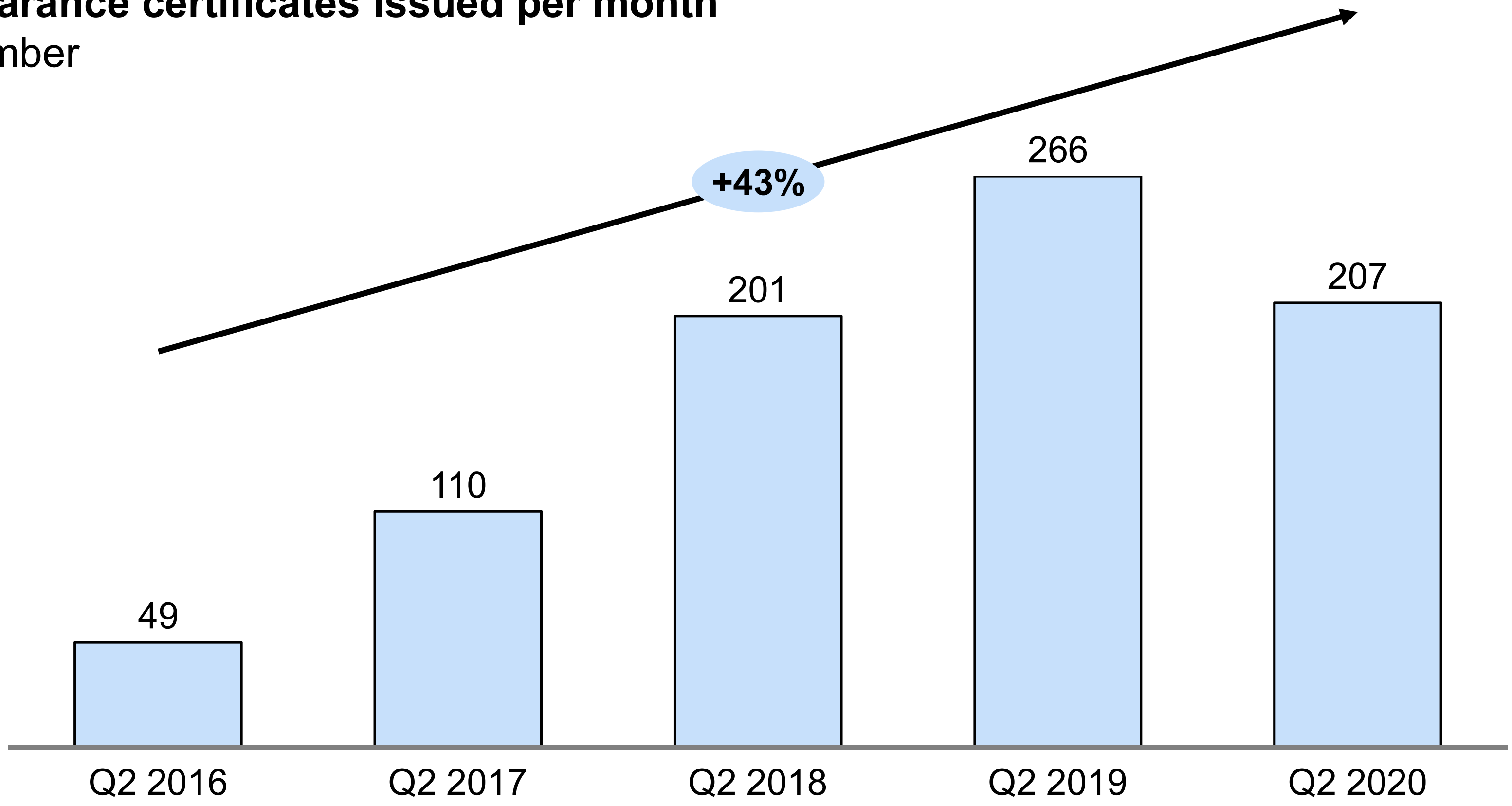

**Share of female applicants**

| Q2 2016 | Q2 2017 | Q2 2018 | Q2 2019 | Q2 2020 |
|---|---|---|---|---|
| 52% | 49% | 45% | 47% | 44% |

Source: Debtbusters

## The average number of Clearance Certificates issued has significantly increased over the past few years, at over 40% per annum. The growth was somewhat muted due to impact of national lockdown in Q2 2020, however it is still expected to grow

**Clearance certificates issued per month**
Number




Source: Debtbusters

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