Note on recent developments in the finance companies[1] industry

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In this *Quarterly Bulletin* statistical tables showing the assets and liabilities of finance companies are launched. This note introduces these companies and highlights key dimensions of their activities.

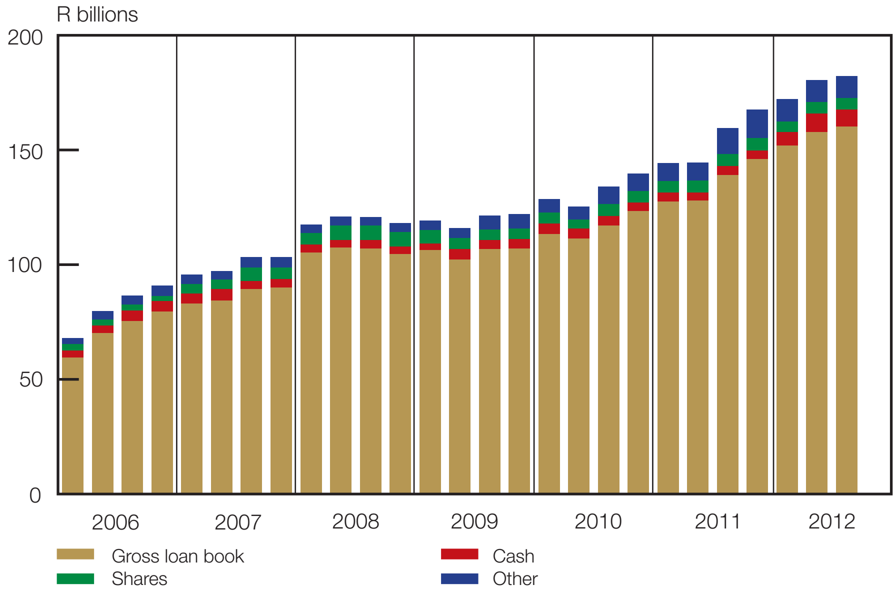
Finance companies obtain funds in various forms with the objective of lending or investing these funds in the form of instalment sale credit, mortgage loans and other loans. The harnessing of surplus funds from savers and the disbursement of such funds to borrowers is the core business of finance companies. As the financial system became broader, some domestic finance companies have increasingly become important lenders, especially to households.

Unlike banks, finance companies are not deposit-taking institutions. Nevertheless, finance companies play an important role similar to that of banks by intermediating credit to households and companies, often to fund consumption expenditure and fixed capital formation. Finance companies had total assets of R182 billion at the end of September 2012. While this is a large amount, it is overshadowed by the banking sector's total assets of R3 583 billion at the time.

The total assets of finance companies rose by 172 per cent from 2006[2] to R182 billion in the third quarter of 2012. In the period from 2006 to 2007 annual average growth in the industry's total assets amounted to 14 per cent per annum, while in the recessionary period 2008–09 this decelerated to 3 per cent. In the subsequent period, 2010 to September 2012, growth in total assets recovered to 9 per cent per annum. However, as a percentage of gross domestic product, assets remained broadly unchanged at 5 per cent from 2006–10, before increasing to 6 per cent in 2011 and September 2012. The growth in the balance sheet of this industry was buoyed by the loan book which increased by 170 per cent from 2006 to R160 billion at the end of September 2012. This was a reflection of several factors, including the ongoing improvement in household disposable income, lower interest rates, innovative financing and rising motor vehicle sales, while banks also exercised greater caution before extending loans.

The gross loan book accounted for 88 per cent of the finance companies' total assets in the third quarter of 2012. Their holdings of cash and cash equivalent instruments constituted a further 4 per cent, with shares and other assets representing the remainder.

Asset composition of finance companies



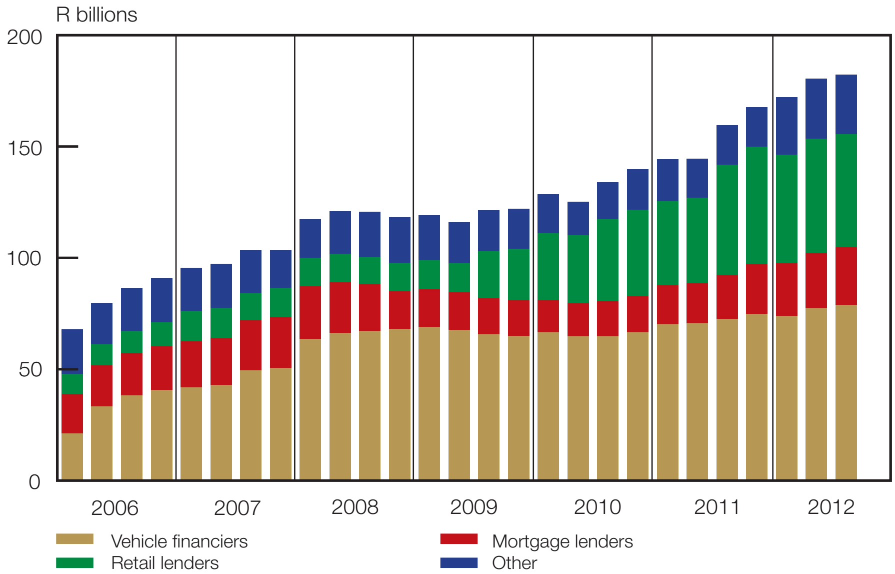
1 These are typically companies such as vehicle finance companies and retail trade finance companies.

2 Consistent data covering the significant industry players were included in the survey from 2006.

The source of funding for finance companies includes loans from banks and parent companies, loans from other institutions, and funds raised in the capital market. Although some banks have strategic partnerships and relationships with finance companies or with parent companies and have, in some instances, direct shareholding, loans received from banks averaged only 29 per cent of total funding obtained by finance companies over the period from 2006–12, dipping below this average during 2007–09.

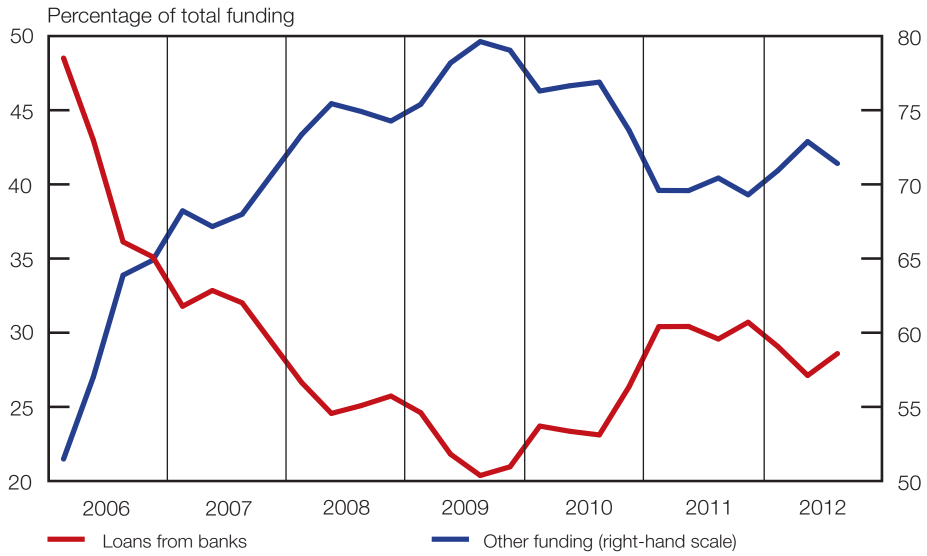
Where finance companies raise funds in the capital market it is usually in the form of debt securities, and mostly through commercial paper and bond programmes that are backed and guaranteed by parent companies. External sources of funding were augmented by internal financing from reserves and retained income, which averaged 13 per cent of total liabilities over the period 2006–12. The diversified funding base made it possible for finance companies to extend credit during the recent financial crisis – as was evident in the vehicle financiers.

Asset holdings by type of lender



Vehicle financiers accounted for 43 per cent of total assets in the finance companies sector in the third quarter of 2012, thereby constituting the largest segment of the market. Retail lenders accounted for 28 per cent and mortgage lenders for a further 14 per cent of total assets, while other sectors accounted for 15 per cent in the same period.

Source of funding by type



3 Gross loans extended minus loans from banks.

The net credit extended[3] by the industry rose by 250 per cent from the first quarter of 2006 to R122 billion in the third quarter of 2012. The growth in net credit extended has supported household consumption and the overall retail and motor trade sector, as well as their supporting industries.

While the finance companies' aggregate credit extension remains much smaller than that of banks, the availability of the former group's data makes it possible to undertake a more comprehensive analysis of credit extension trends in the economy on a regular basis.