PRESS RELEASE

SOUTH AFRICA 2007

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Debt – how far in the red are South Africans and what impact has the National Credit Act had?

Few would dispute that good financial management largely comprises keeping debt to a minimum and saving or investing for the future as much as possible. According to FinScope™ South Africa 2007, a comprehensive survey of financial use and behaviour, only 19% of South Africans manage to save, and most survive with little financial surety. This percentage includes formal and informal savings and those who keep cash at home.

Compounding the problem is the fact that many people are servicing far more debt than they can afford. The National Credit Act (NCA), introduced on 1 June 2007, was billed to try to stem this debt trap – and more than a million people have already been placed under debt administration in terms of the Act. According to the official website, the "*purpose of this Act is to promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers.*"

Attitudes to debt and debt-servicing behaviour

Based on a number of statements, with which respondents had to either agree or disagree, it is evident that South Africans understand the disadvantages of being in debt:

- *"You hate owing money to anyone"* – 88% agree. This debt intolerance is greater in the white (95%), coloured (93%) and Indian/Asian communities (90%), than in the black community (86%).
- *"Taking loans should be avoided as much as possible"* – 73% agree. The Indian/Asian and white communities are the most debt averse (77% and 78% respectively).
- *"When buying on credit, it ends up being more expensive than you thought it would be"* – 70% agree. This sentiment is particularly strongly held in the Indian/Asian market (83%).
- *"You make sure every month that you have enough money to pay your accounts or instalments"* - 45% agree. This figure is highest among whites (72%) and Indians/Asians (67%) and lowest among black (40%) and coloured (45%) adults. However, it is worth noting that access to formal credit increases with income, and consequently white and Indian/Asian adults are more likely to have credit than their counterparts of other races.

Of concern is that many adults also agree with the following statements:

- *"You never seem to be able to pay off your debt, your debt just keeps on getting worse"* – 14% agree. This figure is lowest among coloured adults (10%), and similar among the remaining race groups: black (15%), white (13%) and Indian/Asian (16%).
- *"If you don't have enough money to pay all your debts, you pay one debt one month and the next month you pay another debt"* - 26% agree. This type of behaviour appears to be most prevalent in the Indian/Asian market (30%) and least prevalent in the coloured market (18%).

- *"You love spending money to buy things, even if you have to use credit to do so"* – 25% agree. Indian/Asian (31%) and white (27%) adults are more likely to indulge in this debt-producing behaviour than black (25%) and coloured adults (20%).

What is also evident is that there is a preference to turn to informal networks in times of need rather than approaching a large or formal organisation: "*In times of need, you would rather deal with people you know than with a large organisation*" – 53% agree.

Although there is general consensus that debt should be avoided, a significant portion of the population appears to use debt inappropriately, and some are spiralling deeper into debt.

The table below shows the attitudes to debt among adults of different LSM[1] groups:

	LSM 1-5 %	LSM 1-2 %	LSM 3-4 %	LSM 5 %	LSM 6-7 %	LSM 8-10 %
You hate owing money to anyone	87	82	88	87	88	93
Taking loans should be avoided as much as possible	74	79	71	75	71	76
When buying on credit, it ends up being more expensive that you thought it would be	64	55	63	72	77	80
You never seem to be able to pay off your debt, your debt just keeps on getting worse	13	7	12	17	17	14
You make sure every month that you have enough money to pay your accounts or instalments	31	23	27	44	59	70
If you don't have enough money to pay all your debts, you pay one debt one month and the next month you pay another debt	23	15	21	32	36	22
You love spending money to buy things, even if you have to use credit to do so	20	12	19	27	35	25

How indebted are South Africans?

Around 6% of South African residents, almost two million people, have some type of home loan. The incidence of such loans varies dramatically by race, as follows:

- Black – 2%
- White – 26%
- Coloured – 11%
- Indian/Asian – 18%

The penetration figures are fairly stable for the black, coloured and Indian/Asian markets between 2006 and 2007. However, the percentage of white adults with a home loan or bond has decreased substantially from 33% in 2006 to 26% in 2007.

The most common form of home loan is a formal mortgage from a bank, held by 5% of people. A further 1% have a loan from a bank to extend or improve their homes.

[1] LSM or Living Standards Measure is a categorisation ranging from 1 to 10 used extensively by marketers and advertisers as a means to segment the population. It is crude proxy for wealth, with the lower LSM groups comprising the most impoverished end of the spectrum. LSM figures are based on the 2005 algorithm.

The table below tabulates where South African adults currently have loans:

	Total %	Black %	White %	Coloured %	Indian/ Asian %
Store card where you buy on account, e.g. Edgars	16	14	26	20	21
Loan from a friend/family	5	6	5	2	2
Personal loan from a bank	4	3	8	5	3
Vehicle finance through a bank or dealer	3	1	16	3	7
HP facility for household goods	3	3	3	3	2
Overdraft facility	2	0	9	3	4
Lay-by at a retail store	2	3	0	1	0
Store account with no card where you pay later	1	1	1	1	2
Loan from an employer	1	1	1	1	0
Loan from a microlender	1	1	0	1	2
Loan from a stokvel/umgalelo/savings club	1	2	0	0	0
Vehicle finance through elsewhere, e.g. personal loan, mashonisa, microfinance	0	0	1	0	2
Personal loan from a retail store	0	0	1	2	1
Loan from an informal money lender	0	1	0	0	0

Of the different types of loans, the most common source is a store card used to defer payments until later, for example from Edgars. Sixteen percent, or more than five million people, have such a loan, including 6.4% of those in LSM1-5. The next most common type of finance is a loan from a friend or family (5%) and then from a bank (4%). Three percent of South Africans have vehicle finance through a bank, and 2% have an overdraft facility. Although this is low in percentage terms, 1% of people have obtained a loan through a stokvel, umgalelo or savings club, and a further 1% have used a microlender. The latter figures may be under-claimed because of the stigma of borrowing money from such sources.

To summarise the table above, around 4,4 million people or 14% of the adult population, have a personal loan of some description (excluding credit card debt). The incidence is higher among the banked population, rising to 21%. Of concern is the substantial growth in the uptake of personal loans between 2006 and 2007, rising from 11% to 14%. Again, marked racial differences are evident:

	2006 %	2007 %
Black	8	11
White	29	33
Coloured	11	14
Indian/Asian	13	16

Around six million people, or 19% of the adult population, have a store account of some description. This includes store accounts with a card where a customer buys on account and defers payment until later, store accounts with no card where a customer also defers payments (for example spaza and corner shop account), a lay-by at a retail store, and a hire purchase facility to buy household goods. Penetration of this type of store account loan facilities by race is as follows:

- Black – 17%
- White – 28%
- Coloured – 22%
- Indian/Asian – 23%

Drivers of debt

The study probed the reasons why loans had been applied for in the previous 12 months. Although the claimed figures are low, the fact that the most prevalent reason for taking out a loan was for basic necessities underscores the dire financial circumstances many people face, particularly black South Africans. Eight percent of adult South Africans had taken out a loan to meet a basic need such as to buy food, pay off a debt, pay school fees and for utilities. Very few of the drivers of debt will result in any long-term financial investment; rather, the loans are short-term and survival-driven rather than investment-based. The figures for loans applied for in the last 12 months are in the table below:

	Total %	**Black %**	**White %**	**Coloured %**	**Indian/ Asian %**
To buy food	4	4	0	2	0
To pay off a debt	3	3	1	3	1
To pay a child's school fees	2	2	0	1	0
For clothing	1	1	0	1	1
For water and electricity	1	1	0	1	0
Unexpected medical expenses	1	1	0	0	0
To pay for a funeral	1	1	0	0	0
To study	1	1	1	1	1
To buy a car	1	1	3	1	4
To buy or build a house	1	1	2	1	1
Have not borrowed money in the last 12 months	88	87	91	89	90

Source of loan finance

Other than for purchasing luxury items such as a car, informal networks such as friends and family are key in securing a loan. For food, such networks are the source of 77% of loans, for water and electricity they are 73%, and they provide 42% of funeral finance.

Although banks are the primary sources of loan income to pay off debt (42%), friends and family are also important providers (25%), followed by mashonisas (10%) and microlenders (10%).

For money to pay school fees, banks are also key (35%) as well as friends and family (30%). However, a significant portion is also funded through burial societies, stokvels and savings clubs (16%).

Loan education from provider

Respondents who had taken out a loan in the preceding 12 months were probed about the information given to them at the time. The best communicated aspects were the payment amount (88%), how long the loan would take to pay back (87%), the fees (83%), and the interest rate that would be applied (81%). The worst communicated aspects were the institutions or organisations to contact if a person was unhappy with the contract (39%), what the person would need to do if he/she was unable to make the repayments (51%), and consumer rights in terms of the agreement (52%).

The National Credit Act

The National Credit Act (NCA) had been in place for between three and six months at the time of the survey fieldwork and awareness of the Act must be seen in this context. Twenty-two percent of adults said they were aware of the term *National Credit Act*, and knew what it meant. The figures for *debt administration (18%), garnishee or emolument order (17%) and debt rescheduling (12%)* were, however, somewhat lower.

Knowledge was also limited about what consumer rights and obligations were involved in taking out credit. However, this must be seen in the light of the relatively low awareness of the Act, and also that it had been in operation a relatively short time.

The table below shows agreement with various statements, some of which were true and some false about the National Credit Act.

	Total %	Black %	White %	Coloured %	Indian/Asian %
Agreement with incorrect statements					
The new NCA means all your previous credit obligations fall away	15	15	20	13	20
You have the right to miss up to six payments in a yearly cycle	12	10	19	14	20
Having your loan provider phone you regularly to remind you to pay is a good thing	24	20	42	32	35
Agreement with correct statements					
You have the right to five quotes before you take credit	26	23	38	27	34
You have a right to a copy of your credit history	45	39	69	56	52
You have the right to a full explanation of your credit agreement	54	48	82	69	59
You have the right to a full explanation of fees and interest that will be charged	54	48	83	68	60
You have the right to have your debt rescheduled or restructured	31	27	55	34	37
You have the right to challenge your personal information on the credit bureau or register	38	34	60	43	45
You may apply for counselling for your debts	32	26	59	46	37
Consolidating your debt makes financial sense	30	24	54	41	45
Experience of impact of NCA					
You know someone who is having their debt rescheduled	9	8	18	9	12
You know someone who has a garnishee or emolument order or has been garnisheed	8	7	17	8	12
You have heard of someone under debt administration	11	8	27	12	14
You, personally have been under debt administration	4	3	10	4	8

Although misconceptions about consumer rights and obligations are evident, it is also encouraging that knowledge of various aspects of the Act is fairly good considering how long it has been in operation. Knowledge is best among white adults, and lowest among black adults.

Of significance is that 4% of adults, or around 1,3 million people, have already been placed under debt administration.

Summary

South Africans appear to understand the pitfalls of servicing debt, and there is a widespread stated aversion to borrowing. However, in line with historical trends, the reasons for borrowing vary considerably among the race groups. White and Indian/Asian adults are far more likely to borrow money to pay off assets, thus often bettering their long-term financial standing. By contrast, black and coloured adults are more likely to borrow to meet everyday survival needs, the most common reason being to buy food.

Based on their relative financial strength in the market, white and Indian/Asian adults have the highest incidence of taking out loans through the formal sector, both mortgages and personal loans.

Banks fulfil most of these loan requirements. However, in the population as a whole, a person's own network is preferred for a loan rather than a formal institution. The preference for, and stated use of, microlenders and loan sharks or mashonisas is low.

The National Credit Act has yet to become a household term in the South African financial landscape. However, in spite of not having actual knowledge of the term, awareness of consumer rights governed by the Act were relatively high, given the limited time the Act had been in operation at the time of the study. More than one million people have already felt the effects of being under debt administration. As the impact of the Act gains momentum over time, it is expected that knowledge of the Act will improve. However, as the Act can be applied only to institutions in the formal arena, much of the lending and borrowing behaviour falls out of the sphere of its influence. In these circumstances, the rights of borrowers and lenders are still not protected.

FinScope™ was launched in 2003 by the FinMark Trust. It establishes credible benchmarks for the use of, and access to, financial services in South Africa. It was designed to highlight opportunities for innovation in products and delivery. The findings in 2003 and subsequent years have identified barriers to access for low income people and provided insights for policymakers, in both the public and private sectors, who wish to remove or reduce the barriers. For more information see: http://www.finscope.co.za

FinScope™ SA 2007, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by TNS Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 900 South African residents aged 16 years and older, between September and November 2007. A nationally representative sample was drawn, which was weighted and benchmarked to the 2007 mid-year estimates based on the Census 2001 estimate information.

The 2007 South African syndicate members are: Absa, African Bank, First National Bank (FNB), Liberty Life, Metropolitan, National Treasury, Nedbank, Old Mutual, Post Office, Zurich, Sanlam and Standard Bank.