Investigating the high level of consumer indebtedness in the South African retail market

By

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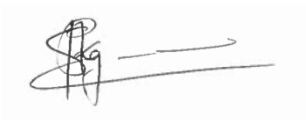
DECLARATION

"I, Stephen Phuti Kgomo, hereby declare that:

- The work in this thesis is my own original work, except as acknowledged in the customary manner.

- All sources used or referred to have been documented and recognised; and

- That this treatise has not been previously submitted either in partial or full fulfilment of the requirements for an equivalent or higher qualification at any other recognised education institution."



27 February 2016

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ABSTRACT

This study was aimed at investigating the high level of consumer indebtedness in the South African retail market more specifically factors that contribute to consumer indebtedness. Recommendations on how to control the level of consumer indebtedness are also presented. Consumer indebtedness is a problem in many countries around the world and as witnessed during the 2008 global financial crisis, its impact can be disastrous. Not only does it create problems for the families but also for a country and even to the extent of the whole world.

The literature conducted did not reveal a study undertaken to investigate factors that impact consumer indebtedness. Eight factors were identified and explored further in this study. Results were analysed in chapter three and outcomes presented in chapter four.

The method used in conducting this study is the quantitative method. A questionnaire was developed based on the literature review conducted. The questionnaire was a five point Likert scale and was distributed to the respondents in the southern area of Tshwane Municipal district. In view of a manageable number of responses, results were analysed using an excel spreadsheet. Results were verified by an independent expert.

From the eight factors that are identified, one (easy access to credit) was found to impact the high level of consumer indebtedness. Although there are other weaknesses, easy access to credit is found to be the main contributor. Recommendations on the findings are presented in chapter five of this study.

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GENERAL INTRODUCTION AND BACKGROUND TO THE MAIN PROBLEM

1. INTRODUCTION

After the effect of the 2008 global financial crisis, many countries were left with highly indebted consumers, businesses and public institutions. This had undoubtedly affected the economy of many countries negatively.

This paper is aimed at identifying and exploring factors that contribute to the high level of consumer indebtedness in the South African retail market. Possible short and long term solutions are also suggested.

2. BACKGROUND TO THE MAIN PROBLEM

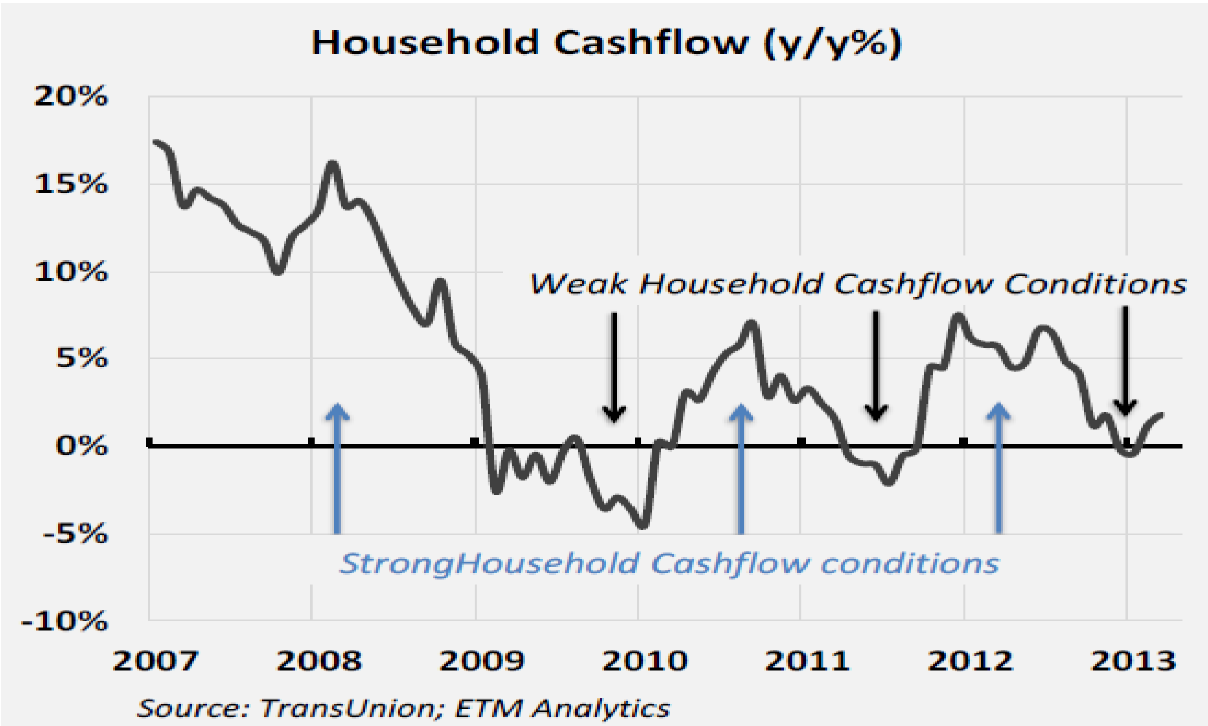
During 2008 the world at large experienced a financial crisis caused by the over indebtedness of consumers and institutions. The dispersion of household debt across countries increased substantially between 1995 and 2011 (Bertola and Hochguertel, 2007:115 - 146). Murray (1997:41 – 45) had a different view as he argued that recession should not be attributed to over indebtedness because in his opinion over indebted consumers represent a small portion of the economy. Murphy (1998:38 - 42), however argues that a debt burdened consumers have a significant impact on an economy.

Many of the issues that surfaced during the 2008 financial crisis involved misconduct by market participants in both the wholesale and retail financial markets. Banks and other credit providers were lending money to consumers against mortgages even if they could not afford it. This resulted in over indebted consumers and institutions which ultimately led to the vast depreciation of the economies of many countries.

In 2003 the South African Department of Trade and Industry stated that the high levels of debt in which South African households have indulged, with little regard to the negative consequences of such accumulated debt is alarming. According to the Department of Trade and Industry the consequence of failure by consumers to repay their debts has a negative effect on the economy and it can also cause an increase in the cost of credit to the country.

Schmitt (2000:333 – 345) states that household over indebtedness is caused by credit consumption exceeding the growth in income levels. The problem with over indebtedness is that high interest and principal repayments could infringe on the ability of a household to cover other living expenses, ultimately leading to a decrease in the standard of living and thus weakening consumer spending and, in turn, slowing down economic activity, as there is a relationship between consumer debt and economic activity. The table below indicates the trend of South African household cash flow from 2007 until 2013 on a year to year basis.

FIGURE 1.1: TREND OF SOUTH AFRICAN HOUSEHOLD CASHFLOW FROM 2007 UNTIL 2013



The National Treasury reported in its paper titled: *A safer financial sector to serve South Africa better* that the global financial crisis began in September 1998 as a result of a collapse of Lehman Brothers in the United States of America. Financial institutions around the globe began to panic due to a lot of uncertainties in the financial sector. Financial institutions were reluctant to lend to each other causing liquidity problems in the financial sector and governments were forced to barge in and provide extraordinary assistance to troubled institutions. Lending as a whole became almost standstill, which created financial problems around the world. This has severely impacted the stock market negatively around the world.

The National Treasury further stated that the global financial crisis in 2008 was the worst recession ever experienced by the world since the 1930s. Jappelli (2010:1 - 37) found that the consequences of a recession may last longer because of consumer debt, which in turn affects financial institutions and ultimately a country's balance sheet.

In response to the problem caused by the financial crisis in 2008, the financial industries enhanced regulations to prevent the problem to reoccur. It is for this reason that in recent years a number of countries around the world have restructured their regulatory structural design to increase the effectiveness and efficiency of regulations to prevent amongst other things, over indebtedness by consumers and institutions and ultimately to maintain healthy economies.

Unlike most countries South Africa was not severely affected by the 2008 global financial crisis. However, the crisis brought a need for South Africa to review its financial sector regulation processes. Although regulation is not the only solution to the problem, in general it is of the utmost importance to every sector of every country.

Despite South Africa being one of the leading countries in terms of regulating the financial sector, there has been an increase in consumer indebtedness. Nombembe, Deklerk and Collins' (2015) article states that in July 2015 the High Court in Cape Town ruled in favour of fifteen poorly paid workers such as security guards, cleaners and farm workers who were forced to have about eighty per cent of their net salaries deducted through garnishee orders to repay defaulted loans to unscrupulous money lenders.

The problem with consumer over indebtedness is that it exposes the country to the risk of being affected by a financial crisis. In general, borrowing constraints and capital market imperfections may induce a higher household saving ratio (Guiso, Jappelli and Terlizzese, 1992:197 - 213). In 1999 the Government disallowed payroll deductions from its employees because of over indebtedness amongst the population. This was the government's attempt to discourage money lenders to offer loans to consumers who are unable to afford, especially those employed by the Government.

Prinsloo (2002:63) is of the opinion that it is good for consumers to spend more money, as this creates a viable economy as opposed to less spending by the consumers, which causes harm to the economy. This is supported by the logic that the more the consumers' spend, the more the need to produce goods and services, which in essence stimulates the economy. Prinsloo (2002:63) also found that more than sixty per cent of South Africa's gross domestic product is derived from consumption by consumers.

From Prinsloo's findings, it can therefore easily be concluded that expenditure by consumers generally is of the utmost importance to the performance of the economy. If well managed, consumer debts can be seen as one of the cornerstones of modern capitalism, which lubricates the economy and promotes commercial activity. It can in turn be said that expenditure by consumers has an effect on the economy's output performance.

Spending itself is good for the economy. However, consumers should be cautious when spending and not spend too much of what they do not have. The problem starts when consumers begin to spend the money they do not have and erode their future earnings. This often happens when consumers buy ordinary consumables using debt. At times they still opt to buy in debt even if they could afford to pay in cash. They then start to build a trend of using debts to pay other debts. This leads to unnecessary over indebtedness when they end up failing to service their credit agreements.

Although consumer debt makes the financial sector viable, which in turn stimulates the economy it can be a problem when consumers get over indebted as witnessed during the 2008 global financial crisis. Debt fuels growth in the economy, whereas savings can hamper growth. Therefore, debt can be seen as a necessary evil (Bertola and Hochguertel, 2007:115 - 146).

According to Fisher (1933:337 - 357), when an exogenous shock (such as expected future income of a household) hits consumers with high debt burdens, it prompts them to reduce their spending in order to cut their debts. This leads to a decline in general prices, a fall in net worth and eventually to a further fall in output. This affects the country’s gross domestic product and eventually leads to a decline in the economy. Blanchard (1993:270 - 274) and Hall (1993:275 - 279) cite that the role of credit in a recession is of paramount importance.

In this paper, the researcher studied factors influencing high levels of consumer indebtedness in the South African retail market. The study further explores the factors influencing high levels of consumer indebtedness in the South African wholesale market and strategies are recommended to control over indebtedness of consumers.

3. Conclusion

The basic cause of the global 2008 recession was found to be the uncontrolled indebtedness of individuals, and private and public institutions. This, in turn, caused the economies of most countries to collapse. In the aftermath of the problem many countries are still not able to service their national debt.

CHAPTER 1

PROBLEM STATEMENT, DEFINITION OF KEY CONCEPTS AND LITERATURE REVIEW

1.1 INTRODUCTION

In the world as a whole, consumers require financial wellness to survive. Except for earning money by endeavours, another way of acquiring money is by way of obtaining loans, however if loans are not managed properly, this often leads to consumers over time being unable to repay those loans. It could either be because they are living beyond their means or because they are borrowing more money than they can afford, or even that they are borrowing money from unscrupulous lenders. The problem with consumer indebtedness is that it leads to consumers not being able to afford their living expenses. This has a negative effect on household expenditure and in turn, there will be no stimulation in the economy.

An empirical study conducted by Prinsloo (2002:64) shows that in South Africa on average more than ninety three per cent of total debts is accounted for by consumers (private household debt). According to a research conducted by the National Credit Regulator and Devnomics Developmentnomics (Pty) Ltd (2012), in South Africa, consumers with impaired records are estimated to be about forty six per cent and those with repayment arrears of one to two months account for an additional nineteen per cent and only about forty per cent are up-to-date with their account repayments. From this finding, one can easily conclude that in general, South Africa has a problem with over indebtedness by consumers.

According to Van der Walt and Prinsloo (1995:10 – 14) the problem of over indebtedness by consumers is caused by the easy availability of credit. Roestoff and Renke (2005:93 - 109) further note that an increase in debt is as a result of the relaxation of the regulation of financial institutions as consumers are able to access credit easily and therefore have more opportunities of abusing credit.

In an attempt to mitigate the problem of consumer indebtedness, South Africa enhanced its regulating mechanisms by introducing regulations on consumer debt when the National Credit Act 34 of 2005 (Act 34 of 2005) was introduced. The National Credit Act was promulgated with effect from 01 June 2007 and was aimed at providing effective mechanisms for regulating consumer debts. The objectives of the National Credit Act, amongst others, are the following:

a) To repeal the Usury Act, 1968, and the Credit Agreements Act, 1980; and to provide for related incidental matters;

b) To level the playfields of credit providers by promoting a non-discriminatory market place;

c) To raise the standard in the sector by improving consumer information;

d) To transform the financial market sector by promoting black economic empowerment;

e) To eliminate malpractice by prohibiting certain conducts such as unfair marketing by credit providers;

f) To promote responsible credit granting and prohibit reckless credit granting;

g) To allow consumers to re-organise their debts in instances where there was over indebtedness;

h) To provide regulation of credit information;

i) To register and regulate services of other service providers such as credit bureau;

j) To establish and regulate debt counselling services;

k) To establish national norms and standards relating to consumer credit;

l) To promote a consistent enforcement framework relating to consumer credit;

m) To establish the National Credit Regulator and the National Consumer Tribunal.

The National Credit Act is under the custodianship of the National Credit Regulator. The National Credit Regulator was established in terms of section 12 of the National Credit Act and it is responsible for the regulation of the South African credit industry. It is tasked to do the following, among others: Carrying out education to the consumers, research in the industry, developing policies that will improve the industry, registration of industry participants, investigation of complaints, and ensuring enforcement of the National Credit Act. The National Credit Regulator is managed by a board of directors and reports to the Minister of Finance.

The National Credit Regulator reported in its Volume 1 of 2007 that the following entities are regulated in terms of the National Credit Act;

a) Banks.

b) Macro lenders.

c) Retailers such as clothing and furniture stores that sell their good on credit to consumers.

d) All businesses, such as close corporations, companies and individuals who do business on credit, provide loans, or charge interest on overdue accounts.

e) Credit bureau and debt counsellors.

The National Credit Act replaced the previous legislation (Usury Act, 1968, and the Credit Agreements Act, 1980) that regulated the credit industry. These legislations were seen as being ineffective. Goodwin-Groen (2006) argues that the previous legislation was quite lax in terms of what suppliers had to disclose to customers and this impaired their ability to choose the products that they could actually afford and that were suited to their needs.

Numerous concerns have been raised whether regulation of consumers' financial debts in South Africa has achieved or is achieving its intended purpose. The aim of this research paper is to identify factors that influence the high level of consumer indebtedness in the South African retail market and explore those factors.

1.2 MAIN PROBLEM

It is uncertain what factors impact on the high level of consumer indebtedness in South Africa.

1.3 SUB-PROBLEMS

In an attempt to address the main problem, the researcher identified the following four sub-problems that may impact the main problem.

1.3.1 Sub-problem 1

Are South African consumers able to afford to repay their debts?

1.3.2 Sub-problem 2

Do consumer income, reckless lending and financial literacy have impact on consumer indebtedness?

1.3.3 Sub-problem 3

Is easy access to credit a main contributing factor to consumer indebtedness?

1.3.4 Sub-problem 4

Are credit providers making efforts to reduce the level of consumer indebtedness in South Africa?

1.4 DELIMITATIONS OF THE RESEARCH

To establish the exact boundaries of the research problems, it is necessary to delimit the research. Due to the resource constraints, the demarcation of research is aimed at ensuring that the research topic is more manageable. This research only focuses on lending to consumers in the South African retail sector. It excludes lending to businesses and institutions or any other sector.

The rationale behind demarcation of the resource is to eliminate the problem of resource constraints and other obstacles. Certain topics may have been omitted in this paper and therefore may be researched further. This research is based on the literature reviews conducted and questionnaires that were distributed to the respondents.

1.4.1 Geographical demarcation of the study

The definition of population is provided by Sekaran and Bougie (2010) as being “the entire group of people, events, or things of interest that the researcher wishes to investigate”. According to Burns (2000:83) a population is a group of people with at least one common characteristic and they must be well-defined. The population in this study comprises of the individuals who are professional employees in various fields or companies based in the southern region of the City of Tshwane Municipal District as well as employees of three credit providers in the same area.

The researcher sampled the respondents that were within his reach using a non-probability method. This was due to constraint of resources such as finances and time. According to Saunders, Lewis and Thornhill, (2009) in non-probability sampling, the likelihood of each case being selected is unknown and therefore it is not possible to make statistical inferences about the characteristics of the population.

Managers of various credit providers in the same area were also approached but opted not to participate in the survey, except for three. They cited various reasons. However, the most common one was that they required prior permission from their head offices. The three managers who agreed to partake in the survey did so at their own discretion as well as the willingness of the employees to complete the questionnaires.

The three credit providers surveyed requested that their names not to be disclosed for confidential reasons. For the purpose of this paper, these credit providers are referred to as companies X, Y and Z. Two of these credit providers (X and Y) are medium size credit providers and were selected based on their size. The third credit provider (credit provider Z) is smaller in size as compared to credit providers X and Y. Credit provider Z was included to obtain a larger total sample size of respondents. Further researches may be conducted wherever there are omissions.

According to Thomas (2004:108) the purpose of sampling is convenience and to save cost and time. Ingham-Broomfield (2008:106) confirms that using a questionnaire is cost and time efficient. It also eliminates an administration burden. Ingham-Broomfield (2008:102-109) also states that a questionnaire provides anonymity, which eliminates the problem of bias. In this paper, the population was randomly sampled and a questionnaire was distributed to the sampled population.

1.4.2 Level of respondents

The research was limited to the working class based in the southern region of the City of Tshwane Municipal District and employees of three credit providers in the same area.

1.5 RESEARCH OBJECTIVES

Some primary and secondary objectives were identified.

1.5.1 The primary objectives

The main research objectives are to -

- investigate and discuss in detail factors that contribute to the high level of consumer indebtedness in the South African retail sector;
- evaluate the impact of consumer indebtedness in the South African retail industry on the consumers as well as on the South African economy; and
- to suggest possible short and long term solutions to the identified problems.

1.5.2 The secondary objectives

This study also evaluated the effectiveness of the existing strategies used to minimise the level of consumer indebtedness in the South African retail industry.

1.6 SIGNIFICANCE OF THE RESEARCH

As mentioned, consumer debt stimulates the economy. However, if consumers become over indebted it can affect the economy negatively and result in a financial crisis similar to the one that was experienced during the 2008 global financial crisis. Several studies have shown that over indebtedness by consumers remains a serious problem in the South African financial market. It denies consumers financial freedom, and this can lead to additional problems such as poverty and mental wellness.

The aim of this study is to investigate the high level of consumer indebtedness in the South African retail market. The study can be useful to relevant authorities in identifying factors that impact the high level of indebtedness in the South African retail market. If not researched, relevant authorities may not be aware of these factors, and the risk is that necessary actions could not be taken.

1.7 RESEARCH METHODOLOGY

This section of the research addresses the method followed in collecting, analysing and interpreting data in addressing the identified problem. The study is a combination of two elements, namely a literature study and an empirical study. In the literature study section, data was drawn from theoretical reviews, libraries, the internet, relevant industry reports, public reports and other relevant industry documents. The empirical study consisted of observed interviews of industry role players.

The following method was used in designing the research in order to achieve the objectives of the study –

The researcher conducted a review of literature and observed interviews of industry role players.

- A questionnaire was developed based on the outcome of the literature review conducted and observation of interviews of industry role players. The questionnaire was simplified as much as possible to ensure that it was easily understood by the respondents and easy for the researcher to analyse the data. Wegner (2000:91) states that the question format is employed to design the set-up of each question for appropriate data recording.

- The second step was to test the questionnaire to ensure that it was valid and reliable. In this step, a small sample consisting of five respondents who were approached to test the questionnaire. Testing the questionnaire before the distribution is emphasised by Proctor (1997:144) and Churchill (2001:340), as this can assist in identifying possible shortcomings in a questionnaire. The researcher then has the opportunity of revising the questionnaire and ensuring that it is valid and reliable. This step also served as a pilot study for the paper. According to Lancaster (2005:108) a pilot study is important, as it can assist in determining whether respondents understood the questions.

- The third step was to distribute the structured questionnaires to the participants. Three credit providers in the south of the City of Tshwane Municipality were identified and approached in which managers and employees were requested to participate. Various individuals who are working professionals in the southern region of the City of Tshwane

Municipality were also randomly selected and requested to participate in this research.

- The data was then captured and analysed on an excel spread sheet. The excel spreadsheet was a preferred method because of a manageable size of responses. It also assisted the researcher to cut costs and save time.

- The results were then interpreted with assistance of an independent expert. Conclusions were made based on the outcome of the interpretation of results.

- Recommendations based on the results were proposed.

1.8 DEFINITIONS OF CONCEPTS

The following key concepts were used in this study:

1.8.1 Regulation

Regulations are usually established by governments or industry bodies with the aim of ensuring law and order. The consequence of entities failing to comply with applicable regulations is that they may incur fines or penalties or even be ordered to close their businesses. The aim of regulating is to promote good behaviour within a particular sector. According to the Organisation for Economic Co-operation and Development (the OECD, 1997) regulations are the diverse set of instruments that governments use to impose requirements on enterprises and citizens. OECD (1997) added that regulations include laws, formal and informal orders and subordinate rules issued by all levels of government, and rules issued by non-governmental or self-regulatory bodies to which government have delegated regulatory power.

1.8.2 Consumer

The Consumer Protection Act (Act 68 of 2008) defines a consumer as a person to whom goods or services are promoted or supplied as well as the actual user of the goods or the recipients or beneficiary of the services. ‘Person’ refers to either a juristic or a natural person. The Consumer Protection Act further states that where a product is purchased by one person as a gift for another, both the purchaser (who entered into the sales agreement) as well the recipient of the gift will be regarded as consumers.

1.8.3 Consumer indebtedness

If a persons’ expenditure exceeds their income, the consequence will be bankruptcy. This situation may lead to over indebtedness where there was borrowing. Lea, Webley and Walker (1995:681 - 701) define consumers that experience involuntary non-payment at the agreed-upon time as being over indebted.

The term over indebtedness is also defined by Devnomics Developmentnomics (Pty) Ltd (2012) as another legal concept introduced by the National Credit Act which means that a court may make an order declaring a consumer over indebted. The implication consumers being over indebted is that they cannot satisfy all obligations under the credit agreements entered into when considering their financial means, prospects and other obligations. Garner (1996:63 - 76) defines consumer indebtedness as a level where the consumer is unable to repay his or her debts.

The National Credit Act (Act 34 of 2005) defines consumer over indebtedness as one where a consumer who, given the information at the time, the financial prospects and obligations and given the consumer’s debt repayment history, will probably not be able to service or meet all debt obligations at the pre-arranged time.

As can be seen on above paragraphs, various authors define consumer indebtedness in many ways. However, the general conclusion is that when a consumer is unable to settle his or her debts for whatever reason or for whatever period of time, he or she is regarded as being over indebted.

1.8.4 Compliance

The word compliance is defined in the online dictionary as a situation in which someone or something is in accordance with established guidelines, specifications, or legislation (www.dictionary.com, accessed on 09 April 2015). Botha *et al.* (2010) defines compliance as conforming to satisfying requirements of laws and regulations that have been defined and relevant to the applicable sector and lists compliance objectives as follows:

(i) To outline a structure for regulation.

(ii) To educate employees about compliance.

(iii) To implement best practices and good principles to the business.

(iv) To assist in establishing stability in the applicable sector.

(v) To assist in maintaining professionalism in the sector.

The importance of compliance in the financial sector was emphasised by the deputy executive officer of the Financial Services Board (Anderson, 2009) in an interview when he said that a role of the compliance officer in the South African financial services industry has grown into one of significant importance. Anderson added that financial service providers are increasingly relying on their compliance officers to provide them with guidance and recommendations regarding their regulatory responsibilities. In simple terms, compliance can be defined as the action or fact of complying with a wish or command.

1.8.5 Reckless lending

The concept reckless lending is dealt with in sections 80 and 81 of the National Credit Act. In terms of those sections credit providers are compelled to do the following before granting a loan:

- To assess whether the consumers are able to afford loans granted.
- To ensure that the risks of a loan are understood by the consumer.
- To ensure that the consumer understands costs of a proposed loan.
- To ensure that the consumer understands his or her rights and obligations under the credit agreement.

The National Credit Act also compels credit providers to do the following when assessing that consumers are able to afford a loan:

- To investigate and consider the consumer’s previous repayment records.
- To investigate and consider the consumers' financial means, prospects, obligations and their marital status.

The National Credit Regulator and Devnomics Developmentnomics (Pty) Ltd (2012) stated that to avoid reckless lending, credit providers must take all reasonable steps to ensure that they properly assess the consumer’s affordability before granting loans. Aassessment includes repayment history as well as existing means, prospects and obligations. However, if the consumer withholds information or gives incorrect details, it can be used as an adequate defence by credit provider in case of a dispute.

1.8.6. Gross Domestic Product (GDP)

According to www.investopedia.com (accessed on 30 March 2015) the gross domestic product (GDP) is one of the primary indicators used to gauge the health of a country's economy. It represents the total value of all goods and services produced over a specific time period. It can be deemed to be the size of an economy. Prinsloo (2002:63) found that sixty per cent of the South Africa's gross domestic product is represented by households' consumption expenditure.

1.8.7. Retail

Retail is about direct distribution or selling of goods and/or services to consumers. This could either be in a store, mall, a market, a department or any point of sale. The consumer requires small quantities to use for personal use; in simple language retailing is nothing more than the exchange of goods for money between the seller and the buyer so as to satisfy the individual needs of the direct consumer (Management Study Guide, 2013).

1.8.8. Inflation

Inflation can be defined as a general increase in prices of goods and services. A too high or too low inflation rate may impact the economy negatively, because when inflation is too low, consumers tend to spend more and when it is too high consumers tend to spend less. The ideal established inflation rate of South Africa is between three per cent and six per cent. In most countries (including South Africa) central banks use their lending rate, which is commonly known as the repo rate, to control inflation.

1.9 ASSUMPTIONS

The concept of assumption occurs when something or someone is accepted as true or as certain without having proof of it. The key assumption in this study is that respondents were honest in completing the questionnaire and that the data was accurate.

1.10 OUTLINE OF THE STUDY

The outline of this study is as follows:

Chapter 1 consists of an outline of the research background, the objectives of the study, the research questions, scope and limitation and methodology of the study.

Chapter 2 is a literature review focussing on the following topics;

- Types and classification of consumer indebtedness in the South African context.
- An overview of the South African consumer credit in the retail sector.
- Definition of consumer indebtedness in the South African context.
- Avoidable and unavoidable debts and necessary and unnecessary debts.
- Defaults on debt.
- Bad debt.
- Debt counsellors.

- Credit bureau.
- National Credit Tribunal.
- Why consumers get over indebted.
- Defecting over indebtedness.
- Impact of over indebtedness on the consumers themselves.
- Effect of high level of consumer indebtedness on the economy.
- Strategies to reduce consumer indebtedness.
- Conclusion.

Chapter 3 provides an outline of the design and methodology of the study. The measuring instruments used in the research, sampling methods, construction of data and techniques used in analysing data are also described in detail.

Chapter 4 is about presentation, analysis and interpretation of the results.

Chapter 5 is a concluding chapter. It also provides suggestions based on the results of the study.

1.11 CONCLUSION

This chapter introduced the main problem to be addressed and to explain how the researcher aimed to deal with it. The reason why the research is conducted and the significance of this research were also explained.

The researcher also discussed the scope and delimitations of the research and definitions of the key terms as well as methodology used when conducting this research. The remaining chapters address the main and sub-problems.

CHAPTER 2

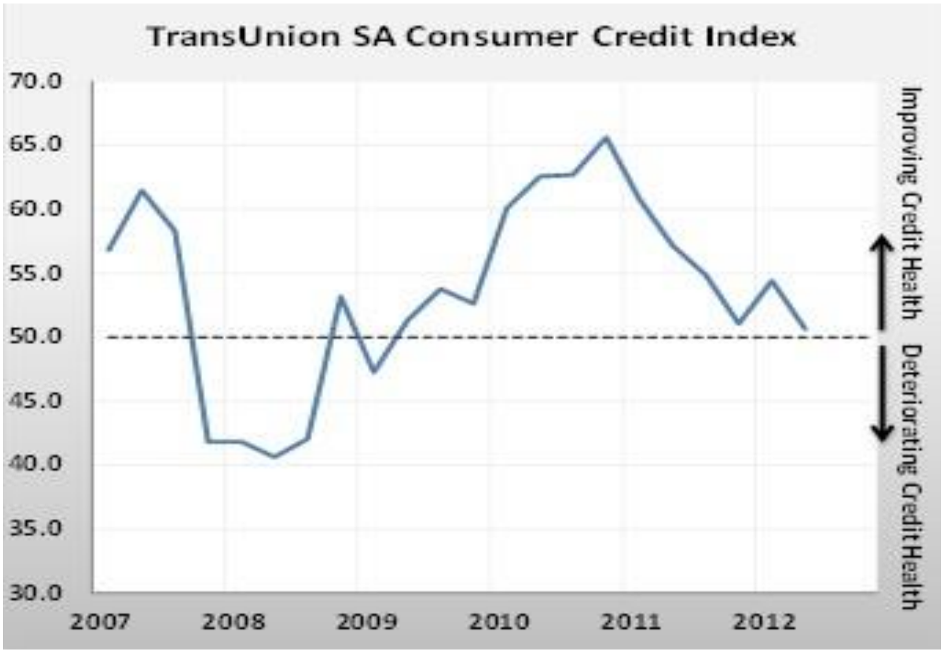
FACTORS INFLUENCING THE HIGH LEVEL OF CONSUMER INDEBTEDNESS IN THE SOUTH AFRICAN RETAIL SECTOR

2.1 INTRODUCTION

In recent years the level of high consumer indebtedness in the South African retail industry has been a concern and the problem continues to emerge over time. Despite various papers being written about the extent of the problem and its consequences, the problem continues to develop.

The TransUnion (2012) published a consumer credit index in South Africa that provides an indication of a combination of the trend of behaviour of actual borrowings and repayments by consumers. The index also provides key macroeconomic variables impacting household finances and it is depicted as follows:

FIGURE 2.1: CONSUMER CREDIT INDEX IN SOUTH AFRICA FROM 2007 UNTIL 2012



Source: TransUnion (2012)

The indicator was measured through;

i) Loan repayment records

ii) Use of revolving credit

iii) Estimated household cash flow

iv) Relative cost of servicing outstanding debt.

Table 2.1 above reveals that although there were areas of improvement, consumers experienced a drop in credit health most of the time. The literature consulted has not revealed any research conducted on factors influencing the high level of consumer indebtedness in the South African retail sector.

This chapter provides a summary and overview of what has previously been reported about the high level of consumer indebtedness in the South African retail sector. It also provides a theoretical basis for the research that will assist in identifying factors influencing the high level of consumer indebtedness in the South African retail sector and making recommendations.

2.2 TYPES AND CLASSIFICATION OF CONSUMER INDEBTEDNESS IN THE SOUTH AFRICAN CONTEXT

It is generally accepted that the South African credit market is too complex. This sentiment was highlighted by Mokoena (2008) in his comment in the South African Reserve Bank bulletin when he stated that innovation and flexibility are prominent in the financial market sector. This makes it easier for consumers to refinance their loans and as a result, remaining longer in their debt obligations.

According to Prinsloo (2002:64) the South African retail credit sector consists of two major components that can customarily be classified into household credit and mortgage loans. Prinsloo (2002:64) further emphasises the importance of distinguishing the difference between these two components, as well as their movement relative to total credit extended to the domestic private sector. Prinsloo (2000:64 - 66) further categorises household loans as follows: Open accounts, personal loans at banks, other personal loans, credit card facilities, instalments sale transactions and lease transactions.

A feasibility study conducted by the National Credit Regulator in 2008 found the following to be the most common types of consumer loans: mortgage loans, personal loans, credit cards and instalment finance. Personal loans and credit cards are classified as unsecured loans while mortgage loans and instalment sale are classified as secured loans.

According to www.africaeconomicoutlook.org (accessed on 17 April 2015) twelve per cent of non-secured lending of the total banking exposure in South Africa was loaned to households. The remaining eighty eight per cent was secured lending. Types of consumer loans are explained in detail the following paragraphs.

2.2.1. Mortgage loans

Mortgage loans generally constitute the largest debt in households. They are secured debt where the credit provider finances a dwelling and the consumer repays the credit provider in monthly instalments while occupying the dwelling. The credit provider is therefore a co-owner until the mortgage is fully paid off by the consumer (del Rio and Young, 2006:1119 -1144).

Mortgage loans in general are seen as necessary debt, as their purpose is to provide shelter to families. They are also used for the purpose of wealth creation as financed dwellings can gain value and be sold at a later stage at a higher price. The National

Credit Regulator reported in its annual report of 2013 that mortgage loans represented sixty per cent of total debts. Greenspan (2005) found that the main financial innovation influencing mortgage loans was the mortgage equity withdrawal mechanism. Belsky and Prakken (2004) supported this and affirmed that housing is a most preferred method of wealth creation, and it also impacts on a spending pattern of consumers.

It is less often that consumers default on home loans, as they fear losing their dwellings through repossession by credit providers. It also gives consumers an opportunity to refinance their dwellings and access additional loans as the dwelling would have gained value and their salaries may have increased. Consumers would therefore be able to afford even more loans than those they were initially granted.

Onley (1999:319 - 335) found that in the 1920s households who defaulted on mortgage loans not only lost their dwellings but also equities accumulated on those dwellings during good times. As a result of this, consumers prioritised repayment of mortgage loans even when their salaries had dropped or lost their jobs. This led to default rates on car finances barely budged in the early 1930s.

2.2.2. Personal loans

According to the National Credit Regulator (2012:4) personal loans are arrangements where the credit provider grants a loan to the consumer and the consumer repays it in monthly instalments over a period of time. Personal loans are normally unsecured and therefore the credit provider relies on the consumer's reliability.

2.2.3. Credit cards

Credit cards are defined in the www.investopedia.com (accessed on 26 March 2015) as a card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. They are primarily used for short-term financing and are the most popular form of consumer loans in South Africa. Critics have said that credit cards tend to give false expectations of more disposable income than is actually available.

A number of reports based on findings in the United States have indicated that credit cards have become the new ‘safety net’ on which some low-income families rely to fulfil their basic needs (Draut, 2007:25 - 26). A report by Draut (2007:25 -26) points out that lower-income families often use credit cards as reserved loans to be utilised during difficult times.

Statistics published by the National Credit Regulator revealed that credit cards were mostly the preferred method of accessing loans by consumers. These loans increased by ninety nine per cent from eight million, three hundred and ninety six thousand and thirty rand during the fourth quarter of 2007 to sixteen million seven hundred and twenty five thousand three hundred and eighty eight during the first quarter of 2011 showing increase of ninety nine per cent. Another study conducted by Chien and Delaney (2001) revealed that younger people preferred credit cards.

2.2.4. Instalment sale loan

The term instalment sale loan is defined in the National Credit Regulator (volume 1 of 2007) as a method of financing a movable property. Repayments are made monthly over a period of time whereby interest is charged on the outstanding balance. Other fees such as administration fees or service fees may also be charged. The credit provider remains the owner of the asset until it is fully paid and transferred to the consumer.

2.3 AN OVERVIEW OF CONSUMER INDEBTEDNESS IN THE SOUTH AFRICAN RETAIL SECTOR

2.3.1. Introduction

The importance of consumer debt has been emphasised in foregoing paragraphs as that it stimulates the economy. However, the problem occurs when consumers become over indebted, as this will result in a negative effect to the economy. In 2013 South Africa was ranked tenth in the top ten countries with high levels of household debt (Ehrenberg, 2013). The World Bank has ranked South Africa second from one hundred and eighty three countries in terms of good practice in protecting both borrowers and lenders when obtaining loan for business (World Bank Doing Business Report, 2011).

According to a report published by TransUnion (2015), households are currently using just over fifty per cent of their credit limit, up from about forty per cent in 2007. The South African Reserve Bank also revealed that households generally hold the highest portion of debts across various sectors. The South African Reserve Bank published the following table that gives percentages of debts held among various sectors in the economy. The results confirm that households have always been at the foremost in terms of proportion of debt.

TABLE 2.1: PERCENTAGES OF DEBTS HELD AMONGST VARIOUS SECTORS OF THE ECONOMY FROM DECEMBER 2011 UNTIL JUNE 2012

Sector	2011 December	2012 March	2012 June
Agriculture, hunting, forestry and fishing	1.73	1.75	1.72
Mining and quarrying	3.68	3.67	3.73
Manufacturing	4.27	4.46	4.41

Electricity, gas and water supply	0.85	0.70	0.72
Construction	1.18	1.25	1.16
Wholesale retail trade, hotels & restaurants	3.96	4.14	4.26
Transport storage and communication	3.44	3.32	3.42
Financial intermediation and insurance	25.17	24.19	24.68
Real estate	6.34	5.19	5.12
Business services	3.71	3.78	3.68
Community, social and personal services	4.37	6.53	6.35
Private households	34.28	36.56	35.85
Other	6.02	4.45	4.19
Total	**100**	**100**	**100**

Source: South African Reserve Bank

The National Treasury and the South African Reserve Banks also expressed their concern over South Africans' indebtedness. They reported that from 2001 to 2009 an increase in household debt as a percentage of household income rose from less than fifty five per cent to about eighty per cent. Although this figure is still low, compared to other countries such as the United States, which reported one hundred and thirty eight per cent in 2007, the figure was concerning especially because of the low level of savings (*Quarterly Bulletin*, South African Reserve Bank; *Gross Domestic Product,* Statistics South Africa; *Budget Review,* National Treasury, 2010).

The National Credit Regulator reported that the total of credit providers registered in its database were four thousand five hundred and thirteen, consisting of thirty eight thousand seven hundred and thirty six branches across the country (www.ncr.org.za, accessed on 30 March 2015).

Japelli and Pagano (1989:1088 - 1105) are of the opinion that credit and consumption cannot be separated, as they are related. Japelli and Pagano (1989:1088 - 1105) further state that the portion of the relationship between credit and consumption varies widely across countries, ranging from one comma two per cent of consumption in Greece to thirty six comma seven per cent of consumption in Sweden, and that mortgage debt relative to consumption follows a similar pattern. They also found that consumption shows more “excess sensitivity” to income in countries at the lower end of this distribution.

From late 1999 until late 2007 the real final expenditure by South African consumers rose at an average annual rate of five comma three per cent (Disney, Bridges and Gathergood, 2008). Prinsloo (2002:72) state that there were several reasons for the growth in indebtedness since the mid-1980s. Among others, the deregulation of financial institutions is believed to have encouraged an expansion of personal debt.

Valins (2004:53) noted a rapid increase of accessibility of credit across various sectors. This was an international trend which was prompted by relaxation of regulation of the financial sector and resulted in more people accessing credit without a hassle.

Then again, the National Credit Regulator’s view is that the high household debt levels are caused by both demand and supply side factors, such as the overall decrease in interest rates, greater financial inclusion post-1994, a lack of financially educated consumers, vague debt contracts and reckless credit lending by financial intermediaries (National Credit Regulator, 2012).

In its report published in 2013, the National Credit Regulator reported that in South Africa the most common types of credit used include clothing accounts (nineteen per cent), personal loans (fourteen per cent), furniture accounts (thirteen per cent), cell phone contracts (twelve per cent) and credit cards (nine per cent). In addition to these, there are also mortgage bonds and motor finance that contribute to consumer debts, but are deemed to be necessary debts as housing and cars are necessities for which it is difficult to pay in cash.

2.3.2. Racial distribution to indebtedness in South Africa

Daniels (2001) published findings that provided evidence to the effect that in South Africa there is a racial distribution to over indebtedness. White people were found to be the most over indebted, second being the Indian population, followed by the Coloured population and the lowest being the Black population.

The Finmark Trust (2009) found that socioeconomic problems within groups in South Africa contributed greatly to consumer debt and that when a differentiation is made between different socioeconomic groups in society it can also be expected that different consumer trends may be found in relation to how an individual treats debt.

2.3.3. Rural and urban consumers

Research by Finmark Trust (2009) revealed that South Africa was Africa’s largest economy in Africa with an estimated population of fifty two comma ninety eight million. Sixty three per cent of the population was living in urban areas. The Finmark Trust (2009) report further stated that every second adult in South Africa received a salary/wage, including those who work full-time (twenty nine per cent), those who work part-time (fifteen per cent), some of those who have piece jobs (eleven per cent), a third of adults receive money from others (e.g. from friends and family), and twenty nine per cent receive a government grant, while seven per cent of adults in South Africa receive no money at all.

According to Anderloni and Vandone (2008) over indebtedness and financial hardships are common among the poor people, as poverty is the main contributor to these problems. Roberts et al. (2012) affirmed this, stating that consumers who are struggling financially are at high risk of being over indebted and that they relied on either friends or families to assist them financially. These consumers even go as far as to dispose of some of their valuable assets to obtain finances.

2.3.4. Trends of consumer debts

The National Credit Regulator reported an overall increase in consumer debt since the fourth quarter of 2007 until the first quarter of 2013. The table below depicts the statistics of the credit standing of consumers from the fourth quarter of 2007 until the first quarter of 2013.

TABLE 2.2: NUMBER OF LOAN APPLICATIONS DURING QUARTER 4 OF 2007 AND QUARTER 1 OF 2013

Sum of number	**Period**		
Item	**2007 Quarter 4**	**2013 Quarter 1**	**Change in %**
Application received	7 068 174	10 117 292	+ 43%
Application rejected	2 917 187	5 630 728	+ 93%

Source: National Credit Regulator (2013)

During the fourth quarter in 2007 there were seven million sixty eight thousand and one hundred and seventy four loan applications, which increased to a million one hundred and seventeen thousand two hundred and ninety two applications in the first quarter of 2013. This indicates an increase of forty three per cent. Total applications rejected increased by ninety three per cent from two million nine hundred and seventeen thousand one hundred and eighty seven in the fourth quarter of 2007 to five million six hundred and thirty thousand seven hundred and twenty eight in the first quarter of 2013.

In its report of March 2013, the National Credit Regulator reported that during the first quarter of 2013 total loan applications approved were one hundred and two comma twenty nine billion rand which was a decline from one hundred and nineteen comma ninety four billion rand from the last quarter of 2014. Although this was a decline from the previous quarter, it was an increase of seven comma sixty four per cent compared to the previous year. The decline in these figures may be due to the introduction of the National Credit Act.

TABLE 2.3: CREDIT GRANTED PER CREDIT TYPE FROM QUARTER 4 OF 2007 UNTIL QUARTER 1 OF 2013

Item	**Period**		**Change in %**
	2007 Quarter 4	**2013 Quarter 1**	
Credit Cards	R8 396 030 142	R16 725 388 203	+ 99%
Mortgage	R53 139 516 992	R25 039 734 186	- 53%
Personal Loans	R883 196 997	R1 590 560 813	+ 80%
Instalment Credit	R32 013 864 783	R35 185 812 791	+ 10%
Total	**R94 432 608 914**	**R78 541 495 993**	**+ 136%**

Source: National Credit Regulator (2013)

Mortgage was the largest credit type in the fourth quarter of 2007. However, in the first quarter of 2013 instalment credit became the largest. Valins (2004) asserted that the trend has shown that globally consumers have experienced easy access to loans over the past couple of years. The main contributing factor was the relaxation of regulation of credit granting policies and therefore more consumers were encouraged to take up loans.

TABLE 2.4: CREDIT GRANTED PER INDUSTRY TYPE FROM QUARTER 4 OF 2007 UNTIL QUARTER 1 OF 2013

Industry	**Period**		**Change in %**
	2007 Quarter 4	**2013 Quarter 1**	

Banks	R85 748 236 970	R83 333 949 168	+ 2.8%
Retailers	R4 669 227 313	R9 737 666 903	+ 108.5%
Non-bank financiers	R7 901 247 334	R5 761 036 520	- 27%
Other credit providers	R4 052 136 713	R9 737 666 903	+ 140.3%
Total	**R102 370 848 330**	**R102 286 013 922**	**+ 224.6%**

Source: National Credit Regulator (2013)

The National Credit Regulator reported in its report of March 2013 that banks held the largest share of total loans granted, i.e. eighty three comma twenty two billion rand, which represented eighty one comma forty seven per cent of total loans granted. Other credit providers such as pension backed lending and agricultural lenders and developmental lenders were second at nine comma seventy four billion rand representing nine comma fifty two per cent. Retailers were third with total loans granted of nine comma seven billion rand representing three comma thirty eight per cent of total loans granted, and lastly non-bank financiers at five comma seventy six billion rand at five comma sixty three per cent.

TABLE 2.5: GEOGRAPHICAL STATISTICS FROM QUARTER 4 OF 2007 UNTIL QUARTER 1 OF 2013

Province	**2007-Q4**	**2013-Q1**	**Change in %**
Eastern Cape	R6 092 137 314	R6 134 979 822	+0.7%
Free State	R3 902 553 858	R4 110 460 139	+5.3%
Gauteng	R49 328 016 934	R48 553 451 845	-1.6%
Kwazulu Natal	R12 441 772 564	R12 586 451 819	+1.16%
Limpopo	R3 222 383 218	R3 917 645 378	+21.6%
Mpumalanga	R5 046 586 918	R6 358 047 887	+26%
Northern Cape	R1 616 158 046	R1 771 993 872	+9.6%
North West	R3 946 942 304	R4 398 860 782	+11.4%
Western Cape	R15 749 867 917	R13 788 916 201	-12.5%
Other	R1 024 429 257	R665 206 177	-35%

Grand Total	**R102 370 848 330**	**R102 286 013 921**	**+26.66**

Source: National Credit Regulator (2013)

Although Gauteng province is the smallest in terms of geographical size, it is where most of the country's economic activities take place and therefore it has the largest share in terms of loans granted. The National Credit Regulator reported the following overall trends on consumer credit as at March 2013;

a) There has been a decline of twelve comma forty six per cent of total mortgage loans granted from twenty eight comma sixty billion rand to twenty five comma four billion rand. These figures are based on a quarter to quarter basis.

b) Despite the fact that there was a decrease in vehicle finance, this category dominated secured lending. The decrease was at a rate of ten comma eighty seven per cent on a quarter to quarter basis from thirty nine comma forty eight billion rand to thirty five comma nineteen billion rand. These figures are for the period December 2012 until March 2013.

c) The sector also experienced a decrease in unsecured lending of twenty two comma twenty nine per cent on a quarter to quarter basis. The decrease was from twenty nine comma seven billion rand in December to twenty two comma fifty nine billion rand in March 2013.

d) There was also a decrease of twelve comma eighty one per cent on a quarter to quarter basis in the category of other loans, such as shopping accounts, credit cards and overdrafts. The decrease was from nineteen comma eighteen billion rand to sixteen comma seventy three billion rand in December 2012 until March 2013.

2.4. DEFINITION OF CONSUMER INDEBTEDNESS IN THE SOUTH AFRICAN CONTEXT

The definition of indebtedness is provided by Garner (1996:63 - 76) as a financial burden relating to ability to repay. Garner (1996:63 - 76) goes further by stating that there are various obstacles that may contribute to a consumer's inability to repay loans.

2.5. AVOIDABLE AND UNAVOIDABLE DEBTS AND NECESSARY AND UNNECESSARY DEBTS

While debt in general seems to be a bad thing, it is also important to differentiate between avoidable and unavoidable debts. At times debt can also be used to create wealth. Unavoidable debts are those that consumers need to be able to survive, such as loans used to purchase a dwelling (i.e. mortgage bond) or a vehicle (instalment purchase), while avoidable loans are those that consumers want rather than need, such as loans used to purchase furniture or clothes. At times avoidable debt can be unavoidable because it was unpredictable. Unavoidable debts may be deemed to be necessary debts while avoidable loans may deemed to be unnecessary debts.

According to www.cab.org.nz (accessed on 29 March 2015) avoidable debt occurs as a result of financing assets that depreciates in value while they do not generate any income. www.cab.org.nz (accessed on 29 March 2015) further reports that avoidable debts can also happen through the way consumers manage their debts, such as paying only the minimum repayment resulting in increase in interest on the balance.

2.6. DEFAULTS ON DEBT

Default on debt occurs when the consumer fails to pay the instalment or settle debt on time or does not pay at all. The National Credit Regulator (2013) reported that in March 2013 a total amount of one comma forty five trillion rand for debt repayments was outstanding. Of this total default, mortgages accounted for seven hundred and ninety eight comma forty eight billion rand (this amount represent fifty five comma two per cent of the total amount), other secured credit such as vehicle finance accounted for two hundred and ninety five comma four billion rand (this amount represent twenty comma thirty three per cent of the total amount).

Defaulting on accounts often leads to credit providers listing consumers at the credit bureaus. The consequence of being listed at the credit bureau is that a consumer will not be able to obtain another loan, as other credit providers will verify his or her payment records before granting other loans.

2.7. BAD DEBT

When a consumer defaults on payments and credit providers have no hope of recovering such payments, they can write off the debt. According to Del Rio and Young (2005) it is not easy to determine at what stage a debt can be classified as a problematic one. Cecchetti, Mohanty and Zampolli (2011:115 - 146) reported that researchers found that debt should be classified as bad once total debt starts to exceed eighty five per cent of the country's Gross Domestic Product.

2.8. DEBT COUNSELLORS

Debt Counsellors have been established in terms of sections 25 and 44 of the National Credit Act. In terms of the National Credit Act, debt councillors are established with the purpose of independently assessing financial situations of troubled consumers and make recommendations to reconstruct their debts or even suspend loan agreements where there is evidence of reckless lending.

The National Credit Regulator (Volume 1 of 2007) defines debt counsellors as individuals who assist over indebted consumers to restructure their debts by way of negotiating with the credit providers, including obtaining court orders on behalf of consumers. The National Credit Regulator reported that there were 2 347 registered debt counsellors (www.ncr.org.za, accessed on 09 April 2015).

2.9. CREDIT BUREAU

The National Credit Regulator (Volume 1 of 2007) defines credit bureau as entities that -

a) maintain personal information relating to consumers' loan profiles;

b) monitor payment patterns of consumers' loan repayments; and

c) prepare and produce reports relating to information stated above.

Credit bureaus have been established in terms of section 70 of the National Credit Act. The National Credit Regulator reported that there are fourteen registered credit bureaux (www.ncr.org.za, accessed on 09 April 2015).

2.10. NATIONAL CONSUMER TRIBUNAL

The National Consumer Tribunal was established in terms of section 26 of the National Credit Act. It came into operation in 2006 and it has jurisdiction throughout South Africa. Its main objective is to adjudicate in disputes relating to the National Credit Act as well as the National Protection Act.

The site www.africaeconomicoutlook.org (accessed on 14 April 2015) published the following statistics on categories of common credit dispute that were dealt with by the national Consumer Tribunal:

i) Service provider related (fifty per cent),

ii) Credit bureau related (thirty per cent).

iii) Debt counselling related (eight per cent) elements.

It was also reported by www.africaeconomicoutlook.org (accessed on 14 April 2015) that within the disputes dealt with by the National Consumer Tribunal, common dispute types singled out over-charging, over-deduction or other mistakes on instalments, excessive interest, unknown garnishee orders and general “harassment” by the credit providers.

2.11. WHY CONSUMERS GET OVER INDEBTED

Although over indebtedness is a most studied phenomena, there are no findings on the standard causes of over indebtedness. An investigation conducted by the Finmark Trust (2009) found that in South Africa several problems relating to socioeconomic issues contribute tremendously to consumers’ financial problems. According to Brooker and Whyley (2004), the problem of indebtedness was overlooked by the authorities over a long time because borrowing was regarded as a luxury rather than a social issue.

Section 3 of the National Credit Act addresses the issue of socioeconomic problems in South Africa by promoting fairness, responsibility, transparency, sustainability, efficiency and accessible markets and industry. Accessibility is mainly focussed on groups who were previously disadvantaged in accessing loans.

According to Bird, Hagstrom and Wild (1999:125 – 133) consumers with better socioeconomic status are more sophisticated and are in a better position to obtain financial advice from experts, unlike those in a bad socioeconomic situation. Bird, Hagstrom and Wild (1999:125 - 133) further state that when differentiating between different socioeconomic groups in a society, different consumer trends may be expected in terms of the way individuals treat debt.

Bird, Hagstrom and Wild (1999:125 - 133) are of the opinion that those consumers in a less affluent market are disadvantaged when coming to choosing the most suitable loan arrangements for them, as they will probably not understand the terms of agreement. This means that socioeconomic situations might have a negative impact on the indebtedness of consumers.

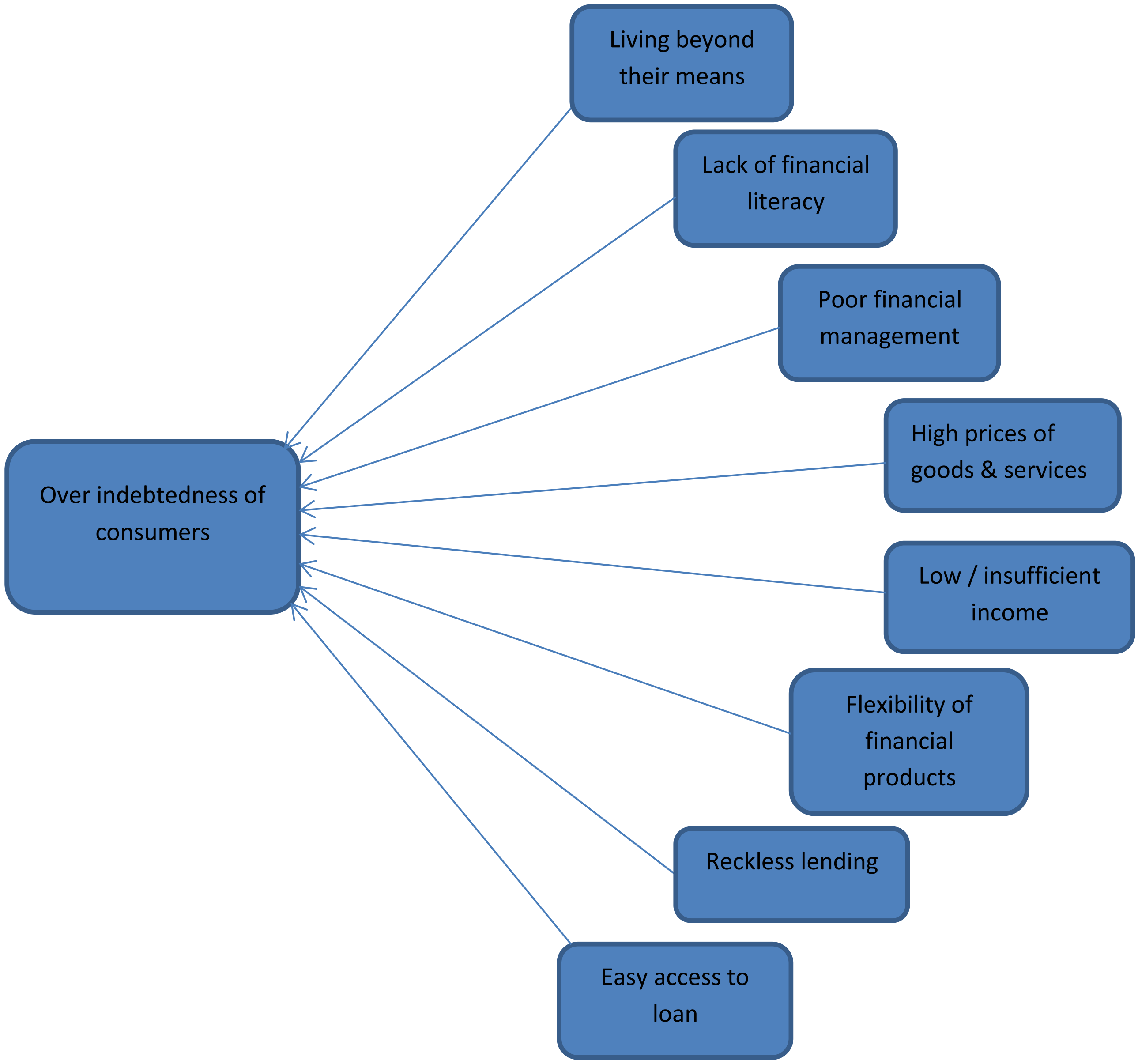
Prinsloo (2002:63) holds that spending patterns of consumers can be attributed to a number of factors, such as existing debts, their standard of living and their disposable income. Hurwitz and Luiz (2007:107 - 131) report that the most important variables affecting the indebtedness of consumers are their profiles, such as age and the number of their dependants they have.

The matter of age was confirmed by Deaton and Modigliani (2005), who argued that the more the young people are in the economy, the likelihood is that they will avoid debts and save, taking into consideration that the older generation is dissaving during retirement. Therefore, the overall or net savings rate will be positive if the population comprises more young people than elderly people. However, Jacobsen and Naug (2004:103 - 111) argue that the number of students demanding student loans and young professionals entering the work environment have a high appetite for debt, including housing.

There are many factors that play a role in consumer over indebtedness. Some of these factors could stem from both the consumers and credit providers. The literature conducted revealed no suggestion of studies undertaken in an attempt to address the identified problem. Several factors may contribute to over indebtedness of consumers. As indicated above, consumer over indebtedness may be attributed to a variety of macroeconomic and socioeconomic factors. However, the literature revealed eight factors as listed below.

The dependent variable in this research is indebtedness of consumers while independent variables are the identified eight factors. A graphic display of the dependent and independent variables is as follows;

FIGURE 2.2: INDEPENDENT AND DEPENDENT VARIABLES



These variables are explained in greater detail below;

2.11.1. Living beyond means

Living beyond means refers to a situation where the standard of living is beyond affordability. This could either be caused by pressure from peers or other factors. Duesenberry (1949:27) conducted a study which revealed that behaviours and spending patterns of peers influence spending pattern of consumers. Bacchetta and Gerlach (1997:207 - 238) found that there is a positive relationship between credit growth and consumption. Olney (1999:319 – 335) also conducted a study on the relationship between consumer spending and indebtedness. The study found that spending patterns have an impact on indebtedness, especially during the time of a depression.

While various researchers found that a significant drop in consumption in 1930 could not be linked to changes in wealth or income as a key to the onset of the great depression, Onley (1999:319 - 335) found that high levels of consumer indebtedness during the 1930s could be attributed to high interest rates and penalties of failing to pay on time.

McCarthy (1997:1 - 6) found that a rise in debt is associated with a future rise in consumer expenditure. However, in contrast to this, Mishkin (1976:642 - 654) found that durable expenditure is negatively related to household debt. Garner (1996:63 - 76) found growth in consumption has no impact on consumer indebtedness. Carrol and Dunn (1997) found that credit growth is positively related to future durables consumption, but in their model down-payment constraints play a critical role.

2.11.2. Lack of financial literacy

Financial literacy is essential to every modern economy. Various authors have said that financial literacy of a population is directly linked to the country's financial health. It can therefore be said that it is in a nation's best interest to ensure that all of its people are equipped with the necessary skills and competencies to make appropriate financial decisions for themselves and their families.

According to Jappelli (2010:1 - 37) South Africa is ranked lowest in economic literacy and second lowest in financial education out of the forty nine countries that were surveyed. These results are alarming and highlight how essential a credit monitor in South Africa is in order to assist consumers who lack the necessary skills and knowledge to understand the intricacies of the South African financial market fully. This finding was confirmed in the results of a financial literacy study conducted in South Africa, which found that forty four per cent of households experienced financial difficulties and could not make ends meet with their income (Roberts et al., 2012:63).

Piprek, Dlamini and Coetzee (2004) found that lack of financial literacy constitutes an individual's inability to make proper financial decisions. Poor financial literacy and financial understanding leads to poor financial decisions that are often burdensome and irreversible for the affected households. Griffiths (2007:230 - 236) holds that consumers' lack of knowledge contributes to their risk of debt.

Hurwitz and Luiz (2007:107 - 131) and Chen Chen and Chivakul (2008:1 - 34) noted wealth as a contributing factor to consumer debt but added that the level of education is a factor driving credit market participation. Lunt and Livingstone (1991:621 - 641) found that those who had higher levels of education borrowed less than the less educated.

Wood (1998) conducted a study which revealed that consumers' spending patterns are associated with their levels of education. Wood (1998) recommended that the purported middle class delay of gratification may need revisiting. Mokoena (2008) concluded that the South African financial market offers a complex of financial products. It can therefore be said that if many consumers lack an adequate level of financial literacy in handling their financial affairs, it poses the risk of over indebtedness.

Consumer education initiatives that are designed to encourage healthy consumer credit behaviour and a sound understanding of the implications of credit will provide consumers with valuable support in promoting behaviour that will lead to improved levels of indebtedness (National Credit Regulator, 2012). In an attempt to deal with the problem of financial literacy, the National Credit Regulator (2012) sponsored a television programme called *Soul City* and advised in thirteen episodes on how to make wise financial decisions.

The Financial Services Board also conducts on-going consumer education campaigns annually, focussing on financial literacy. The Financial Services Board reported in its fourth quarterly report of 2014/2015 that women are more vulnerable than men when it comes to financial literacy because of the following reasons:

a) Women are more likely to be responsible for the day to day money management of their households,

b) Women are largely responsible for raising their families and play a central role in teaching their children financial habits.

c) In South Africa it is approximated that more than forty per cent of households are headed by women.

d) Women live longer and generally earn less than their male counterparts.

The certification manager of the financial planning institutes in her comments in the fourth quarterly report of 2014/2015 of the Financial Service Board offered the following useful tips to consumers to address the problem of financial literacy:

a) Consumers should know their limitations when it comes to finances. They should deal only with authorised financial providers, and when suspecting a problem, it should be addressed immediately.

b) Consumers should have a valid will in place. The consequences of not having a will can be devastating to the beneficiaries.

c) Consumers should make a habit of compiling budgets. This helps to track the use of money, and consumers can have peace of mind knowing that all expenditures have been accounted for.

d) Consumers should not spend more than they earn.

e) Consumers should try by all means to pay their expenses in cash rather than in loans.

f) Consumers should take out appropriate insurance to pay off their debts in case of their death or retrenchment.

g) Consumers should ensure that they have sufficient savings for retirement.

h) Consumers should have an emergency fund in place for unforeseen circumstances.

i) Consumers should review their finances as often as possible to eliminate unnecessary expenses.

2.11.3. Poor financial management

Poor financial management refers to the inability to manage finances appropriately. If households borrow without being able to repay their loans, there is a strong possibility of default on those loans, which, as Minsky (1978) notes could result in financial fragility. Poor financial management by consumers seems to have contributed to reckless lending.

2.11.4. High prices of consumer goods and services

Godwin (1998:369) found that a household's present resources, its expected future resources, the price of goods and service and its preferences influence its views on its ability to borrow. An organisation called Buzzthepeople (2008) conducted a research in New Zealand and found that consumers attributed their high level of indebtedness to ever increasing prices of basic needs such as food and petrol.

Rising prices of goods and services can be linked to the country's inflation rate. The target inflation rates of many countries around the world are low, as high inflation rates can cause damage to a country's economy. An inflation rate that is too high has a direct impact on high interest rates, which in turn increase the cost of borrowing. This will be an obstacle for consumers needing necessary assets such as houses and vehicles. This will be even more difficult for low earners because they have less capacity to absorb price increases. It is however important to ensure that inflation rates stay positive to maintain growth.

In South Africa the South African Reserve Bank, which is the central bank, lends money to commercial and other banks, which in turn lends to consumers. This implies that the South African Reserve Bank has control over the cost of lending because it determines the rate it charges banks, and the banks in turn pass over that cost to the consumers.

The rate at which the South African Reserve Bank charges other banks is called the repo rate and the rate at which banks charge consumers is called prime rate, which is usually repo rate plus three comma five per cent. When the prices of goods and services are consistently increasing, it means that the inflation rate is increasing and when prices of goods and services are increasing at a low or zero rate, it means that inflation is low or stable. The South African Reserve Bank can more often control the inflation rate by either increasing or decreasing the repo rate, which will affect the prime rate and lending rates by other credit providers. Inflation has a direct impact on the cost of goods and services, which in turn affects consumer spending.

2.11.5. Low or insufficient income

The more consumers are unable to afford to pay for their needs in cash, the more they will be tempted to incur loans. A study conducted by Rinaldi and Sanchez-Arellano (2006) found that consumers' indebtedness is associated with their inability to pay for their needs in cash. Brooker and Whyley (2004) state that consumers with low incomes are forced to take up loans to meet their needs.

Lunt and Livingstone (1991:621 - 641) found that those who earned more borrowed less money than those who earned less. Anderloni and Vandone (2008) state that consumers who are low income earners are most likely to face financial difficulties and tend to acquire more loans than those who are high income earners. Consumers with low incomes are therefore at a high risk of being over indebted.

Peltonen, Sousa and Vansteenkiste (2009) hold that high income is not the only determining factor of whether consumers are likely to incur debts. However wealth also plays an important role. Hurwitz and Luiz (2007:107 - 131) is of the opinion that some consumers who earn less often find themselves in difficult circumstances, such as having to support family members. This places them in a situation where they have expenses over which they have no control and leaves them with no choice but to borrow money in order to fulfil their obligations. In a paper published by Hurwitz and Luiz (2007:107 - 131) titled *Urban working class credit usage and over-*

indebtedness in South Africa it was reported that poverty was among the main causes of over indebtedness in South Africa.

2.11.6. Flexibility of credit financial products

Banks and other credit providers have creative ways of keeping consumers on their books. This includes creating flexible loan products that allow consumers to re-enter into a loan arrangement even before they settle the current loan. Mokoena (2008) affirms that in South Africa, credit providers have become more creative by offering consumers loans that are innovative and flexible. This makes it easy for consumers to refinance their loans without realising that they are burdening themselves with more loans.

Flexible loan refers to loans such as credit cards where consumers are able to revolve on their existing loans. According to a survey conducted by Buzzthepeople (2008) it was found that in New Zealand most consumers who struggled with debt preferred flexible loans such as credit cards and other short term loans. The survey revealed that respondents indicated that they used loans that were flexible to pay other loans.

Scott (2007:567 - 575) states that credit providers have crafted these flexible products to reduce consumers' repayments by as much as five per cent so that consumers will stay in a debt arrangement for a long time. This creates false impression in that consumers feel less obliged to repay their loans quicker and therefore remain longer in debt arrangements. Consumers often incur late payment charges, often exceed their credit limits, and they pay only the minimum monthly repayment due (Lusardi and Tufano, 2009:1 - 46).

Betti et al. (2001) conducted a study which found that sophisticated consumers take advantage of flexibility of products and reconstruct their loan arrangements, gaining some relief from their repayment obligations without incurring additional costs. Chien and Devaney (2001, 162-179) also found that because of flexibility of loan arrangements, some consumers prefer to use loans to pay for their consumables.

Disney, Bridges and Gathergood (2008) hold that some consumers withdraw what they have already paid on their mortgage bonds. The consequence is that this keeps consumers in a debt cycle for a longer period and they spend most of their working lives repaying debts because they are using capital markets to smooth out fluctuations in income. Solheim and Vatne (2013) found that in Norway it was found that increased margins over an extended period have made it easier for households to adjust other spending. Van der Walt and Prinsloo (1995:13), Ardington et al. (2004) and Hurwitz and Luiz (2007:107 - 131) explain that flexibility of financial products increased the demand for loans by households.

2.11.7. Misrepresentation by credit providers and reckless lending

The National Credit Act, Act 34 of 2005 aims at reducing reckless credit behaviour. It requires credit providers to conduct a thorough analysis of consumers' affordability and understanding of a financial contract and provide complete transparency of the terms and conditions of the debt contract (Hurwitz and Luiz, 2007:107 - 131).

According to Duca and Garret (1995) changes in an index of banks' willingness to lend are positively related to future household spending on durables. Rajan (1994:399 - 441) attested that this type of behaviour by banks can lead to cycles in which banks in general have relatively loose credit policies during good times and tighten standards as a group during hard times.

Rajan (1994:399 - 441) states that bank credit policies may fluctuate and provides reasons for that. He found that investors are relatively forgiving of poor earnings by banks when other banks are also having trouble, but are far less forgiving if a bank has poor earnings when most other banks are profitable. Therefore, banks relax lending policies in good times in order to keep earning high but will tighten lending policies in difficult times.

Bacchetta and Gerlach (1997:207 - 238) found that the wedge between borrowing and lending rates is significantly negative related to future consumption in several of the countries studied. Their study found that when a variable measuring banks' willingness to lend is used as an instrumental variable for credit growth, the relationship between credit growth and consumption still holds, suggesting that the relationship is driven by changes in availability of credit rather than changes in the demand for credit.

2.11.8. Easy access to loan

Accessing loans easily encourages consumers to acquire more debts while stricter access discourages consumers to acquire more loans. In South Africa, accessing loans was easy in the past until the promulgation of the National Consumer Credit Act in 2007. The aim of the National Credit Act was not to discourage lending of money to consumers but to ensure that credit providers do not practice reckless lending, among others. However, to date role players are still wondering whether the National Credit Act has achieved this objective. According to www.africaeconomicoutlook.org (accessed on 17 April 2015) the private sector has good access to credit. According to the World Bank's report *Doing Business 2013* South Africa was ranked first out of one hundred and eighty five countries with regards obtaining loan.

Hawkins (2003) found that lower income consumers go to where they know they have access to credit regardless of the costs involved, indicating the lack of knowledge about options available. Van der Walt and Prinsloo (1995:10 - 14) found that greater access to credit, as well as a lower inflation rate, contributed to supply-side factors of consumer loans. Mokoena (2008) added that rises in household income, higher employment levels and greater access to credit are reasons for over indebtedness. McCarthy (1997:1 - 6) found that the delinquency rates on consumer loans appear to have little direct effect on consumer spending, but may have an indirect effect through credit availability.

In their paper about the increase in availability of debt, Cynamon and Fazzari (2008) reported that not only borrowers are requesting more and more credit, but lenders are clearly facilitating this increase by granting more credit applications. This two-way relationship has allowed household debt to increase to staggering levels, which could prove to be detrimental to the economy. Cynamon and Fazzari (2008) further stated that the increase in availability of debt between 1970 and 1998, most consumers with low income had credit cards increasing their number from two per cent to just over twenty five per cent.

2.12. DEFECTING OVER INDEBTEDNESS

It is crucial for regulators and relevant authorities to detect over indebtedness at an early stage so that they can act promptly. It is however not easy to detect over indebtedness at an early stage because, as demonstrated, it may be caused by various factors. A proactive approach to regulation may however detect over indebtedness at early stages. The following might be indications of early detection of over indebtedness:

- Unusual growth of loan books of creditors.
- Rapid increase in percentages of arrear loans.
- Increase of consumers holding loans with multiple credit providers.
- Poor governance and non-compliance by credit providers.

2.13. IMPACT OF OVER INDEBTEDNESS ON THE CONSUMERS

In South Africa credit is seen as the main enabler to acquiring items that one could normally not afford, and because of this, households borrow without being able to repay their loans. When this happens, it leads to financial problems. As Dynan and Kohn (2007:85 - 113) stated households have become more exposed to shocks and more exposed to unexpected changes in income and interest rates because of higher debt payments relative to income. Minsky (1978) notes that when this happens, there is often a strong possibility of consumers defaulting on their loans, which often results in financial fragility. This seems to have occurred in 2008, as banks were extending loans to families who were unable to service their debts and hence resulted in a credit crunch.

A paper published by Coletta, De Bonis and Piermattei (2014:15-16) made the following findings about the impact of consumer debts:

i) Consumer debt is negatively associated with savings.

ii) Countries with a high gross domestic product had more indebted consumers.

iii) Consumer debt is positively correlated with their life expectancy and population.

iv) The level of consumer debt relates positively with bankruptcy laws and the quality of credit registers, while a longer time to resolve insolvencies is associated with lower debt.

Maki (2000) stated that over indebtedness predicts personal bankruptcies and distress. This often leads to consumers finding themselves as financially vulnerable. Financial vulnerability is defined in the online dictionary, www.dictionary.com (accessed on 19 April 2015) and it relates to notions such as the state and/or feeling of being exposed, weak or being susceptible; a weakness in personal security; the degree to which the economy, and environmental and social activity are susceptible to harm, degradation or destruction when being exposed to a hostile agent or factor.

Lea, Webley and Walker (1995:681 - 701) argue that a household's ability to cope with financial strain is dependent on its behaviour and on psychological factors rather than its income. Lunt and Livingstone (1991:621 - 641) acknowledge that psychological factors have as much of an influence on debt management as do economic factors. The psychological factors often associated with a strong savings mentality are:

i) Discipline.

ii) Doubt about the future of the economy.

iii) Pessimism about the economy.

Lea et al. (1995:682) found some of the following psychological factors in determining indebtedness:

i) Social support for debt – how peers feel about debt, and whether debt is discussed openly. This passive approach to economics convinced many thinkers that the best way for the economy to run was with as little assistance as possible, and this includes adjusting the distribution of income (Smith, 2011:11). Smith (2011) concluded that throughout time, the mainstream view has been that income inequality is essential in order for an economy to succeed.

ii) Economic socialisation – do people have similar views/situation as parents.

iii) Social comparison – comparison and desire to be on par with peers.

iv) Money management styles – ability to adhere to a budget.

v) Consumer behaviour – luxury goods being classified as necessities.

vi) Time horizon – ability to defer gratification.

vii) Attitude – consumers' line of thinking towards obtaining loans.

viii) Focus of control – focusing on either internal or external factors.

Finmark Trust (2009) published an index which indicates that more South African consumers are financially vulnerable. The index provides insight into the main variables that contribute to financial vulnerability among consumers. Essentially, consumers should consider the risk of unemployment before overindulging in debt to avoid the risk of inability to repay debts (Debelle 2004:1 – 46).

As the saying goes: "Money makes the world go round". Consumers require money in order to acquire almost every need of their lives. However, if they are over indebted, loans can deplete all their monies and leave them bankrupt. Once bankrupt, they might find themselves facing the following situations:

- Being forced to reduce their standards of living.
- Being listed at the credit bureau and thereby limits their access to other benefits offered by the retail sector.
- Losing their valuable assets through repossession by credit providers and finding themselves homeless if they are repossessed of their family homes.

- Over indebtedness may lead to social problems and the deteriorating well-being of consumers.

- Financial bankruptcy may also leave consumers stressed, depressed, anxious, experiencing mental health problems, drug addiction**,** relationship breakdown and even suicide.

2.14. EFFECT OF HIGH LEVEL OF CONSUMER INDEBTEDNESS ON THE ECONOMY

A good example of a negative impact of over indebtedness on the economy is a country like Greece that resulted in the whole country being in financial crisis. As a result Greece was banned from borrowing in the global financial markets and had to seek bailouts from other countries. Countries that offered bailouts had to put strict conditions on their offers and Greece had to reduce its budgets and increase tax rates tremendously. Greece was also required to overhaul its entire economy, affecting its government structure.

Daniels (2001) held that the South African financial sector had undergone a process of deepening. Non-repayment of debts can have a negative effect on the overall financial sector. According to www.africaeconomicoutlook.org (accessed on 14 April 2015) South Africa’s financial sector is well developed. Its assets are estimated to be worth more than six trillion rand which contributes about ten comma five per cent of the country’s gross domestic product of the corporate income tax bill. Year-on-year loans grew by ten comma six per cent from two comma six trillion rand in August 2012 to two comma nine trillion rand in August 2013. According to www.africaeconomicoutlook.org (accessed on 14 April 2015) from one hundred and forty eight countries that were surveyed, South Africa was ranked third by the 2013/2014 *Global Competiveness Report* in terms of development of financial markets.

When consumers are over indebted, one of the possibilities is that they may cut spending, which can negatively affect the viability of the economy. This sentiment implies that while debt can sometimes be seen as bad, if well managed, it is a necessity to keep the economy viable.

Prinsloo (2002:63) and Dutt's (2006:339 - 364) found that households' consumption expenditure contributes to the country's gross domestic product, as increased consumption by households stimulates the economy, whereas a decrease in consumption will slow down the growth of the economy.

According to a report published by the Department of Trade and Industry in 2003, households that are unable to service their debt repayments put a strain on the economy and contributed to an increase in the cost of credit (the Department of Trade and Industry, 2003). The Department of Trade and Industry (2003) further reported that as a consequence to this, credit providers will experience high over indebted consumers. A consequence of indebtedness is that high interest and principal repayments could infringe on the ability of a household to cover other living expenses, ultimately leading to a decrease in the standard of living and therefore weakening consumer spending and, in turn, slowing down economic activity, as there is a relationship between consumer debt and economic activity, Schmitt (2000:333 - 345).

In conclusion, over indebtedness of consumers may lead to non-performing loans, which will negatively impact the balance sheet of credit providers, and this may lead to a credit crunch. However, it is unclear to what extent the difficulties of credit providers to provide credit to the economy may be linked to financial problems resulting from the default on repayment by consumers. A credit crunch can cause a decrease in demand, which in turn will cause loss of employment and ultimately low economic growth.

2.15. STRATEGIES TO REDUCE CONSUMER INDEBTEDNESS

As indicated, loans to consumers can cause harm to an economy if it is not kept under control. It is therefore necessary for relevant authorities to reduce, to the minimum, the level of consumer debt. It should be the norm that, on a regular basis, policy and decision makers, central bankers, regulators and other relevant authorities, determine the status of consumer debt, factors contributing to this debt and their role in the economy.

Authorities should ask themselves questions such as when is debt excessive (i.e. when should one worry about the level of debt)? What is the rate of growth and are there sufficient controls in place to maintain it within acceptable levels? Woodford (2003) provided a logical framework where economic welfare depends on the ability of a central bank to stabilise inflation, using its short-term nominal interest rate as a tool.

The main purpose of maintaining consumer debt within acceptable levels is to prevent the downfall of the economy. There are four role players to consumers indebtedness identified in this study, namely consumers, credit providers, regulators/authorities and investors who invest their monies in the business of credit providers. The following strategies are proposed as effective mechanisms of reducing the level of consumer indebtedness per stake holder.

2.15.1. STRATEGIES AIMED AT CONSUMERS

2.15.1.1. Making financial literacy a compulsory module

In South Africa financial literacy is not a compulsory module, neither at schools nor at universities. A baseline study conducted by the Financial Services Board in 2012 revealed that South Africans are becoming increasingly exposed to financial risk but remain reluctant to consult professional help when it comes to planning their finances.

Whiteley (1991:104) states that to obtain supportive information, training should be essential. Buckingham and Coffman (1999, p.88) argue that training alone will not assist much, so consumers should also be willing to learn. It can therefore be said that financial literacy is essential in addressing consumer indebtedness. However consumers should also be willing to learn.

2.15.1.2. Making debt advice easily available to the consumers

Like investment advice, offering debt advice to consumers prior to acquisition of loans can assist consumers not falling into a trap of taking loans that they will not be able to afford. Because of the low financial literacy of consumers, easy access to debt advice can help consumers to manage their debts. Advice will assist over indebted consumers to realise where they went wrong and rectify their mistakes. It will also assist those who are managing their debts properly to ensure that they continue making the right decisions. To mitigate the risk of unscrupulous investment companies, the government promulgated the Financial Advisory and Intermediary Services Act 37 of 2002 (the FAIS Act). To date, the FAIS Act proved to have made a positive impact in eliminating unscrupulous investment companies and ensuring that financial advisors recommends best products for consumers as noted by Ramchander (2011). Similar approaches can be followed in the credit sector to ensure that proper advice is given to the consumers.

2.15.1.3. Limiting credit exposure per consumer

Currently consumers may obtain as much loans as they wish as long as they can afford to repay. Unlimited access to loans definitely has impacted on over indebtedness of consumers. To eliminate the problem, authorities should consider imposing the limit of credit exposure (i.e. maximum debt levels in relation to income) per consumer as well as limiting the number of concurrent loans.

2.15.2. STRATEGIES AIMED AT CREDIT PROVIDERS

2.15.2.1. Warning of possibility of inability to repay and its consequences

Currently the National Credit Act compels credit providers to disclose the cost of credit to consumers upfront. This, however, seems to have done little in terms of discouraging consumers to take up loans that they do not necessarily need.

In line with regulations on cigarettes and alcohol, credit regulation should require credit agreements to obtain specific warnings about the possibility of an inability to repay and its consequences. According to a survey conducted by Environics Research Group (2005:38) in Canada, they found that warning messages on cigarette packets had the following effect on adult smokers:

- More than three in ten (thirty four per cent) say that the health warning messages appearing on cigarette packets have been very effective in informing them about the health effects of cigarette smoking.

- Three in ten (twenty nine per cent) say that these messages have been very effective in getting them to smoke less around others than they used to.

- Two in ten (twenty per cent) say they have been very effective in increasing their desire to quit smoking.

Based on those figures, it can be concluded that a compulsory warning message has an effect in addressing the identified problem. The compulsory warning of the effect of indebtedness should be done additionally to the existing conditions of disclosing the cost of credit. Such warnings should be done in consumers' choice of their official language. This will create awareness in consumers to note the consequences of which they were not aware.

2.15.2.2. Tightening method of affordability

The easier it is to obtain a loan, the more consumers acquire loans, even if they do not really need them and it results in over indebtedness. The method of applying for loans should be tightened with the aim of discouraging more consumers to apply for loans. This will reduce the burden of over indebtedness to most consumers.

2.15.2.3. Disallow reliance on guarantees and sureties when consumers apply for loans

Currently when consumers apply for loans that they are unable to afford, they may cede some of their assets as guarantees to loans or even get a surety to settle on their behalf in case of a default. Should credit providers disallow cession of assets and sureties, it means that consumers who are unable to afford loans will not be granted such loans. This will reduce the risk of over indebtedness of consumers.

2.15.2.4. Making unnecessary loans expensive with the aim of discouraging consumers to take them.

Loans such as mortgage loans and instalment sale agreements should be classified as necessary loans and those that are not necessary such as personal loans and credit cards should be made expensive to discourage consumers to apply for such loans. This may, however, have a negative impact on low income consumers as Valins (2004) found that it is not easy for consumers with low-incomes to access affordable loans.

2.15.2.5. High penalties for lenders who practice reckless lending

As indicated, the cause of the financial crisis during the 2008 global recession was caused by consumers who were over indebted, whereby various authorities had to cut those debts, which resulted in a global financial crisis.

A study conducted by Cecchetti, Mohanty and Zampolli (2011:115 - 146) revealed that when household debt reaches a threshold beyond eighty five of the gross domestic product, it becomes a problem. Credit providers who are lending recklessly to consumers should be punished harshly to ensure that this trend discontinues.

2.15.2.6. Strengthening coordination and cooperation among all credit providers

Credit providers should strengthen their coordination and cooperation among themselves. Coordination and cooperation assist in maintaining efficiency and effectiveness in the sector. They also assist in providing unity in direction.

2.15.3. STRATEGIES AIMED AT REGULATORS AND OTHER AUTHORITIES

2.15.3.1. Set high standard of conduct for credit providers

Maintaining high standard can be a key to success. The regulators should set the standard of conduct high with the aim of promoting responsible lending by the credit providers. When the standard in the financial sector is maintained at a high level, there is a less likelihood of credit providers practicing reckless lending.

2.15.3.2. Regular audit on credit providers

Credit providers should be subjected to regular and intrusive audit by the regulators in order to minimise relaxation of governance policies by credit providers. Credit providers found to be non-compliant should be sanctioned by the regulators.

2.15.4. STRATEGIES AIMED AT INVESTORS

2.15.4.1. Support of credit providers in developing proper code of conduct

To ensure the integrity of the industry, investors who invest their monies in the businesses of credit providers should assist those credit providers in developing standards of a code of conduct. In doing so, credit providers will ensure adherence to the code of conduct in order to attract investors to their businesses.

2.15.4.2. Strengthening due diligence prior to investments

If credit providers are subjected to strict due diligence prior to investments, they will maintain high standards of compliance. Only credit providers who maintain a high standard of compliance will remain competitive in the market, and as result, unscrupulous credit providers will be eliminated from the market. The likelihood of reckless lending will therefore be at a minimum.

2.16. CONCLUSION

As has been noted, the South African financial landscape is replete with extensive options for credit. There is intensive competition among credit providers ranging from banks to one man businesses in all sectors. As can be seen from the preceding paragraphs, the financial sector plays an important role in the economy of a country. The financial sector without consumers obtaining loans can be weakened, but history has taught us that if not managed well, borrowing can create vulnerabilities. The next chapter describes the research design and methodology employed in the current study.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1. INTRODUCTION

In Chapter 2 the researcher, among others, conducted a literature review which resulted in identifying factors that contribute to the high level of consumer indebtedness in the South African retail sector. Strategies were also suggested to minimise the high level of consumer indebtedness.

In this chapter an overview of the general research methodology is explained. The broad methodology that was followed in the empirical study is also outlined. The researcher aims to explore the research design and methodology by providing explanations of the applied research methodology, including the research paradigm, the type of sampling chosen and the location of the sample. The research design, types of data sources, research methods, proposed research methodology, data collection, and choice of data collection methods, questionnaire design, data analysis, validity and reliability are also explained.

3.2. RESEARCH DESIGN

Research design is the overall plan for relating the conceptual research problem to relevant empirical research and to its conclusion. Zikmund (2003:65) describes research design as a main strategy that one employs in conducting research. The strategy provides guidelines of obtaining and analysing the research data. Burns and Grove (2001:223) state that a detailed guidance should be provided in a research design in order to achieve the expected outcome. Welman and Kruger (2002:46) maintain that a research design can be defined as “the plan” to describe the research respondents involved in the marketing research and to describe the methods of gathering data.

3.3. TYPES OF RESEARCH DESIGN

There are two main research types namely positivists (quantitative) and phenomenological (qualitative) paradigms. According to the Research Observatory (2007) a positivistic approach takes little account of beliefs or feelings, strangely though some of its more extreme believers seem drawn towards the field of mysticism. Szyjka (2012:4) attests that quantitative research consists of the acceptance that facts have an objective reality externally to the subjective perspective of the individual researcher.

Skott and Ward (2013:86) assert that a phenomenological approach is supported by the acceptance that social reality is not objective but highly subjective because it is formed by human opinions. Welman, et al., (2005:9) state that phenomenological (qualitative) research uses unstructured interviewing and detailed observation processes to gain information about the views of the subject.

The Oak Ridge Institute for Science and Education (http://www.orau.gov, accessed on 24 June 2015) drew the following comparisons between the two methods;

TABLE 3.1: COMPARISON BETWEEN QUALITATIVE AND QUANTITATIVE METHOD

Qualitative Methods	Quantitative Methods
• Approach in applying qualitative method involves interviewing group of people as well as	• Qualitative method involve surveys as wells as review of documents and numeric

observation of documents.	information.
• Prefers inductive method when formulating theory or hypotheses.	• Unlike qualitative method, quantitative method prefers deductive method in formulating hypotheses and testing pre-specified concepts.
• Qualitative method is predominantly subjective. It provides description of problems or conditions from the side of those who experiencing it.	• Quantitative method is predominantly objective as the researcher interprets observed effects.
• It is focussing on text.	• It is focussing on numbers.
• It provides detailed information on cases.	• It provides less detailed information as compared to qualitative method however it provides more scope of information on cases.
• Options for responses are not well structured as compared to quantitative method.	• Options for responses are fixed.
• Tests are not performed statistically.	• Tests are performed statistically.
• Depending on thoroughness of the researcher, qualitative method can be reliable.	• Depending on measuring instrument used, qualitative method can be reliable.

• It takes less time for planning the research however more time in analysing the data.	• It takes more time in planning the research however less time in analysing the data.
• Less generalization.	• More generalization.

Source: http://www.orau.gov. accessed on 24 June 2015

According to Rubin and Babbie (2010) and Collis and Hussey (2009) these types of research designs are a philosophical framework that guides how research should be conducted.

3.4. DEVELOPING A QUESTIONNAIRE

On developing a questionnaire for the main problem, the following four sub-problems were considered in assisting in providing answers to the main research problem;

3.4.1. Sub-problem 1

Are the South African consumers able to afford to repay their debts?

3.4.2. Sub-problem 2

Does consumer income and financial literacy impact on consumer indebtedness?

3.4.3. Sub-problem 3

Is easy access to credit a main contributing factor to consumer indebtedness?

3.4.4. Sub-problem 4

Are credit providers making efforts to reduce the level of consumer indebtedness in South Africa?

Empirical studies were conducted to address these sub-problems. In chapter two a literature review was conducted in which questions were developed to address identified sub-problems.

3.5. PILOT STUDIES IN THE DEVELOPMENT OF THE QUESTIONNAIRE

Welman, *et al.* (2005:148) suggests that it is always important to test a new measuring instrument before being utilised.

3.6. DATA COLLECTION

There are two types of data in a research, namely primary and secondary data. Primary data is defined by Welman, et al. (2005:149) as data that the researcher has originally collected for his or her own study. Secondary data is data that has been obtained from publications provided by participants or from the documents or data that are publicly available and are relevant to the research topic. In this paper, both primary and secondary data is utilised.

A questionnaire and covering letter were prepared, printed and distributed to the individuals who are professional employees in various fields or companies based in the southern region of the City of Tshwane Municipal District. The managers of conveniently selected credit providers in the same area were approached. The objectives of the research were explained to them and permission was sought from them to distribute questionnaires to staff for responses.

3.7. DESIGNING A QUESTIONNAIRE

According to Ingham-Broomfield (2008), questionnaires allow respondents to remain unanimous and may avoid any biasness, unless the questions are structured in such a way that it is impossible to avoid biasness. According to Zikmund (2003:331), to solve the problem, information contained in the questionnaire should be relevant and appropriate.

In this paper, the researcher reviewed the literature and thereafter designed a questionnaire with closed ended questions based on the outcome of the review, taking into account the viewpoints and literacy levels of the intended respondents as suggested by Welman, et al. (2005:153). According to Welman, et al. (2005) close-ended questions make it easier for respondents to complete and they are easier to compare responses. Questionnaires were designed to seek respondents' opinions on identified factors that influence the high level of consumer indebtedness in the South African retail sector.

When designing a questionnaire, the following guidelines were followed as specified by Welman, et al. (2005) and Leedy and Ormrod (2001):

a) To keep questions straight to the point. Questions should be as short as possible.

b) Questions should not appear to be taking sides.

c) To be clear on instructions.

d) To be careful not to offend respondents and any other party.

e) To maintain professionalism.

f) To consider the respondents' level of literacy (being careful when using concepts and jargons).

The questionnaire used for the purposes of this paper consists of a five–point Likert anchoring scale with options ranging from 1 (strongly disagree) to 5 (strongly agree). According to Baines and Chansarkar (2002:106) and McGivern (2006:318-319) Likert scale questions set by researchers request respondents' extent of agreement or disagreement with a statement, and by doing this, they seek to determine their attitudes to those statements. Chisnall (2001:141) and Baines and Chansarkar (2002:101) affirm and state that in multiple choice questions, respondents are allowed to express their feelings about the statement by choosing only one option that match their feelings from more than two options.

The questionnaire was divided into the following five sections;

Section A

This consists of biographical data of the population, such as age, level of education, salary level and race.

Section B

In section B, questions are designed to assess the extent of the level of the respondents' debts.

Section C

Section C focuses on determining respondents' opinions on whether income, reckless lending and financial literacy have impact on consumer indebtedness. This section also focuses on the respondents' perception on whether credit providers are making efforts to reduce the level of consumer indebtedness in South Africa.

Section D

Questions in section D focus on the respondents' perception of the role of easy access to credit in consumer debt.

Section E

Questions in section D are designed to determine the respondents' perception of the role of other identified factors on consumer debts.

3.8. METHOD

3.8.1. Sample and sampling design

Sample is defined by Burns (2000:83) as a slight percentage of a target population. Burns (2000:83) emphasises that it is important that a sample should be a representative of the target population. Burns (2000:83) further defines population as a group of people having something in common.

It is important that in research, a population must be defined clearly and precisely. In this paper, the population is individuals who are professional employees in various fields or companies based in the southern region of the City of Tshwane Municipal District and employees of three credit providers in the same area.

3.8.2. The reliability of the measuring instrument

According to Green, Tull and Albaum (1988:249) for research to be successful, the measuring instrument should be accurate and valid. Leedy and Ormrod (2005:28) describe a valid instrument as the one that measures what it is supposed to measure. According to Kent (1999:45) a measuring instrument that is constructed appropriately will accurately measure the consumer attitudes.

According to Welman, et al (2005:145), a measuring instrument that is reliable can be proven in the findings of the research. This means that the same results should be obtained irrespective of who is administering the measuring instrument.

In this study the primary data was collected using a questionnaire and analysed using a self-constructed measuring instrument. Testing of reliability of the measuring instrument was performed by conducting a pilot study in which five questionnaires were distributed and administered on two occasions. Scores were compared and found to be similar.

3.8.3. Validity of the measuring instrument

To ensure validity of the measuring instrument, a comprehensive literature review was conducted and thereafter the measuring instrument was constructed, based on the content and reviewed by the supervisor.

3.9. DEMOGRAPHIC PROFILE OF RESPONDENTS

Table 3.2 below provides the demographic composition of the respondents in this study.

TABLE 3.2: RESPONSE RATE

Description	Expresses in numbers	Expressed as a percentage
Total questionnaires distributed	80	100%
Number of responses	51	64%
Usable responses	38	48%
Spoilt responses	13	16%

The total questionnaires distributed were eighty, of which fifty one were received from respondents. Of the fifty one responses received, only thirty eight were usable; the other thirteen were spoilt. According to Wisniewski (1994) responses are sufficient when they exceed thirty per cent. The responses received represent sixty four per cent of the total distribution, of which forty eight per cent were usable. Both total responses and usable responses exceed the thirty per cent recommended by Wisniewski. The responses were therefore sufficient to form a conclusion.

TABLE 3.3: RESPONSE RATE BY GENDER

Description	Expresses in numbers	Expressed as a percentage
Total usable responses	38	100%
Female respondents (only usable)	24	63%
Male respondents (only usable)	14	37%

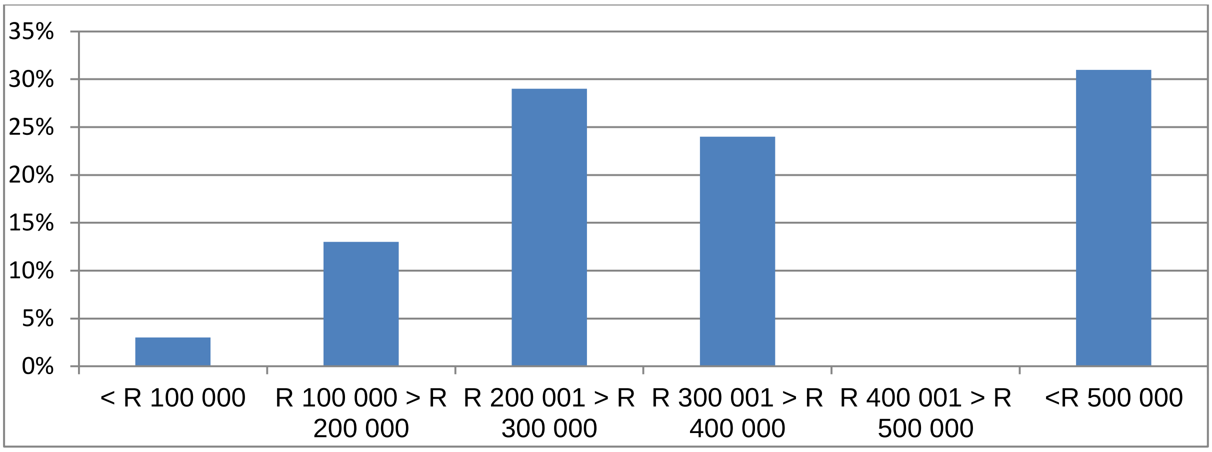
Of the total of thirty eight usable responses, twenty four, representing sixty three per cent of the total responses were females and the remaining fourteen, thirty seven per cent of total responses, were males.

TABLE 3.4: RESPONSE RATE BY ANNUAL INCOME CATEGORY

Description	**Expresses in numbers**	**Expressed as a percentage**
Less than R 100 000	1	3%
Between R 100 000 & R 200 000	5	13%
Between R 200 001 & R 300 000	11	29%
Between R 300 001 & R 400 000	9	24%
Between R 400 001 & R 500 000	0	0%
More than R 500 000	12	31%
Total	38	100%

Respondents by annual income category are graphically shown in figure 3.1 below.

FIGURE 3.1: ANNUAL INCOME CATEGORY OF RESPONDENTS



Of the total thirty eight respondents only one earned less than R100 000, which represents three per cent of the total respondents, five earned between R100 000 and R200 000, which represents thirteen per cent of the total respondents, eleven earned between R200 001 and R300 000, which represents twenty nine per cent of the total respondents, nine respondents earned between R300 001 and R400 000 which represent twenty four per cent of the total respondents and the remaining twelve earned above R500 000, which represents thirty one per cent of the total respondents. There were no respondents that earned between R 400 001 and R 500 000.

TABLE 3.5: RESPONSE RATE BY LEVEL OF EDUCATION CATEGORY

Description	**Expresses in numbers**	**Expressed as a percentage**
No schooling	0	0%
Primary	0	0%
High School	3	8%
Diploma	12	31%
Degree	17	45%
Honours	4	11%
Masters	0	0%
PhD	0	0%
Other	2	5%
Total	38	100%

All of the respondents had either high school, diploma, degree and honours degree qualifications or all. Three of the respondents had high school education qualifications, which represents eight per cent of total respondents, twelve had a diploma, which represent thirty one per cent of total respondents, seventeen had a degree, which represents forty five per cent of total respondents, four had a honours degree, which represents eleven per cent of the total respondents and the remaining two had other qualifications other than those specified above. The two that had other qualifications represents five per cent of the total respondents.

TABLE 3.6: RESPONSE RATE BY AGE CATEGORY

Description	Expresses in numbers	Expressed as a percentage
Less than 20 years	0	0%
Between 20 and 29 years	2	5%
Between 30 and 39 years	20	53%
Between 40 and 49 years	10	26%
Between 50 and 59 years	5	13%
60 and above	1	3%
Total	38	100%

None of the respondents were younger than twenty years. Two of the total respondents were between twenty and twenty nine years old, which represents five per cent of the total respondents. Twenty of the total respondents were between thirty and thirty nine years old, which represents fifty three per cent of the total respondents. Ten of the total respondents were between forty and forty nine years old, which represents twenty six per cent of the total respondents. Five of the total respondents were between fifty and fifty nine years old, which represents thirteen per cent of the total respondents. The remaining one respondent was above sixty years old, which represents three percent of the total respondents.

TABLE 3.7: RESPONSE RATE BY EMPLOYMENT STATUS CATEGORY

Description	Expresses in numbers	Expressed as a percentage
Employed	36	95%
Unemployed	2	5%
Total	38	100%

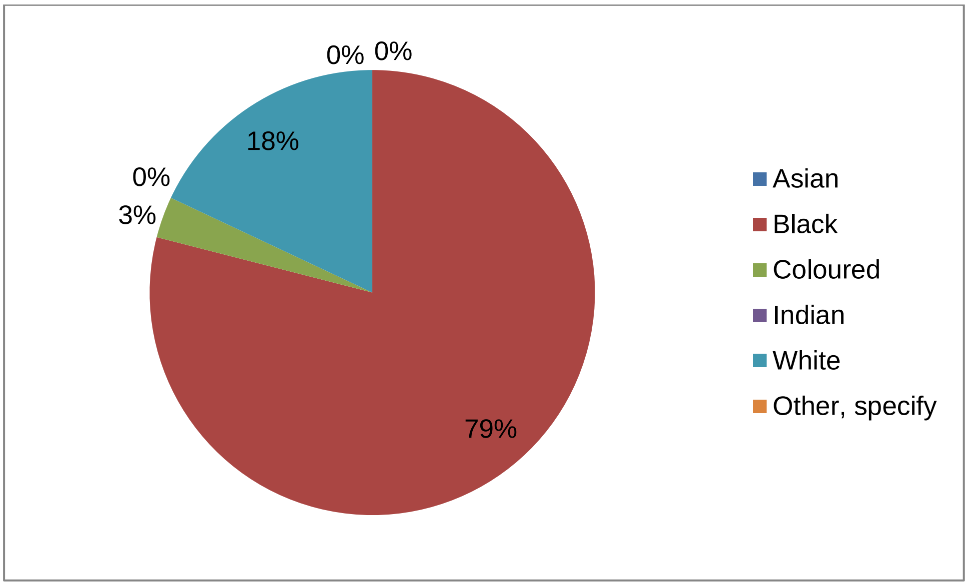
Thirty six of the total respondents were employed, which represents ninety five per cent and the remaining two which represent five per cent of the total respondents were unemployed. Although the targeted population was the working class in the southern district of Tshwane Municipality, the two unemployed respondents were considered in this research.

TABLE 3.8: RESPONSE RATE BY EMPLOYMENT STATUS CATEGORY

Description	Expresses in numbers	Expressed as a percentage
Asian	0	0%
Black	30	79%
Coloured	1	3%
Indian	0	0%
White	7	18%
Other, specify	0	0%
Total	38	100%

Respondents by employment status are graphically shown in figure 3.2 below.

FIGURE 3.2: EMPLOYMENT STATUS OF RESPONDENTS



None of the respondents were Asian, Indian or in the category of other groups. Thirty of the respondents were Blacks or Africans, which represents seventy nine percent of the total responses. One respondent was Coloured which represents three per cent of the total responses and the remaining seven responses were White, which represents eighteen per cent of the total responses.

3.10. ANONYMITY AND CONFIDENTIALITY

The questionnaire was designed in such a way that it did not require the respondents to identify themselves. Although some responses were traceable as to whom the respondent was, no tracing of respondents was done in this research. This was done to ensure that respondents could answer questions freely and honestly. The respondents were assured that their information would be kept confidential. Managers and employees of credit providers that took part in the survey requested that anonymity be guaranteed, citing confidential reasons.

3.11. ETHICAL CONSIDERATIONS

The Nelson Mandela Metropolitan University Business School compels researchers to obtain ethical clearance prior to conducting of a research. The purpose of clearance is to prevent any unintended harm that poorly worded questions or statements may inflict on the people being surveyed. In this study, questionnaires were also submitted for ethical clearance and permission to use was granted. Refer to Appendix A for ethical clearance documents.

3.12. CONCLUSION

This chapter briefly discussed aspects of the research methodology starting by describing the research design and types of data sources, and the methods of data collection was also described.

The chapter also described the questionnaire design and the process of designing the questionnaire, the research population and the sampling procedure, the question format, the content of a questionnaire, the administration of the questionnaire, the pre-testing of the questionnaire and the response rate.

The data analysis and the validity and reliability were also described. The next chapter, chapter 4, will provide the final findings of the empirical study.

CHAPTER 4

FINDINGS OF THE EMPIRICAL RESEARCH

4.1 INTRODUCTION

Chapter three provided a description of how the research was designed, methodology used in this research, how the questionnaire was designed and how the data was collected and designed. Chapter 4 reports on the findings of the empirical research by revealing the extent to which the respondents agreed or disagreed with the questionnaire statements.

According to Aaker et al (2004:432), the raw data collected from the questionnaires must be analysed to provide the researcher with valid and reliable findings for conclusions and recommendations based on the research. Because the data was manageable, the results were analysed using an excel spreadsheet. This method was also selected by the researcher for cost saving reasons.

The questionnaire consisted of statements on a five point Likert scale namely; strongly disagree, disagree, neutral, agree and strongly agree. Average responses on each question are expressed in percentage. Responses are presented in the tables below labelled as follows; Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A) and Strongly Agree (SA). Likert scale questions are used to determine the respondents' attitudes by asking them the extent of their agreement or disagreement with a statement (Baines and Chansarkar, 2002:106 and McGivern, 2006:318-319). Respondents were requested to choose only one statement with which they mostly agreed.

4.2. PRESENTATION, ANALYSIS AND DISCUSSION OF THE RESULTS

4.2.1 Sub-problem one - Are the South African consumers able to afford to repay their debts?

Section B was designed to determine whether South African consumers are able to afford to repay their debts. The results are presented in Table 4.12 below and analysed in a subsequent paragraph. Responses are presented in the tables below.

TABLE 4.1: PERCENTAGES OF RESPONSES ON THE LEVEL OF CONSUMER INDEBTEDNESS IN THE SOUTH AFRICAN RETAIL INDUSTRY

	Section B: Extend of Consumer Debt	**S D**	**D**	**N**	**A**	**S A**
B1	I am happy with the level of my debts.	13%	34%	13%	32%	8%
B2	I meet my debt obligations at all times.	3%	26%	13%	42%	16%
B3	All debts I have are necessary.	21%	18%	6%	39%	16%
B4	I have plans to repay my debts.	0%	0%	10%	53%	37%
B5	I am aware of all instalment repayment of my debts.	0%	0%	3%	45%	52%
B12	I am able to afford my living expenses without relying on other debts.	5%	16%	13%	37%	29%
B16	I made additional voluntary contributions into my debts instalments.	3%	32%	18%	34%	13%

B19	I often use loans to repay other loans.	60%	24%	8%	5%	3%

Source: Survey questionnaire, section 1

As indicated above, statements in table 4.1 were designed to determine whether South African consumers are able to afford to repay their debts. These statements are explored below and the results from the responses are presented in table 4.12.

- Statement B1 - I am happy with the level of my debts.

This statement was created to seek the respondents' level of their happiness with their debts. Lea, Webley and Walker (1995) revealed that a household's ability to cope with financial strain was dependent on its behaviour and psychological factors rather than its income. Results from table 4.12 above depict that only forty per cent of the respondents are happy with the level of their debts while forty seven per cent are not happy. Only thirteen per cent are neutral about the level of their debts. Overall, close to half of the respondents (at forty seven per cent) indicated that they are not happy with the level of their debts. This finding is close to the results of a financial literacy study conducted in South Africa, which found that forty four per cent of households experienced financial difficulties and could not make ends meet with their income as reported by Roberts et al. (2012).

- Statement B2 - I meet my debt obligations at all times.

Above average (fifty eight per cent) confirmed that they meet their debt obligations at all times, while twenty nine per cent do not meet their debt obligations. Results of this study (B2) on meeting debt obligations are close to findings of the survey conducted by FinMark during the end of 2007, which revealed that forty five per cent of South Africans agreed that they make sure every month they have enough money to pay their accounts or instalments.

- Statement B3 - All debts I have are necessary.

Personal spending is absolutely essential for the consumers. Consumer debt may be avoidable, but consumer spending is a must-have for the economy to keep going. According to Valins (2004) to assess whether debt is likely to cause long term financial difficulties, one has to consider the debtor’s circumstances. In this research paper, fifty five per cent of the respondents confirmed that their debts are necessary and only thirty nine per cent of the respondents feel that they have unnecessary debts, while the remaining six per cent remained neutral.

- Statement B4 - I have plans to repay my debts.

According to Roberts et al. (2012) some consumers are struggling in coping to pay their debts and go as far as to deplete their savings or even dispose of some of their valuable assets in order to maintain their cash flow. In this research paper, ninety per cent of the respondents confirmed that they have plans to repay their debts and ten per cent remained neutral.

- Statement B5 - I am aware of all instalment repayment of my debts.

Awareness of instalment repayment seems to be the most commonly agreed factor in this study. Ninety seven per cent of the respondents confirmed that they are aware of their repayment instalments and only three per cent remained neutral. None of the respondents were unaware of instalment repayments.

- Statement B12 - I am able to afford my living expenses without relying on other debts.

A survey conducted by FinMark during the end of 2007, revealed that twenty five per cent of South African consumers agreed that they rely on debts to pay their living expenses. In this research, sixty six per cent of respondents agreed that they are able to afford their living expenses without relying on other debts. This corresponds with the results of statement B6 in which sixty eight per cent of respondents agreed that they are able to repay their loans without relying on assistance from anyone.

- Statement B16 - I made additional voluntary contributions into my debts instalments.

This statement was developed to establish the respondents' commitment to exit their debt arrangements. Close to half of the respondents (forty seven per cent) indicated that they make additional voluntary instalments. Almost one third of the respondents (thirty five per cent) disagreed with the statements and the remaining eighteen per cent were neutral.

- Statement B19 **-** I often use loans to repay other loans.

As opposed to the statement in B16 above, this statement was created to determine respondents' circulation of their debts and therefore staying longer in debt commitment. The results show that eighty four per cent of the respondents disagreed with the statement. Eight per cent agreed that they often use loans to repay other loans and the other eight per cent remained neutral.

4.2.2. Section C: Relationship between consumer income, reckless lending, financial literacy and consumer indebtedness

4.2.2.1. Sub-problem two - Does consumer income, reckless lending and financial literacy have impact on consumer indebtedness?

4.2.2.2. Sub-problem four - Are credit providers making efforts to reduce the level of consumer indebtedness in South Africa?

The second section of the questionnaire was designed to determine whether consumer income, reckless lending and financial literacy have impacted on consumer indebtedness. Determination of whether credit providers are making efforts to reduce the level of consumer indebtedness in South Africa was also established from questions in this section. Results are presented in table 4.2 below.

TABLE 4.2: PERCENTAGES OF RESPONSES ON CONSUMER INCOME, RECKLESS LENDING, FINANCIAL LITERACY AND CONSUMER INDEBTEDNESS

B	Questions	SD	D	N	A	SA
B6	I am able to manage my finances without relying on anyone.	3%	11%	18%	34%	34%
B7	My knowledge of financial management assisted me to avoid some unnecessary debts.	3%	18%	18%	43%	18%
B8	I wouldn't have incurred some of debts have if I had a better knowledge of financial management.	5%	34%	24%	13%	24%
B9	My credit providers are considerate of my financial situation.	8%	8%	45%	34%	5%
B10	I have knowledge of financial management.	0%	3%	13%	63%	21%
B11	Some debts I incurred are due to misrepresentation by credit providers.	21%	47%	8%	11%	13%
B13	My knowledge of financial management is adequate.	0%	11%	18%	50%	21%
B14	Credit providers are making efforts to reduce the level of consumer indebtedness in South Africa.	34%	21%	23%	11%	11%

Source: Survey questionnaire, section 2

- Statement B6 - I am able to manage my finances without relying on anyone.

Roberts et al. (2012) found that some consumers are struggling to cope in paying their debts on their own and depended on either borrowing from either friends, family or a financial institution. In this study, sixty four per cent of the respondents confirmed that they are able to manage their finances without relying on anyone. Fourteen per cent indicated that they are unable to manage their finances without relying on anyone and eighteen per sent remained neutral.

- Statement B7 - My knowledge of financial management assisted me to avoid some unnecessary debts.

- Statement B8 - I wouldn't have incurred some debts had I had a better knowledge of financial management.

- Statement B10 - I have knowledge of financial management.

- Statement B13 - My knowledge of financial management is adequate.

These four questions are interrelated, as they all relate to financial literacy. Roberts et al. (2012) undertook a financial literacy study based in South Africa and found that forty four per cent of consumers struggled to make decisions in coping with their income. They even went to the extent of either borrowing from family members or extending their loans with credit providers.

The study of Lusardi and Tufano (2009) also revealed that many consumers did not understanding debt contracts, compound interest or how a credit card works. A large number of households battle to grasp basic economic concepts. They lack understanding of the benefits of risk diversification, the impact of inflation and how compounding of interest works to their detriment.

In this study, eighty four per cent of the respondents believed that they have knowledge of financial management as indicated in question B10. Only three per cent believed that they do not have knowledge of financial management and the remaining thirteen per cent remained neutral. These results are close to the outcome of the question on adequate financial management in question B13 in which seventy one per cent of the respondents confirmed that they have adequate knowledge of financial management and only eleven per cent disagreed.

The results of questions B10 and B13 tie in with the results of question B7 in which the majority of respondents (sixty one per cent) confirmed that their knowledge of financial management assisted them to avoid some unnecessary debts. Only twenty one per cent of the respondents disagreed that their knowledge of financial management assisted them to avoid some unnecessary debts and eighteen per cent remained neutral.

Thirty seven per cent felt that they wouldn’t have incurred some of debts had they have a better knowledge of financial management. Close to a quarter (twenty four per cent) remained neutral on whether better financial management would have assisted them in incurring some debt and thirty nine per cent disagreed with the statement.

- Statement B9 - My credit providers are considerate of my financial situation.

- Statement B11 - Some of the debts I incurred are due to misrepresentation by credit providers.

- Statement B14 - Credit providers are making efforts to reduce the level of consumer indebtedness in South Africa.

According to Goodwin Groen (2006) credit suppliers often engaged in reckless lending practices, where they did not actively seek evidence of the potential consumer’s credit worthiness, because they were aware that the consumer would most likely have no mechanism to back out of the obligation once engaged. The three statements above are also grouped together as they are all designed to determine the respondents' opinion on whether credit providers are making efforts to reduce the level of consumer indebtedness in South Africa.

Sixty eight per cent of the respondents in this study disagreed that their debts were due to misrepresentation by credit providers. This is despite fifty five per cent of the respondents disagreeing that credit providers are making efforts to reduce the level of consumer indebtedness in South Africa. Almost half of the respondents (forty five per cent) remained neutral on whether credit providers are considerate of their financial situation and thirty nine per cent agreed that credit providers are considerate of their financial situation while sixteen per cent disagreed.

4.2.3. Easy access to credit

4.2.3.1. Sub-problem three - Is easy access to credit a main contribution factor of consumer indebtedness?

Section 3 of the questionnaire was designed to determine whether access to credit is a main contributing factor of consumer indebtedness. Results of the research are presented below.

TABLE 4.3: PERCENTAGES OF RESPONSES ON EASY ACCESS TO LOANS

	Question	**SD**	**D**	**N**	**A**	**SA**
B15	I am able to rearrange my debts at any time.	5%	16%	26%	47%	5%
B17	At times I incur debts because of easy access to loans.	11%	24%	11%	37%	18%

B18	Flexibility of product is the most important thing I consider when I choose the type of loan to take.	3%	24%	42%	24%	7%

There are various factors that contribute to access to credit. However, it usually happens when the cost of credit is low or when there is a relaxation of regulation. Prinsloo (2002) found that direct control over extension of credit impacts on consumer indebtedness. The TransUnion (2013) reported that consumers are continuously revolving their loans in order to supplement their income. The effect of this is that it adds more problems to their already financial distress.

Porteous (2006) suggests that government must settle on the means of protecting consumers from becoming over indebted as well as supporting the profitability of financial intermediaries so as to increase access to credit. Recognising the implicit trade-off between these two objectives is essential to understanding the degree to which government can rely on supply side intervention to protect consumers from becoming over indebted.

Statements in B15, B17 and B18 are also grouped together as they all relate to easy access to credit. These statements are presented below and results from the survey are presented and analysed in the preceding paragraph.

- Statement B15 - I am able to rearrange my debts at any time.
- Statement B17 - At times I incur debts because of easy access to loan.
- Statement B18 - Flexibility of product is the most important thing I consider when I choose the type of loan to take.

In this study fifty five per cent of the respondents agreed that at times they incur debts because of easy access to loan. The majority of the respondents (fifty two per cent) confirmed that they are able to rearrange their debts at any time. Flexibility of credit however seems not to be the most considered factor as thirty one per cent of the respondents indicated that flexibility of product is the most important thing they consider when choosing the type of loan to take.

TABLE 4.4: PERCENTAGES OF RESPONSES ON OTHER FACTORS

	Question	**SD**	**D**	**N**	**A**	**SA**
B19	Some of loans I incurred are due to high prices of goods and services.	24%	31%	13%	24%	8%
B20	I use debts to create wealth.	42%	26%	18%	11%	3%
B21	Some debts I incurred are due to stress.	40%	26%	5%	26%	3%

Statements in B19, B20 and B21 are developed to determine other factors that contribute to the high level of consumer indebtedness.

- Statement B19 - Some of loans I incurred are due to high prices of goods and services.

As stated a high price of goods and services is directly linked to the inflation rate. In this research, the majority of respondents (i.e. fifty five per cent) disagreed that prices of goods and services are high to the extent that it got them over indebted. According to Duesenberry (1949:27) consumers’ expenses increase as prices of goods and services increase. This can prompt a need for consumers to increase their loans to cope with living expenses.

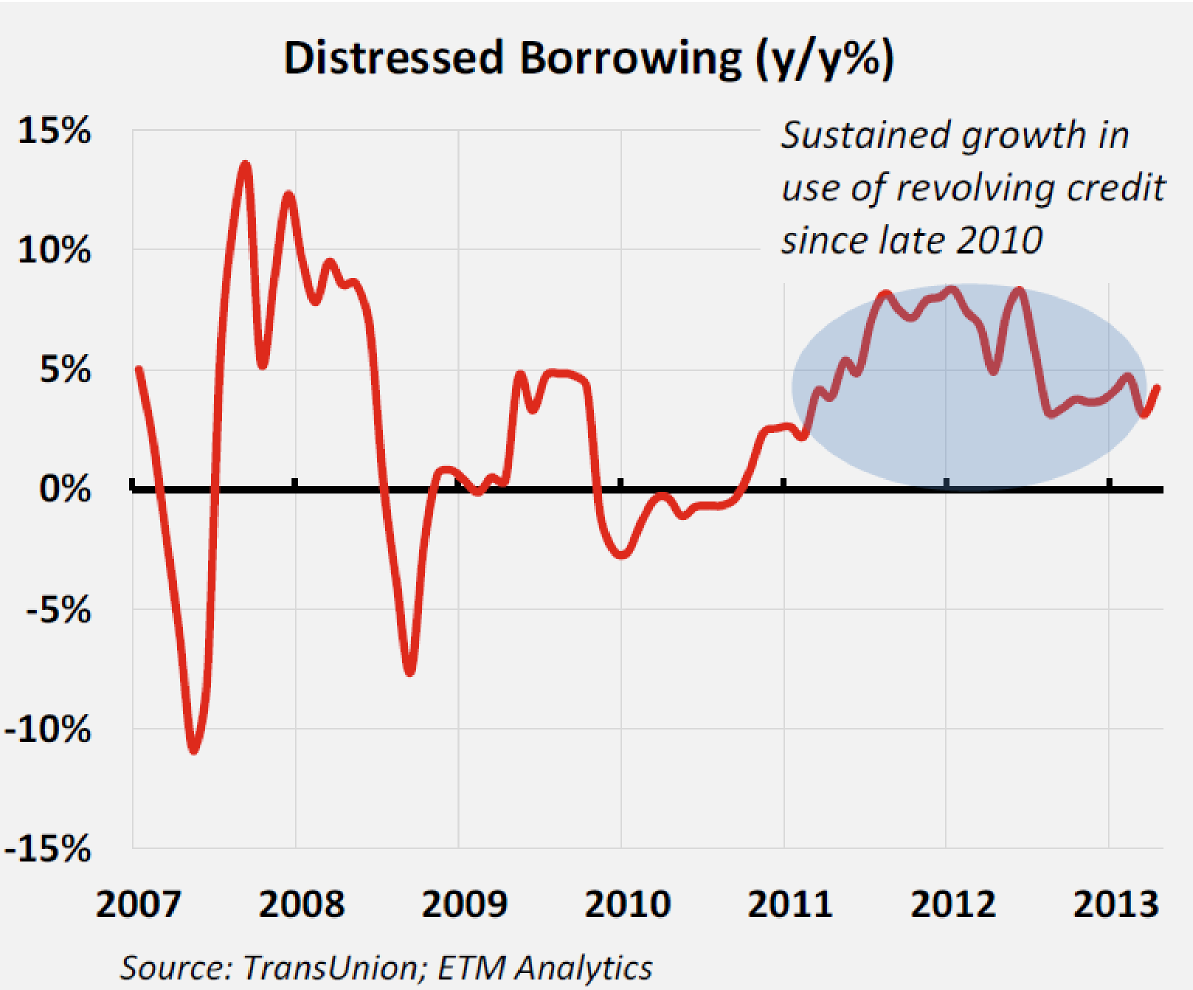
- Statement B20 - I use debts to create wealth.

Although it has been reported in many instances that debt can be used to create wealth, sixty eight per cent of the respondents disagreed that they use debt to create wealth, while fourteen per cent agreed and the remaining eighteen per cent remained neutral.

- Statement B21 - Some debts I incurred are due to stress.

The table below depicts the trend of distressed borrowings on a year to year basis from 2007 until 2013. The picture reveals that towards the end of 2007 until the end of 2008 the situation was worse and the trend went up again during the end of 2011 until towards the end of 2012.

FIGURE 4.1: DISTRESSED BORROWING (Y/Y%) FROM 2007 UNTIL 2013



Despite the table revealing an upward trend of distressed borrowings in most instances, sixty six per cent of the respondents disagreed that they incurred some of their debts due to stress. This means that sixty six per cent of the respondents incurred debts intentionally and ninety per cent of respondents indicated that they had plans to repay their loans.

4.3. CHAPTER SUMMARY

This chapter provided analysis and report of the empirical results of the questionnaires. In this chapter, the researcher analysed the data obtained from the eighty questionnaires that were distributed to individuals who are professional employees in various fields or companies based in the southern region of the City of Tshwane Municipal District and employees of three credit providers in the same area.

The most common agreed statement is that the respondents have plans to repay their loans in which ninety per cent of the respondents agreed that they have plans to repay. The most disagreed statement is that consumers use loans to repay other loans, with which eighty four per cent of the respondents disagreed. The next chapter summarises overall findings of this study. A summary of the recommendations for future studies is also presented.

CHAPTER 5

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. INTRODUCTION

The aim of the study was to investigate the high level of consumer indebtedness in the South African retail market. The secondary objective was to evaluate the effectiveness of the exiting strategies used to minimise the level of consumer indebtedness in the South African retail industry and make recommendations. This chapter contains a synopsis of the previous chapters and gives conclusions and recommendations based on the empirical findings. It also highlights possible areas for further research. The secondary objectives set for the study and recommendations are also discussed based on the major findings of this study.

5.2. OUTLINE OF THE STUDY

Chapter one provided the background of what informed the researcher to conduct a research on this topic. It also provided information about the importance of investigating consumers' indebtedness in South Africa. Delimitations of the research, research objectives, research methodology as well as definitions of concepts were also explained. Main question and sub-questions were presented in order to address the problem.

Chapter two focused on factors identified to be influencing the high level of consumer indebtedness in the South African retail sector. The researcher explained types and classification of consumer indebtedness in the South African context. The research methodology was explained in detail in chapter three and chapter four provided findings of the empirical research.

In this chapter, findings, conclusion and recommendations for future studies are made based on the major findings of this study.

5.3. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS BASED ON THE FINDINGS OF THE STUDY

In this section, the conclusions and recommendations are given based on the literature study and on the empirical study.

- Ability to repay debts.

  Overall results of the study show that almost fifty per cent of consumers are unhappy with the level of their debts. However, the level of unhappiness does not necessarily mean that they are unable to repay. More than fifty per cent (fifty eight per cent) of consumers confirmed that they meet their debt obligations and ninety per cent confirmed that they have plans to repay their debts. This implies that some of those who do not meet their obligations have plans to repay their debts.

  The majority of the consumers (fifty five per cent) also felt that their debts are not necessary, and therefore one can conclude that a high percentage of consumers have plans to repay their debts. When asked about knowledge of their repayment instalments, almost all (ninety seven per cent) of consumers confirmed that they are aware of their repayment instalments.

  In answering the main question (i.e. Are the South African consumers able to afford to repay their debts?), it was found that despite reports that South African consumers are over indebted, they are still able to afford to repay their debts. Easy access to loans seems to be the main contributing factor of the reported over indebtedness. Details on the findings on these factors are explained in detail below.

- Impact of consumer income, reckless lending and financial literacy on consumer indebtedness.

Eight statements were presented to the respondents in an attempt to obtain their view on the impact of consumer income, reckless lending and financial literacy on consumer indebtedness.

Three of the questions (B9, B11 and B19) were designed to seek respondents' view on the role of credit providers relating to consumer indebtedness. The majority of respondents (sixty eight per cent) disagreed that they were over indebted because of misrepresentation by credit providers. Almost half (forty five per cent) remained neutral on whether credit providers are considerate of their financial situation. The majority of respondents (fifty five per cent) disagreed that prices of goods and services have impact on their debts. Based on these findings, it can therefore be concluded that;

- Consumer indebtedness is not caused by misrepresentation by credit providers.
- It remains unknown whether credit providers are considerate of consumers' financial situation.
- Level of income has no impact on consumer debts, as the majority disagreed that high prices has impact on their debts.

Five questions (B6, B7, B8, B10 and B13) are designed to seek respondents' views on the impact of financial literacy on consumer indebtedness. Eighty four per cent of respondents confirmed that they have knowledge of financial management and seventy one per cent confirmed that their financial literacy is adequate. Sixty four per cent of the respondents indicated that they are able to manage their finances without relying on anyone.

This implies that their financial literacy is adequate. Sixty one per cent of the respondents indicated that their knowledge of financial management assisted them to avoid unnecessary debts. This implies that financial literacy impacts on consumer indebtedness and that this impact is positive.

Surprisingly, respondents seemed to remain divided on whether better knowledge of financial management would have assisted them to avoid unnecessary debts in almost all three categories of answers (thirty nine disagreed, twenty four remained neutral and thirty seven agreed). Based on these findings, it can therefore be concluded that

- The majority of consumers are financially literate.
- The majority of consumers' financial literacy is adequate.
- The majority of consumers do not need assistance to manage their finances.

Is easy access to credit a main contribution factor of consumer indebtedness?

Three statements (B15, B17 and B18) are designed to seek consumers' view on whether easy access to credit contributes to consumer indebtedness. The majority of respondents (fifty two per cent) confirmed that they are able to rearrange their debts at any time and fifty five per cent also confirmed that at times they incur debts because of easy access to loans. Respondents however seem to be more divided on whether they prioritise on flexibility when choosing the type of loan. Twenty seven disagreed, forty two remained neutral and thirty one agreed. Based on these findings, it can therefore be concluded that

- There is easy access to credit in the South African retail sector.
- Easy access to credit impacts on consumer debts.
- It remains unknown whether consumers prioritise on flexibility when choosing the type of loan.

- Are credit providers making efforts to reduce the level of consumer indebtedness in South Africa?

Question B14 was designed to seek respondents' views on whether credit providers are making efforts to reduce the level of consumer indebtedness. The majority (fifty five per cent) disagreed that credit providers were making efforts to reduce the level of consumer indebtedness. Based on this, it can therefore be concluded that credit providers are not making efforts to reduce the level of consumer indebtedness in the South African retail sector.

5.4. LIMITATIONS OF THE STUDY

There are certain limitations that are beyond the control of the researcher, which placed restrictions of the researcher's methodology and conclusion. The following paragraphs contain limitations that were encountered during the course of this study. Results were obtained from a distributed questionnaire which consisted of a five point Likert scale.

The statements on the questionnaire did not provide respondents with an opportunity to provide their comments. In order to ensure honesty of the respondents, a covering letter with the University emblem was attached to each questionnaire assuring respondents about confidentiality of information contained in it.

For the sake of convenience the non-probability sampling method was used during the distribution of questionnaires. Although two of the respondents indicated that they were unemployed, the targeted population was limited to the working class based in the southern region of the City of Tshwane Municipal District and employees of three credit providers in the same area. Therefore, not all consumers in the South African retail sector participated in this research.

Employees and managers of credit providers who participated in this research requested to remain anonymous, citing confidential reasons and therefore names of those credit providers could not be disclosed.

5.4.1 Limitations of literature review

This study is based on literature that was accessible and reviewed by the researcher. Some of the literature did not directly address the topic under investigation. However, it was relevant to this study. Most of the literature was from a consumer centric perspective and there was limited literature from a credit provider's perspective. A list of literature that was reviewed is attached as annexures to this paper.

5.4.2 Limitations of empirical research

There were also limitations experienced during the empirical research. Firstly, the researcher used a convenience method and therefore respondents may not necessarily be deemed as representatives of the population. Some of the sampled consumers did not return questionnaires despite several requests to do so. There were also a few questionnaires that were not usable.

Several credit providers were approached and requested to take part in this research. However, only three agreed to do so. Credit providers who participated are where managers seemed to have autonomy and were willing to participate.

5.5. RECOMMENDATIONS FOR FUTURE STUDIES

The outcome of the research indicates that two factors impact on consumer indebtedness in the South African retail sector. These factors are easy access to loans and credit providers' role on reduction of loans to consumers. It is recommended that consideration be given to these factors in order to determine the extent of their impact and what decisions are to be made.

The study did not reveal whether credit providers' consideration of consumers' financial status and whether flexibility of a product is what consumers' prioritise. The study may therefore be extended further by conducting future studies on credit providers' consideration of consumers' financial status and whether flexibility of a product is what consumers prioritise.

5.6. CONCLUSION

The topic of this study yielded a main question and three sub-questions. Eight factors were identified as impacting on the level of consumer indebtedness in the South African retail sector. These factors are: living beyond their means, lack of financial literacy, poor financial management, high prices of goods and services, low or insufficient income, flexibility of financial products, reckless lending and easy access to credit.

The study revealed that despite several sources stating that South African consumers are over indebted, they are still able to repay their debts. There are however two factors that should be investigated, namely easy access to credit and consideration of credit providers on consumers' financial status. These two factors were found to have impact on consumer indebtedness. As highlighted in chapter two, although consumer debt is essential for the economy, if severe, it may lead to negative consequences, such as which the world experienced during the 2008 global recession.

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FORM E

Nelson Mandela Metropolitan University

for tomorrow

ETHICS CLEARANCE FOR TREATISES/DISSERTATIONS/THESES

Please type or complete in black ink

FACULTY:____

SCHOOL/DEPARTMENT:_______________________________________

I, (surname and initials of supervisor) _______________________________

the supervisor for (surname and initials of candidate)_____________________

______________________ (student number) __________________________

a candidate for the degree of ___________________________________

with a treatise/dissertation/thesis entitled (full title of treatise/dissertation/thesis):

____

____

considered the following ethics criteria *(please tick the appropriate block):*

	YES	**NO**
1. Is there any risk of harm, embarrassment of offence, however slight or temporary, to the participant, third parties or to the communities at large?		
2. Is the study based on a research population defined as 'vulnerable' in terms of age, physical characteristics and/or disease status?		
2.1 Are subjects/participants/respondents of your study:		
(a) Children under the age of 18?		
(b) NMMU staff?		
(c) NMMU students?		
(d) The elderly/persons over the age of 60?		
(e) A sample from an institution (e.g. hospital/school)?		
(f) Handicapped (e.g. mentally or physically)?		
3. Does the data that will be collected require consent of an institutional authority for this study? (An institutional authority refers to an organisation that is established by government to protect vulnerable people)		
3.1 Are you intending to access participant data from an existing, stored		

repository (e.g. school, institutional or university records)?		
4. Will the participant's privacy, anonymity or confidentiality be compromised?		
4.1 Are you administering a questionnaire/survey that:		
(a) Collects sensitive/identifiable data from participants?		
(b) Does not guarantee the anonymity of the participant?		
(c) Does not guarantee the confidentiality of the participant and the data?		
(d) Will offer an incentive to respondents to participate, i.e. a lucky draw or any other prize?		
(e) Will create doubt whether sample control measures are in place?		
(f) Will be distributed electronically via email (and requesting an email response)? Note: • If your questionnaire **DOES NOT** request respondents' identification, is distributed electronically and you request respondents to return it *manually* (print out and deliver/mail); **AND** respondent anonymity can be guaranteed, your answer will be NO. • If your questionnaire **DOES NOT** request respondents' identification, is *distributed via an email link and works through a web response system (e.g. the university survey system);* ***AND*** respondent anonymity can be guaranteed, your answer will be NO.		

*Please note that if **ANY** of the questions above have been answered in the affirmative **(YES)** the student will need to complete the full ethics clearance form (REC-H application) and submit it with the relevant documentation to the Faculty RECH (Ethics) representative.*

and hereby certify that the student has given his/her research ethical consideration and full ethics approval is not required.

__________________________ ____________________

SUPERVISOR(S) **DATE**

__________________________ ____________________

HEAD OF DEPARTMENT **DATE**

_________________________ ___________________

STUDENT(S) **DATE**

Please ensure that the research methodology section from the proposal is attached to this form.

APPENDIX B: EMPLOYEE QUESTIONNAIRE

Dear Respondent

My name is Phuti Kgomo and I am student at the Nelson Mandela Metropolitan University Business School. I am studying towards my MBA (Masters in Business Administration) degree. Part of completion of this degree is conducting a research/treatise. My selected topic is investigating the high level of consumer indebtedness in the South African retail market. I am on the process of conducting this research and sampled you as a respondent. I will gladly appreciate it if you could answer below questions. It anticipated that completion of a questionnaire will take not more than fifteen minutes.

These questions are structured in such a way that there are no correct or incorrect answers and therefore I kindly request that you answer as accurately as possible. You may tick next to answer that best describes your experience or perception. For example, if you strongly agree with the statement, tick the number 5. If you strongly disagree with the statement, tick the number 1. **Tick only one answer for each statement and answer all questions please.**

Kindly note that your participation on this study is voluntary and anonymous and information of all participants will be treated confidentially. Thank you in advance for your co-operation.

My contact details are as follows - e-mail : thatopali@gmail.com or cell number : 076 264 6499

To verify the authenticity of the study, please contact Professor William Fox at wfox82@gmail.com

Thank you very much.
Mr. Phuti Kgomo

This questionnaire has been ethically cleared by the University

SECTION A: DEMOGRAPHICS

This info is for demographic purposes only.

1. Please tick appropriate. Are you?

Male	1
Female	2

2. Which age range was final <u>annual</u> income? Please tick appropriate

Less than R 100 000	1
Between R 100 000 & R 200 000	2
Between R 200 001 & R 300 000	3
Between R 300 001 & R 400 000	4
More than R 500 000	5

3. What is your level of education

No schooling	1
Primary	2
High School	3
Diploma	4
Degree	5
Honours	6
Masters	7
PhD	8
Other	9

4. Which age group are you?

Less than 20 years	
Between 20 and 29 years	

Between 30 and 39 years	
Between 40 and 49 years	
Between 50 and 59 years	
60 and above	

5. Employment status?

Employed	Unemployed

6. Which race are you?

Asian	1
Black	2
Coloured	3
Indian	4
White	5
Other, specify	

Place the number in the box that corresponds to each item and each organisation. Although some of these questions may sound similar, please respond to each carefully because they ask for slightly different information. Please use the following scale:

1 = Strongly Disagree
2 = Disagree
3 = Neither agree nor disagree
4 = Agree
5 = Strongly Agree

SECTION B: EXTEND OF CONSUMER DEBT

7. I am happy with the level of my debts

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

8. I meet my debt obligations at all times

1	2	3	4	5
Strongly disagree	Disagree	Neutral	A Agree	Strongly agree

9. All debts I have are necessary

1	2	3	4	5
Strongly disagree	Disagree	Neutral	A Agree	Strongly agree

10. I have plans to repay my debts

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

11. I am aware of all instalment repayment of my debts

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

SECTION C: RELATIONSHIP BETWEEN CONSUMER INCOME, RECKLESS LENDING, FINANCIAL LITERACY AND CONSUMER INDEBTEDNESS

12. I am able to manage my finances without relying on anyone

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

13. My knowledge of financial management assisted me to avoid some unnecessary debts

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

14. I wouldn’t have incurred some of debts have if I had a better knowledge of financial management

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

15. My credit providers are considerate of my financial situation

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

16. I have knowledge of financial management

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree

disagree				

17. Some debts I incurred are due to misrepresentation by credit providers

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

18. I am able to afford my living expenses without relying on other debts

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

19. My knowledge of financial management is adequate

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

20. Credit providers are making efforts to reduce the level of consumer indebtedness in South Africa

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

SECTION D: EASY ACCESS TO CREDIT

21. I am able to rearrange my debts at any time

1	2	3	4	5

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

22. I made additional voluntary contributions into my debts instalments

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

23. At times I incur debts because of easy access to credit

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

24. Flexibility of product is the most important thing I consider when I choose the type of loan to take

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

25. I often use loan to repay other loans

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

SECTION E: OTHER FACTORS

26. Some of debts I incurred are due to high prices of goods and services

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

27. I use debt to create wealth

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

28. Some debts I incurred are due to stress

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

--Thank you very much--

ANALYSIS OF RESPONSES

Gender		
Male	14	37%
Female	24	63%

Annual Income		
Less than R 100 000	1	3%
Between R 100 000 & R 200 000	5	13%
Between R 200 001 & R 300 000	11	29%
Between R 300 001 & R 400 000	9	24%
Between R 400 001 and R500 000	0	0%
More than R 500 000	12	31%

Level of Education		
No schooling	0	0%
Primary	0	0%
High School	3	8%
Diploma	12	31%
Degree	17	45%
Honours	4	11%
Masters	0	0%
PhD	0	0%
Other	2	5%

Age Group		
Less than 20 years	0	0%
Between 20 and 29 years	2	5%
Between 30 and 39 years	20	53%
Between 40 and 49 years	10	26%
Between 50 and 59 years	5	13%
60 and above	1	3%

Employment Status		
Employed	36	95%
Unemployed	2	5%

Race		
Asian	0	0%
Black	30	79%
Coloured	1	3%
Indian	0	0%
White	7	18%
Other, specify	0	0%

Section B: Extend of Consumer Debt	**Strongly disagree**		**Disagree**		**Neutral**		**Agree**		**Strongly agree**	
	No. of respon ses	**Express ed as a %**								
I am happy with the level of my debts	5	**13%**	13	**34%**	5	**13%**	12	**32%**	3	**8%**
I meet my debt obligations at all times	1	**3%**	10	**26%**	5	**13%**	16	**42%**	6	**16%**
All debts I have are necessary	8	**21%**	7	**18%**	2	**6%**	15	**39%**	6	**16%**
I have plans to repay my debts	0	**0%**	0	**0%**	4	**11%**	20	**53%**	14	**37%**

I am aware of all instalment repayment of my debts	0	**0%**	0	**0%**	1	**3%**	17	**45%**	20	**53%**

Section C: RELATIONSHIP BETWEEN CONSUMER INCOME, RECKLESS LENDING, FINANCIAL LITERACY AND CONSUMER INDEBTEDNESS										
	Strongly disagree		**Disagree**		**Neutral**		**Agree**		**Strongly agree**	
I am able to manage my finances without relying on anyone	1	**3%**	4	**11%**	7	**18%**	13	**34%**	13	**34%**
My knowledge of financial management assisted me to avoid some unnecessary debts	1	**3%**	7	**18%**	7	**18%**	16	**43%**	7	**18%**
I wouldn't have incurred some of debts had I have a better knowledge of financial management	2	**5%**	13	**34%**	9	**24%**	5	**13%**	9	**24%**
My credit providers are considerate of my financial situation	3	**8%**	3	**8%**	17	**45%**	13	**34%**	2	**5%**
I have knowledge of financial management	0	**0%**	1	**3%**	1	**3%**	24	**63%**	8	**21%**
Some of debts I incurred are due to misrepresentation by credit providers	8	**21%**	18	**47%**	3	**8%**	4	**11%**	5	**13%**
I am able to afford my living expenses without relying on other debts	2	**5%**	6	**16%**	5	**13%**	14	**37%**	11	**29%**
My knowledge of financial management is adequate	0	**0%**	4	**11%**	7	**18%**	19	**50%**	8	**21%**
Credit providers are making efforts to reduce the level of consumer indebtedness in South Africa	13	**34%**	8	**21%**	9	**23%**	4	**11%**	4	**11%**
EASY ACCESS TO CREDIT										
I am able to rearrange my debts at any time	2	**5%**	6	**16%**	10	**26%**	18	**47%**	2	**5%**

I made additional voluntary contributions into my debts instalments	1	**3%**	12	**32%**	7	**18%**	13	**34%**	5	**13%**
At times I incur debts because of easy access to credit	4	**11%**	9	**24%**	4	**11%**	14	**37%**	7	**18%**
Flexibility of product is the most important thing I consider when I choose the type of loan to take	1	**3%**	9	**24%**	16	**42%**	9	**24%**	3	**7%**
I often use loan to repay other loans	23	**60%**	9	**24%**	3	**8%**	2	**5%**	1	**3%**
OTHER FACTORS										
Some of debts I incurred are due to high prices of goods and services	9	**24%**	12	**31%**	5	**13%**	9	**24%**	3	**8%**
I use debts to create wealth	16	**42%**	10	**26%**	7	**18%**	4	**11%**	1	**3%**
Some debts I incurred are due to stress	15	**40%**	10	**26%**	2	**5%**	10	**26%**	1	**3%**