

Press release: January 2009  
Editorial contact: FinMark Trust  
Mark Napier (082 456 5036)  
Darrell Beghin (082 497 5017)  
TNS Research Surveys  
Neil Higgs (011 778 7500)  
Rob Powell (011 778 7500)

## Debt in South Africa - are we living beyond our means?

Global economic events over the past few months have brought into stark reality the need to manage debt wisely. Although South Africa is beginning to feel the effects of a global economic slowdown, to some extent we have been saved from some of the harsh realities of the credit crunch. Our protection from some of the problems resulting from the credit crunch can somewhat be attributed to the National Credit Act. Never before has the mandate of the Act, *“to promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers”*, been more relevant.

With levels of indebtedness under the spotlight, few would dispute that good financial management largely comprises keeping debt to a minimum and saving or investing for the future as much as possible. At a time when many people may begin to find it increasingly difficult to service the debt that they do have, it is important to understand attitudes to debt and patterns of borrowing money. Although a certain level of debt is acceptable, the relative size of personal debt versus income, as well as the drivers of debt, provide insight as to how financially stretched individuals are.

It is concerning that most debt is acquired to meet basic survival needs, and a very small proportion is used to finance the purchase of longer-term assets such as a home.

### Attitudes to debt and debt-servicing behaviour

According to FinScope South Africa 2008, a comprehensive survey of financial behaviour and use of financial instruments, most people have an aversion to debt, based on their levels of agreement with the following statements:

- You hate owing money to anyone: 86%
- Taking loans should be avoided as much as possible: 74%

These attitudes can perhaps be attributed to the fact that a high proportion of South Africans are cautious of debt, for example believing that when buying on credit, it ends up being more expensive than they thought it would be (71% agree). In addition, over one in four South Africans do not feel in control of their finances. This sentiment is fairly consistent across the race groups although highest amongst coloured adults (32%) and lowest amongst Indians/Asians (19%).

In contrast to these expressed attitudes, the power of consumerism is evident in the fact that over one in four adults agree that they “love spending money to purchase goods, even if they have to use credit to do so”. Agreement with this statement was higher in the white (32%) and Indian/Asian (32%) markets and lowest among coloured adults (21%). Moreover, significantly more South Africans agree with the statement that they “never seem to be able to pay off their debt, it just keeps getting worse than it did in 2007” (19% vs 14% respectively). It is distressing that almost one in five South Africans feel trapped by debt, signalling significant economic hardship. This sense of overwhelming debt is

worse in the black and Indian/Asian markets, where 19% agree with the statement, and lower in the white and coloured markets, where 15% agree with this statement.

## How indebted are South Africans?

Twenty-eight percent of South Africans, or around 9.1 million people, claim to be currently borrowing money, contrasting with 13% in 2007 and 12% in 2006. The level of debt differs significantly by race, with those races with the largest average incomes being the most in debt. White (59%) and Indian/Asian (43%) adults are the biggest borrowers, with level of borrowing being far lower amongst coloured (27%) and black (23%) adults. As expected, levels of debt peak between 35 and 50 years of age.

As one would expect, due to the disparity in affluence between the provinces, levels of debt differ significantly by province. The table below compares average income levels at a provincial level with levels of stated borrowing:

Province	Penetration of borrowing %	Average personal income
Gauteng	43	R4 100
Western Cape	35	R2 200
Northern Cape	26	R1 600
Eastern Cape	25	R1 500
KwaZulu Natal	23	R1 700
North West	23	R1 400
Limpopo	22	R1 000
Mpumalanga	20	R1 600
Free State	15	R1 200

## Sources of credit

The table below shows the penetration of debt and various types of debt held by South African adults:

	Total 2008 %	Black %	White %	Coloured %	Indian/Asian %
<b>Informal debt</b>	<b>13</b>	<b>15</b>	<b>6</b>	<b>10</b>	<b>4</b>
Borrowing from friends and family	11	13	4	8	3
Borrowing from employer	1	1	1	0	1
Borrowing from mashonisa/ loan shark	1	1	0	1	0
Borrowing from stokvel/ umgalelo/savings club	1	2	0	0	0
Borrowing from local spaza	1	1	1	1	0
<b>Formal debt</b>	<b>16</b>	<b>11</b>	<b>50</b>	<b>17</b>	<b>37</b>
Personal loan from a small bank	1	1	0	3	0
Personal loan from a retail store	1	1	1	0	0
Credit card	8	3	37	6	22
Store card or account	8	6	24	9	15
Home loan	5	2	20	6	9
Personal loan from a big bank	3	2	9	2	4
Vehicle finance from a bank	3	1	15	2	8
Paying for goods via instalments	2	1	8	4	1
Overdraft facility	2	0	9	1	1

The reliance of the white and Indian/Asian markets on formalised credit providers is immediately evident. In contrast, the black and coloured markets are users of both sources of credit. In the informal market, the most prevalent source of financial aid is from societal networks, namely friends and family. Although this dominates across all race groups, it is by far the most prevalent in the black market.

From a city perspective, residents of Johannesburg have significantly more formal (31%) as well as informal debt (17%) than residents of other cities. Bloemfontein has the low levels of both formal (5%) as well as informal debt (5%).

One in six adult South Africans, more than 5.2 million people, have some form of formal debt. Credit cards and store cards/accounts are the most prevalent forms, with their incidence significantly higher amongst whites than other race groups.

It is important to investigate debt in the context of real income growth. Between 2006 and 2007, income levels grew far faster than the inflation rate in the country as a whole (14% annual income growth vs. 7.3% average annual inflation during the 2007 fieldwork period). In contrast, between 2007 and 2008 nominal income levels grew by 20% against annual CPI inflation during the 2008 fieldwork period of 13%.

The main types of debt are also tabulated by LSM<sup>1</sup> below. This table demonstrates the greater reliance on informal credit providers by the less affluent sectors of society. Access to credit cards and store cards is only realised at a meaningful level from LSM 7 and above.

	Total 2008 %	LSM 1-2 %	LSM 3-4 %	LSM 5-6 %	LSM 7-8 %	LSM 9-10 %
<b>Informal debt</b>	<b>13</b>	<b>15</b>	<b>16</b>	<b>13</b>	<b>11</b>	<b>8</b>
Borrowing from friends and family	11	15	14	11	9	6
Borrowing from mashonisa/ loan shark	1	3	1	1	0	0
<b>Formal debt</b>	<b>16</b>	<b>2</b>	<b>4</b>	<b>11</b>	<b>28</b>	<b>54</b>
Credit card	8	0	0	2	14	42
Store card or account	8	1	2	5	17	29

### Drivers of debt and knowledge of the nature of debt among borrowers

Over half of the population claim never to have borrowed money from anyone. In 2008, 7% (almost 2.3 million people) said they could not survive without borrowing money, as opposed to 3% in 2007. Five percent also claim that they sometimes buy items to their full credit limit.

It is sobering that the main driver of debt is to get money to buy food. Ten percent of South African adults (nearly 3.2 million people) had asked or applied to borrow money for this purpose in the 12 months prior to the study. The primary source of such loans is from informal networks such as friends and family (87%), although 10% also applied for such a loan from a major bank.

After food, the most prevalent driver of debt is to buy clothing: 5% have been loaned money for this in the last 12 months. Formal providers, namely food and clothing stores, are the main source of this type of credit (45%), followed by informal networks (33%) and furniture stores (13%). After food and clothing, the next largest drivers are to pay for school fees (3%), furniture or other household items (2%), to buy a car (2%), to pay for water or electricity (2%) and to build or buy a house (2%).

Two percent of adults admit to being in a debt spiral, in other words they are taking out loans to pay off other debt.

FinScope 2008 also probed the level of information or education that is provided to borrowers when getting a loan. Respondents who had taken out a loan, whether through formal or informal channels, were probed as to what information or explanation about the nature of the loan they received. How long it would take to pay the loan back (60%) received the highest mention, followed by what the instalments or repayments would be (57%), the actual fees involved (54%) and the interest one would be paying (47%). Many people who borrow money do so without sufficient information about the terms and conditions of that loan. In addition, the incidence of people being given information as to their

<sup>1</sup> LSM or Living Standards Measure is a categorisation ranging from 1 to 10 used extensively by marketers and advertisers as a means to segment the population. It is crude proxy for wealth, with the lower LSM groups comprising the most impoverished end of the spectrum. LSM figures are based on SAARF's 2006 algorithm.

consumer rights in terms of the agreement, who they could contact should they have a complaint and institutions/organisations they could contact if they were unhappy with the contract, was very low.

## The National Credit Act

The National Credit Act (NCA) had been in place for well over a year at the time of the survey. Therefore, significant improvement in terms of awareness and knowledge of the act could be expected in comparison to the 2007 figures.

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

	Total 2007 %	Total 2008 %
<b>Agreement with incorrect statements</b>		
The new NCA means all your previous credit obligations fall away	15	15
You have the right to miss up to six payments in a yearly cycle	12	11
Having your loan provider phone you regularly to remind you to pay is a good thing	24	31
<b>Agreement with correct statements</b>		
You have the right to five quotes before you take credit	26	25
You have a right to a copy of your credit history	45	41
You have the right to a full explanation of your credit agreement	54	48
You have the right to a full explanation of fees and interest that will be charged	54	49
You have the right to have your debt rescheduled or restructured	31	34
You have the right to challenge your personal information on the credit bureau or register	38	35
You may apply for counselling for your debts	32	33
Consolidating your debt makes financial sense	30	32

As in 2007, knowledge was limited about what consumer rights and obligations were involved in taking out credit. Although the Act is still relatively new, it is discouraging that consumer knowledge has not improved much between 2007 and 2008.

## Summary

As in previous studies, FinScope South Africa 2008 shows that people appear to understand the pitfalls of servicing debt, and there is a widespread stated aversion to borrowing. However, in line with historical trends, the reasons for borrowing vary considerably among race groups. White and Indian/Asian adults are far more likely to borrow money to service the acquisition of assets, thus often bettering their long-term financial standing. By contrast, black and coloured adults are more likely to borrow to meet everyday survival needs, the most common reason being to buy food. Therefore, although a significant portion of the population lives beyond its means, this scenario is not fuelled by anything other than basic necessity.

The source of credit is also largely polarised. Based on their relative financial strength in the market, white and Asian adults have the highest incidence of taking out loans through the formal sector. Banks fulfil most of these loan requirements. However, in the population as a whole, a person's own network is preferred for a loan rather than a formal institution. Loans from friends and family are the most prevalent source of credit in the informal sector.

Although the National Credit Act has only been in existence for a short period, it was disappointing that knowledge of the Act has not improved since 2007. However, as the Act can be applied only to

institutions in the formal arena, much of the lending and borrowing behaviour falls out of the sphere of its influence. In these circumstances, the rights of borrowers and lenders are still not protected.

As we enter the economic uncertainty of 2009, it is worrying that so many South Africans are already living with more debt that they can service. In addition, debt as a means to survival has become a way of life for many. Intervention may be needed to prevent a large social and emotional cost to many South Africans if the economic situation deteriorates.

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

*FinScope SA 2008, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by TNS Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 900 South African residents aged 16 years and older, between August and October 2008. A nationally representative sample was drawn, which was weighted and benchmarked to the 2008 mid-year estimates based on 2007 Community Survey estimate information.*

*The 2008 South African syndicate members are: Absa, First National Bank (FNB), Liberty Life, Metropolitan Life, National Treasury, Nedbank, Old Mutual, Sanlam, Standard Bank and Teba Bank.*

#### **About TNS**

*TNS is a global market information and insight group.*

*Its strategic goal is to be recognised as the global leader in delivering value-added information and insights that help its clients make more effective business decisions.*

*TNS delivers innovative thinking and excellent service across a network of 80 countries. Working in partnership with clients, TNS provides high-quality information, analysis and insight that improves understanding of consumer behaviour.*

*TNS is the world's leading provider of customised services, combining sector knowledge with expertise in the areas of Product Development & Innovation, Brand & Communications, Stakeholder Management and Retail & Shopper. TNS is a major supplier of consumer panel, media intelligence and audience measurement services.*

**TNS is the sixth sense of business™.**

[www.tnsglobal.com](http://www.tnsglobal.com)

#### **The Kantar Group**

*The Kantar Group is one of the world's largest research, insight and consultancy networks. By uniting the diverse talents of more than 20 specialist companies - including the recently-acquired TNS - the group aims to become the pre-eminent provider of compelling and actionable insights for the global business community. Its 26,500 employees work across 80 countries and across the whole spectrum of research and consultancy disciplines, enabling the group to offer clients business insights at each and every point of the consumer cycle. The group's services are employed by over half of the Fortune Top 500 companies. The Kantar Group is a wholly-owned subsidiary of WPP Group plc. For further information, please visit [www.kantargrouptns.com](http://www.kantargrouptns.com)*