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Editorial contact: *FinMark Trust*

Mark Napier (082 456 5036)

Darrell Beghin (082 497 5017)

Research Surveys

Neil Higgs (011 778 7500)

Rob Powell (031 583 3500)

Debt - how far in the red are South Africans?

Few would dispute that good financial management largely comprises keeping debt to a minimum and saving or investing for the future as much as possible. According to FinScope™ SA 2006, a study of consumer use and perceptions of the financial sector in South Africa, only 7% of South Africans manage to save, and most survive with little financial surety.

Attitudes to debt and debt-servicing behaviour

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

- *"You hate owing money to anyone"* - 84% agreement. This debt intolerance is greater in the white, coloured and Asian/Indian communities (with more than 90% of each group agreeing with the statement), than in the black community (82%).
- *"Taking loans should be avoided as much as possible"* - 71% agreement. The Indian/Asian and white communities are the most debt averse (94% and 80% respectively).
- *"When buying on credit, it ends up being more expensive than you thought it would be"* - 69% agreement.

Various attitudes to, and experiences of, debt emerged:

- *"In times of need, you would rather deal with people you know than with a large organisation"* - 59%. The preference for dealing with people one knows is higher in the coloured and Indian/Asian communities, with 64% and 73% agreeing respectively with the statement.
- *"You never seem to be able to pay off your debt: your debt just keeps getting worse"* - 19%. The Indian/Asian and white communities have the least problem in this regard, with 10% and 15% respectively agreeing with the statement. This is most problematic for the black community with 20% agreeing with this statement.
- *"If you don't have enough money to pay all your debts, you pay one debt one month and the next month you pay another debt"* - 27%. The incidence of this behaviour was lowest in the white community (19%) and highest for the black community (29%).
- *"You love spending money to buy things even if you have to use credit to do so"* - 22%. Indian/Asian (16%) and white (18%) adults are less likely to indulge in debt-producing behaviour, if it can be avoided, than black adults (22%).

Therefore, although there is general consensus that debt should be avoided, a significant portion of the population appears to use debt inappropriately, and some are spiralling deeper into debt. People prefer to obtain a loan through their own networks rather than approach a formal organisation. White and Indian/Asian adults appear to be better educated and disciplined about debt and its pitfalls,

however these individuals comprise the wealthier population groups, and unlike poorer consumers have access to credit facilities such as credit cards, which makes managing cash flow much more convenient, possibly creating the illusion that debt is not a problem.

So, how indebted are we and to whom?

Around 7% of South African residents, in the region of 2.3 million people, have some type of home loan. The incidence of such loans varies dramatically by race, as follows:

- o Black - 2%
- o White - 33%
- o Coloured - 12%
- o Indian/Asian - 21%

The most common form of home loan is a formal mortgage from a bank, held by 6% of people. A further 1% has a loan from a bank to extend or improve their homes.

Around 3.3-million people or 11% of the adult population have personal loans (excluding credit card debt). The incidence is higher among the banked population, rising to 17%. Once again, definite racial skews are evident:

- o Black - 8%
- o White - 29%
- o Coloured - 11%
- o Indian/Asian - 13%

The most common source of such financial aid is a loan from a friend or family (4%), followed by a loan from a bank (3%). Two percent of South Africans have vehicle finance through a bank, and the same percentage have an overdraft facility. Although this is low in percentage terms, 1% of people have obtained a loan through a stokvel, umgalelo or savings club, with a further 1% having used a microlender for this purpose.

The pivotal role played by friends and family in meeting the need for money is highlighted by the fact that 75% of people state that, should they be declined a short-term loan from a bank or similar institution, they would go to friends or family for help. The tendency to do this is strongest in the black community (80%) and weakest in the white community (48%). That informal money lenders or mashonisas are providers of last resort when seeking a loan is underlined by the fact that only 3% of people would turn to them for loans. However, the survey may still be under-reporting the degree of indebtedness, and the kind of debt, because of the consumer's tendency to deny the existence of debt or understand its extent.

Drivers of debt?

The study probed why people would take out, or have taken out, loans. The results underscore the dire financial circumstances many South African residents face. The primary reason for taking out a loan is to meet a basic necessity - that is, to buy food. This reason was cited by 18% of people. This is followed by money for a funeral (10%), to pay school fees (9%) and to cover medical expenses (9%).

Once again, the reasons for actual indebtedness or the reasons people would take out a loan vary by race, as outlined overleaf:

	Total %	Black %	White %	Coloured %	Asian %
To buy food if money has run out	18	21	3	14	4
For a funeral	10	11	3	6*	5
To pay a child's school fees	9	10	5	8	7
For unexpected medical expenses	9	9	10	12	3
To start a business	8	9	6	4	7
Money for me to study	8	8	6	6	12
To pay off debt	7	7	12	7	4
To buy or build a house	7	6	15	7	14
To buy a car	6	4	19	8	7
To pay for water and electricity	4	4	4	6	5
To extend or renovate your home	4	4	8	6	4
To pay for hospital or medical bills	4	3	5	5	2
For clothing	3	4	2	3	0
None, I have not and would not borrow money	49	48	50	52	63

The results also emphasise the strain that unforeseen medical costs place on many people. In addition, a debt cycle is evident, with 7% of people taking out a loan to pay off another debt. This figure has declined from a figure of 13% recorded in 2005. However, the trend to borrow money to pay off other debt is particularly prevalent in the white market at 12%. The corresponding figure for the black and coloured markets is 7% and for the Indian/Asian population group, only 4%. One in five people claim to know someone who is under debt administration, this figure rising to 47% in the white community.

In addition, white people, and to a lesser extent Indian/Asian residents, are most likely to obtain loans to buy assets. For most individuals, taking out a loan improves their short-term circumstances, but not their long-term financial well-being, as they are not borrowing money to build capital but for everyday survival.

Affordability of monthly instalments, interest rate charges and how quickly the loan will be approved determine where people will take out long-term and short-term loans.

Perceptions of loan providers

When asked to associate various providers with a set of attributes, many people simply said, "I don't know". These responses are indicative of the difficulty many people have in evaluating the services of the providers, either through lack of knowledge or experience.

Of microlenders, mashonisas and banks, only banks are considered trustworthy when considering the options for taking out loans - although by only 58% of people. The other providers are not considered trustworthy at all.

Unsurprisingly perhaps, mashonisas are most highly associated with providers who give too much credit, leading to financial difficulty (30%) and for not being understanding when one cannot make repayments (36%). Banks received the highest rating (20%) after life insurance companies (28%), on the negative attribute of not providing assistance immediately.

Summary

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

Based on their relative financial strength in the market, white and Indian/ Asian adults have the highest incidence of taking out loans through the formal sector, both mortgages as well as personal loans. Banks fulfil most of these loan requirements, but in the population as a whole, one's own network is preferred for loan provision to a formal institution. The preference for and stated use of microlenders and loan sharks or mashonisas is low.

The figures on incidence of debt may be substantially under-reported because many people do not want to admit to their level of borrowing. Although only 11% of South African adults claim to have a personal loan, there are factors that raise the red flag of concern. First is the tendency of a high proportion of people to claim that they will get into debt for an item they desire rather than saving up to buy it. Even more worrying is that 7% of the population claim they have incurred or would get into more debt to pay off existing debt, leading many into a debt spiral. This, coupled with the fact that only 23% of the population claim really to understand what interest rates are, emphasises the continued need for financial education to allow better financial decision making, and ultimately financial health.

FinScope™ was launched in 2003 by the FinMark Trust. 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 2006, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 894 South African residents aged 16 years and older, between June and August 2006. A nationally representative sample was drawn, which was weighted and benchmarked to the StatsSA 2006 mid-year estimates based on the Census 2001 estimate information.

The 2006 South African syndicate members are: Absa, First National Bank, National Treasury, Nedbank, Standard Bank, the Financial Services Board, Liberty Life, Metropolitan, Sanlam, Teba Bank and Old Mutual.