



## CONSUMER FINANCIAL VULNERABILITY INDEX THIRD QUARTER 2010

### Background

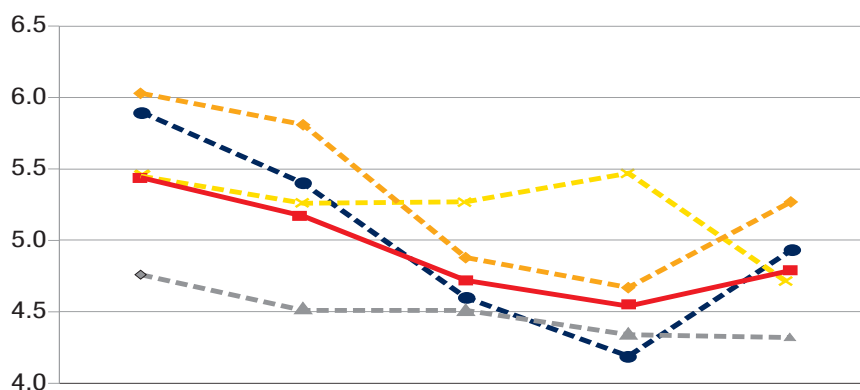
The Consumer Financial Vulnerability Index (CFVI) was developed by the Bureau of Market Research (BMR) in collaboration with FinMark Trust. This is the sixth quarterly update. It covers the latest trends in consumer financial vulnerability, as gathered from key informants during the third quarter of 2010.

*The consumer financial vulnerability index reflects the overall financial vulnerability of a consumer, after taking into consideration the different dynamics influencing a consumer's profile for income, savings, expenditure and debt*

The overall CFVI and sub-indices are based on a 10-point scale where 0 indicates total financial security and 10 indicates total financial vulnerability.

### Index score interpretation

0 – 1.99	2.0 – 3.99	4.0 – 5.99	6.0 – 7.99	8.0 – 10
Financially very secure	Financially secure	Somewhat financially vulnerable	Financially vulnerable	Financially very vulnerable



CONSUMER FINANCIAL VULNERABILITY	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
---●--- Savings vulnerability	5.90	5.40	4.60	4.19	4.93
- - - X - - - Expenditure vulnerability	5.45	5.26	5.27	5.47	4.69
- - - ▲ - - - Debt servicing vulnerability	4.76	4.51	4.51	4.34	4.32
- - - ◆ - - - Income vulnerability	6.03	5.81	4.88	4.67	5.27
<b>—■— Overall CFVI</b>	<b>5.44</b>	<b>5.17</b>	<b>4.72</b>	<b>4.54</b>	<b>4.79</b>

Consumer financial vulnerability as measured by the overall CFVI increased from 4.54 in the second quarter of 2010 to 4.79 during the third quarter of 2010. This is the first increase in overall CFVI since the fourth quarter of 2009. It is evident that South Africans remain financially vulnerable although available economic data shows continuous improvements in the macro-economy, with the exception of employment levels where job losses are still continuing. It should, however, be stressed that although a turnaround in the overall CFVI was experienced towards negative territory, the third quarter 2010 CFVI was much better than the third quarter 2009 CFVI, thus showing year-on-year improvements.



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## Key findings

**Savings vulnerability** increased from 4.19 during the second quarter of 2010 to 4.93 during the third quarter of 2010. It appears from the Financial Stability Review<sup>1</sup> that savings as a percentage of disposable income of households was negative for the first half of 2010. This increasing savings vulnerability is reflected in available Reserve Bank figures showing a strong upward trend in credit extension to households during the third quarter of 2010 compared to the first quarter of 2010 which is indicative of higher levels of dissaving by households. At the same time retail expenditure by South African households also showed some growth (1.6% in nominal terms) during the third quarter of 2010 compared to the second quarter of 2010 in seasonally adjusted terms which implies that household spending is up and household saving down.

**Expenditure vulnerability** showed improvements from the second quarter of 2010 to the third quarter of 2010 as is echoed by the relatively high growth in credit extension to households (Reserve Bank) allowing households more money to spend. Furthermore, retail expenditure (Stats SA) during the third quarter of 2010 compared to the second quarter of 2010 increased, showing that households are spending more. Also on a year-to-year basis improvements in consumer expenditure vulnerability are evident, i.e. the expenditure vulnerability index scores decreased from 5.45 during the third quarter of 2009 to 4.69 during the third quarter of 2010. This trend could be explained by the fact that consumers tend to be better able to live within their means and for some consumers (especially more affluent credit worthy consumers) being more able to access credit than was the case a year ago. For lower income consumers who either have negative credit records or who are struggling to obtain credit due to stricter lending criteria with respect to higher risk (i.e. poor) consumers, expenditure vulnerability rates are still very high as they are often struggling to make ends meet. The extent of their struggle in this regard is evidenced by the fact that disposable incomes has shown lower growth than expenditure due to the large number of job losses among less affluent consumers during the past year.

While **debt servicing vulnerability** levels remained the same from the second to the third quarter of 2010, **income vulnerability** levels increased further on the back of a growing number of job losses and unemployed (in terms of the expanded definition of unemployment). It appears from the Stats SA Quarterly labour force statistics that from the second quarter to the third quarter of 2010 the number of employed in South Africa decreased by a further 86 000, while the number of unemployed increased by 90 000 during this period. On a year-to-year basis income vulnerability has improved driven by a slowdown in the number of job losses per quarter and the economic recovery which is currently underway.

The feedback from key respondents highlighted the following year-on-year changes in financial vulnerability when comparing Q3 of 2010 with Q3 of 2009. Key respondents believe that:-

- Consumers' ability to save has deteriorated. In Q3 of 2010 61% of respondents disagreed with a statement that the ability of consumers to save increased vs. 47% of respondents in Q3 of 2009.
- Consumers' ability to make ends meet improved. 64% of respondents disagreed in Q3 of 2009 with a statement that consumers' ability to make ends meet improved, which reduced to 53% in Q3 of 2010.
- Consumers continue to make arrangements to pay off their debts over a longer period. However whereas 91% of consumers agreed to a statement that increasingly consumers make arrangements in Q3 of 2009, this decreased to 83.8% of respondents in Q3 of 2010.
- Consumers' ability to manage their finances within their budgets improved although more than 50% of respondents feel this is still a problem area. In Q3 of 2009 69% of key respondents disagreed with a statement that consumers managed to stay within their budgets compared to 57% in Q3 of 2010.

Overall, the results of the third quarter 2010 survey read in conjunction with a variety of other economic and socioeconomic data sources reveal that consumer vulnerability improved significantly during the past 12 months, but that we are not out of the woods yet. Continuing job losses, increasing levels of unemployment, high levels of defaults on payments by debtors, labour market rigidities, unaddressed structural imbalances and ineffective wealth transfer mechanisms still leave many consumers vulnerable with little hope of rapid improvement in the financial situations of households. However, it is seen that as economic growth picks up momentum and the elasticity between output and employment growth strengthens, the financial situation of households will improve during 2011.

## Financial situation of consumers

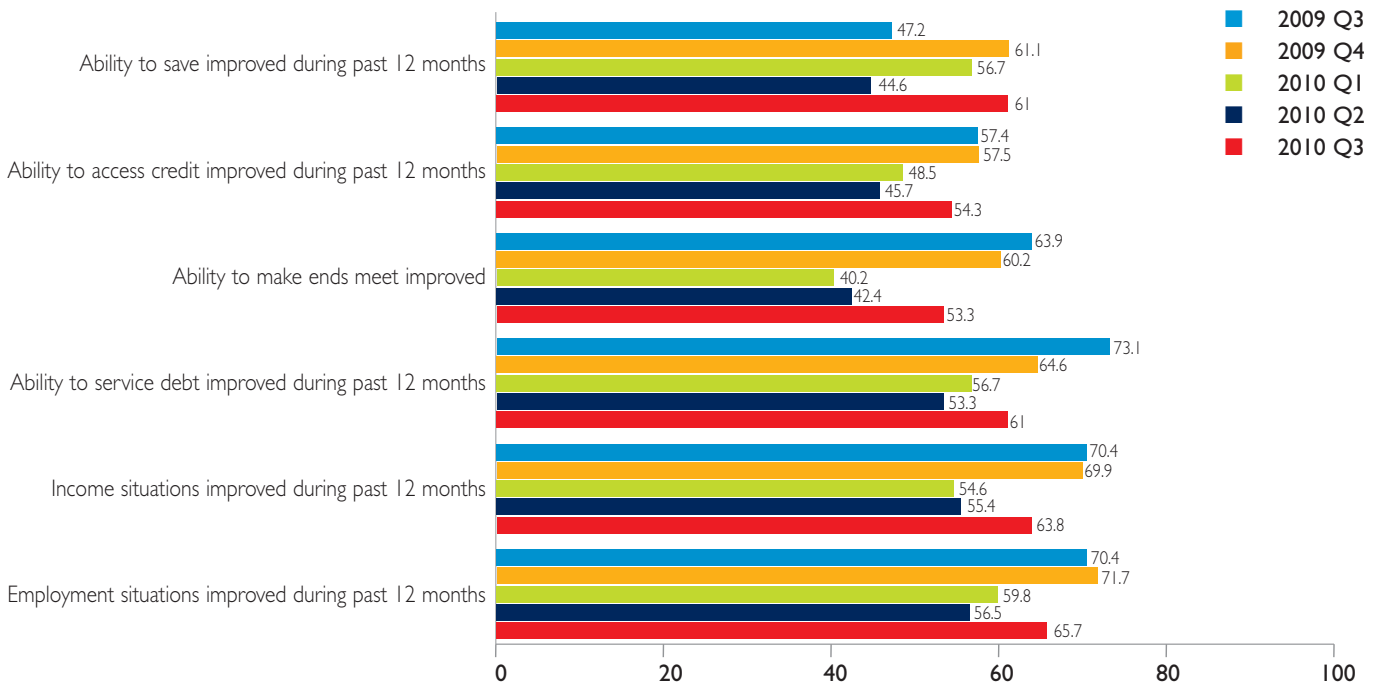
Key informants were requested to state whether they disagree or not with various statements testing their perception on the financial situation of consumers. It is of concern that eight out of the ten indicator questions asked reflected a worsening financial situation of consumers from the second to the third quarter of 2010. On a year-to-year basis, nine of the ten indicators showed improvement, which augers well for the longer term recovery of the financial situation of households. (See Table 1).

Figure 1 provides an extract of 6 of the 10 indicator questions and illustrates that key respondents in the third quarter of 2010 are less despondent regarding the financial situation of consumers compared to the middle of 2009. On a year-to-year basis (Q3 2009 to Q3 2010), for all questions, an increasingly smaller percentage disagree with a statement that consumers' financial situation had improved. However, upon focusing on quarter-to-quarter trends from the second quarter 2010 to the third quarter 2010 an increasing percentage of key informants were of the opinion that consumers are struggling financially. This trend is confirmed by the second to third quarter Bureau for Economic Research (BER) consumer confidence data showing a dramatic improvement in consumer confidence during the early months of 2010, followed by a stagnation in the growth of consumer confidence levels in the months that followed. The BER index further shows that consumer confidence among black and low income consumers declined during the latter months of 2010. This trend could be explained by the feel good factor provided by the FIFA World Cup™ during mid 2010.

<sup>1</sup> SARB September 2010

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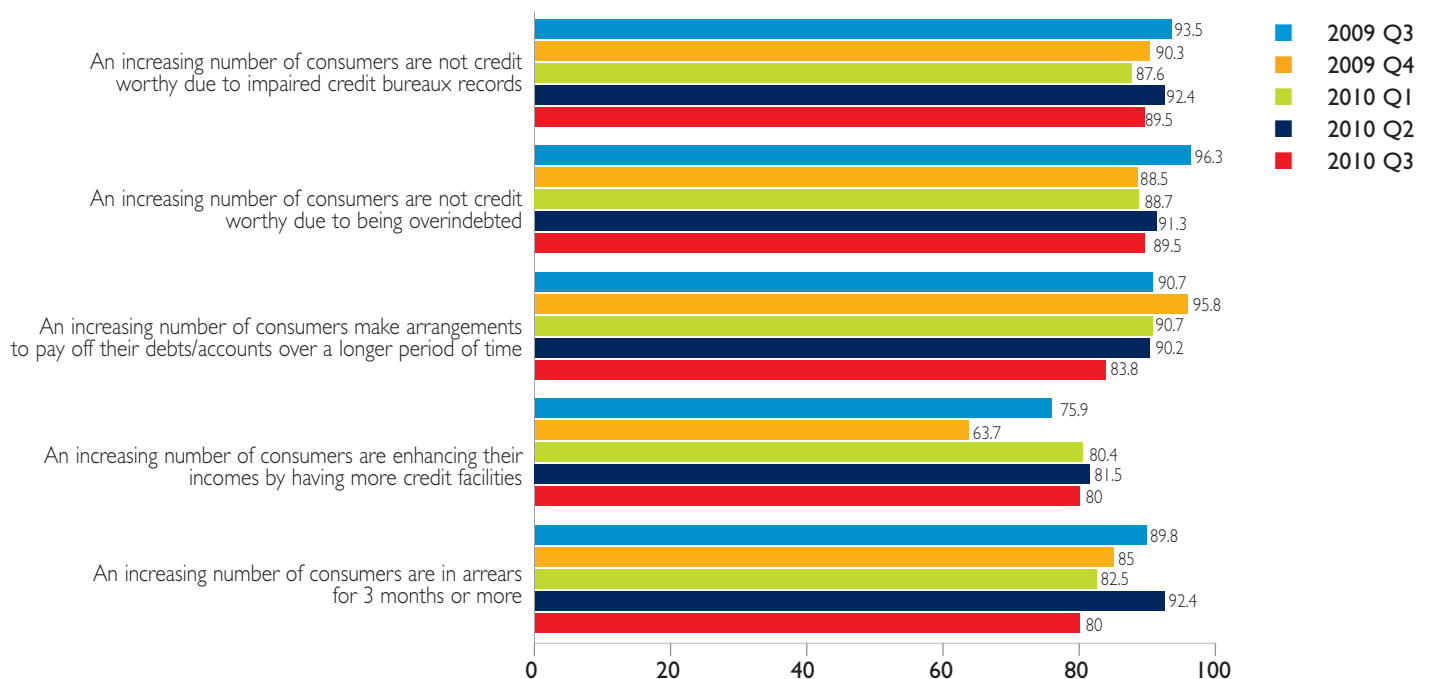
**Figure 1: Percentage of key informants who disagree with statements that the financial situation of consumers improved**



## Financial problems of consumers

Key informants indicated their agreement or otherwise with the types of financial problems consumers are experiencing. The biggest problems identified during the third quarter of 2010 were an increasing number of consumers not being creditworthy due to being over indebted; an increasing number of consumers not being credit worthy due to impaired credit bureau records; and an increasing number of consumers making arrangements to pay off their debts/accounts over a longer period of time as illustrated in Figure 2. (See Table 2). This finding is to some extent in contrast with NCR and SARB data which indicate an increase in credit extension. It would appear that those consumers with a good credit record increasingly have access to finance whilst those that struggle with payments are denied additional credit.

**Figure 2: Percentage of key informants who agree with statements that depict financial problems of consumers**



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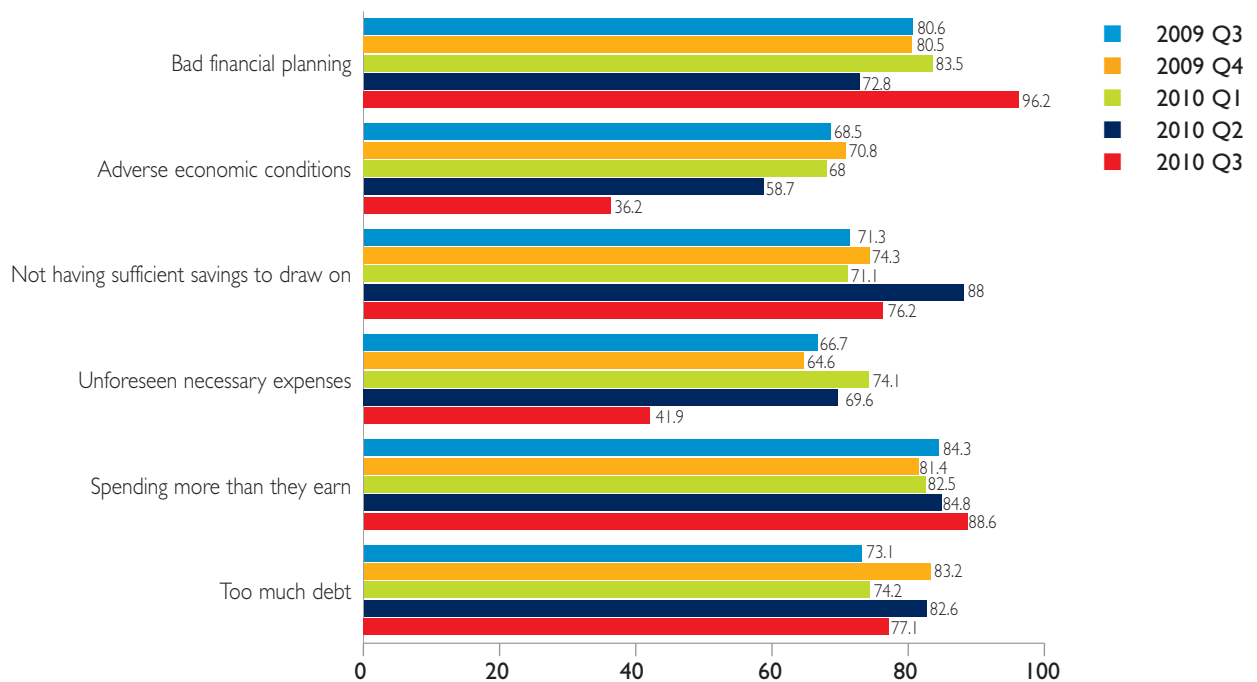
Confirmation of the views expressed by key informants can be obtained from various recently published reports. One such report is the second quarter 2010 Credit Bureau Monitor<sup>2</sup> which shows that the number of credit-active consumers with impaired credit records increased by 2.6%, from 8.37 million during the first quarter of 2010 to 8.59 million during the second quarter of 2010. The report also indicates that the percentage of credit-active consumers with judgments and administration orders against them increased from 13.7% during the first quarter of 2010 to 13.9% during the second quarter of 2010. A further source providing evidence in this regard is the Reserve Bank's September 2010 Financial Stability Review which shows that the year-on-year growth in debt among consumers increased from 3.1% during the first quarter of 2010 to 4.8% during the second quarter of 2010. During the same period the debt-to-household asset ratio increased from 0.170 to 0.176.

With arrears levels increasing, one would expect that credit providers would take definitive enforcement action including increasing repossessions. Repossessions, however, are not actively pursued as the debt counselling provisions of the National Credit Act make this a cumbersome process.

## Reasons that often impact the financial position of consumers

Key informants also gave reasons for the poor financial situation of consumers (see Figure 3 and Table 3). The main reasons listed for the third quarter of 2010 were firstly, bad financial planning, secondly, consumers spending more than they earn, thirdly, too much debt, fourthly, not having sufficient savings to draw on, and fifthly, job losses. The reasons mentioned are broadly in line with statements in the Reserve Bank's September 2010 Quarterly Bulletin and its September 2010 Financial Stability Review which mention that during the first six months of 2010 household growth in consumption expenditure was higher than growth in household disposable income. Furthermore, it appears from the Financial Stability Review that savings as a percentage of disposable income of households was negative for the first half of 2010. Encouragingly though, reasons related to job losses appear to be on the decline.

**Figure 3: Percentage of key informants who state reasons that often influence the financial situation of consumers**



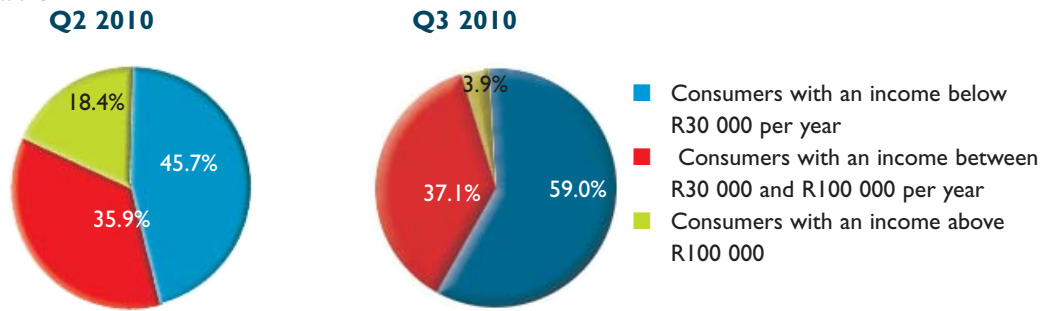
## Vulnerability according to income and age

The lowest income group (0-R30 000) is the most financially vulnerable, although high levels of financial vulnerability among the middle income group (R30 000 to R100 000 pa) are also found (See figure 4). As was shown in the third quarter Quarterly Labour Force Survey (QLFS) of Stats SA, the bulk of the jobs lost during the third quarter of 2010 was of workers in the lowest income group, which explains the high growth in consumer financial vulnerability among low income earners.

<sup>2</sup> Published by the National Credit Regulator

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**Figure 4: Consumer financial vulnerability according to income group identified by key respondents as most vulnerable**

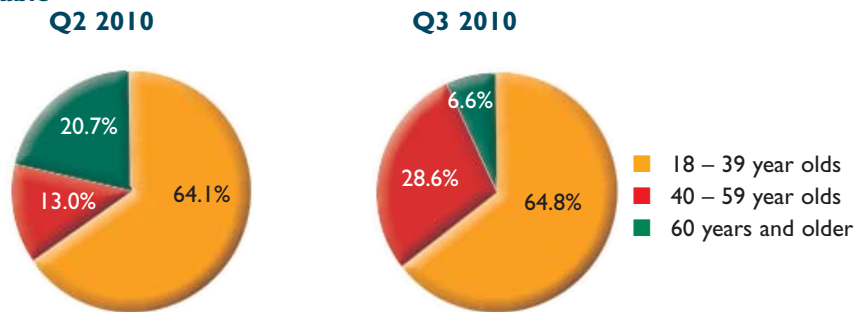


The reasons for financial vulnerability among the groups shown in figure 4, namely an analysis of 2010 All Media and Products Survey (AMPS) data, reveal that:

- consumers earning less than R30 000 pa are generally not indebted but show very high levels of unemployment;
- consumers earning between R30 000 and R100 000 pa are indebted and subject to potential unemployment; while
- consumers earning in excess of R100 000 pa generally face less risk of unemployment but are fairly deeply indebted.

Regarding the most vulnerable age groups, the results of the second and third quarters of 2010 reveal that consumers in the 18-39 year age group are the most vulnerable (see Figure 5). This is caused by very low labour market absorption rates for new labour market entrants, as well as high levels of indebtedness among this age group.

**Figure 5: Consumer financial vulnerability according to age group identified by key respondents as most vulnerable**



**Note:** Figure 4 and Figure 5 may not add up to 100 percent due to key respondent refusals.

**Table 1: Financial situation of consumers in the previous year**

Statement	Disagree: Q3 2009 (%)	Disagree: Q4 2009 (%)	Disagree: Q1 2010 (%)	Disagree: Q2 2010 (%)	Disagree: Q3 2010 (%)
Consumers' employment situations improved during the past 12 months	70.4	71.7	59.8	56.5	65.7
Consumers' income situations improved during the past 12 months	70.4	69.9	54.6	55.4	63.8
Consumers' ability to service their debt improved during the past 12 months	73.1	64.6	56.7	53.3	61.0
Consumers' ability to make ends meet improved during the past 12 months	63.9	60.2	40.2	42.4	53.3
Consumers' ability to access credit improved during the past 12 months	57.4	57.5	48.5	45.7	54.3
Consumers' ability to save improved during the past 12 months	47.2	61.1	56.7	44.6	61.0
Consumers' ability to access money from family, friends or others improved during the past 12 months	52.8	53.1	52.6	44.6	44.8
Consumers' ability to cover emergency expenses improved during the past 12 months	64.8	59.3	53.6	46.7	51.4
Consumers' ability to stick to their budgets improved during the past 12 months	69.4	59.3	64.9	59.8	57.1
Consumers' ability to manage their financial situation improved during the past 12 months	64.8	50.4	47.4	56.5	56.2

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**Table 2: Financial problems of consumers**

Statement	Agree: Q3 2009 (%)	Agree: Q4 2009 (%)	Agree: Q1 2010 (%)	Agree: Q2 2010 (%)	Agree: Q3 2010 (%)
An increasing number of consumers cannot keep up payment on their financial obligations (i.e. debts, store accounts, municipal accounts or insurance products)	86.1	91.2	91.8	91.3	72.4
An increasing number of consumers are in arrears for three months or more	89.8	85.0	82.5	92.4	80.0
An increasing number of consumer accounts are being handed over for debt collection	88.9	82.3	86.6	87.0	74.3
An increasing number of consumers make arrangements to pay off their debts/accounts over a longer period of time	90.7	95.8	90.7	90.2	83.8
An increasing number of summary judgments for debt are being acquired to collect outstanding debts/accounts from customers	75.9	77.9	81.4	65.2	74.3
An increasing number of repossessions are being done to minimise losses by organisations	72.2	60.2	62.9	50.0	27.6
An increasing number of consumers are being blacklisted	75.0	77.9	74.2	64.1	67.6
An increasing number of consumers are cancelling policies to cover household expenditures	81.5	76.1	82.5	76.1	74.3
An increasing number of consumers are enhancing their incomes by having more credit facilities	75.9	63.7	80.4	81.5	80.0
An increasing number of consumers' financial situations are being negatively impacted upon by HIV/AIDS	54.6	50.4	52.6	41.3	56.2
An increasing number of consumers are not creditworthy due to being overindebted	96.3	88.5	88.7	91.3	89.5
An increasing number of consumers are not creditworthy due to impaired credit bureaux records	93.5	90.3	87.6	92.4	89.5

**Table 3: Reasons for the bad financial situation of consumers**

Reason	Often reason: Q3 2009 (%)	Often reason: Q4 2009 (%)	Often reason: Q1 2010 (%)	Often reason: Q2 2010 (%)	Often reason: Q3 2010 (%)
Too much debt	73.1	83.2	74.2	82.6	77.1
Job loss	70.4	76.1	78.4	66.3	75.2
Low income	65.7	69.0	71.1	54.3	66.7
Loss of income due to death of an income earner	43.5	48.7	58.8	47.8	10.5
Spending more than they earn	84.3	81.4	82.5	84.8	88.6
Unforeseen necessary expenses	66.7	64.6	74.1	69.6	41.9
Child/disability grants from government not being paid/received	15.7	27.4	18.6	28.3	5.7
Pensions not being paid/received	20.4	26.5	25.8	34.5	5.7
Drop in income	51.7	52.2	54.6	69.6	50.5
Not having sufficient savings to draw on	71.3	74.3	71.1	88.0	76.2
Carrying debts of partner/spouse/family/friends	50.0	61.1	61.9	67.4	31.4
Rising total cost of credit	50.0	65.5	59.8	52.2	47.6
Unforeseen disaster (i.e. flood, fire, crime)	34.8	40.7	39.2	75.0	33.3
Not receiving cash income	66.7	51.3	61.9	89.1	35.2
Adverse economic conditions	68.5	70.8	68.0	58.7	36.2
Not receiving money from family member supporting household	45.4	56.6	64.9	81.5	54.2
Bad financial planning	80.6	80.5	83.5	72.8	96.2

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**Table 4: Financial vulnerability according to income group**

Income group	Most financially vulnerable: Q3 2009 (%)	Most financially vulnerable: Q4 2009 (%)	Most financially vulnerable: Q1 2010 (%)	Most financially vulnerable: Q2 2010 (%)	Most financially vulnerable: Q3 2010 (%)
People with an income below R30 000 per year	48.1	38.9	34.0	45.7	59.0
People with an income between R30 000 and R100 000 per year	17.6	31.0	46.4	35.9	37.1
People with an income above R100 000 per year	34.1	30.1	19.6	18.4	3.8

**Table 5: Financial vulnerability according to age group**

Age group	Most financially vulnerable: Q3 2009 (%)	Most financially vulnerable: Q4 2009 (%)	Most financially vulnerable: Q1 2010 (%)	Most financially vulnerable: Q2 2010 (%)	Most financially vulnerable: Q3 2010 (%)
18 to 39 year olds	69.4	64.6	68.0	64.1	64.8
40 to 59 year olds	23.1	24.8	23.7	13.0	28.6
60 years and older	7.4	10.6	8.2	20.7	6.7

## ABOUT THE INDEX

The first base index was constructed from a representative sample of consumers in all nine provinces and a number of key informants. The key informants from municipalities, banks, retailers, credit bureaux and the motor industry were interviewed to explore and explain the findings of the consumer interviews. The subsequent index updates were constructed from a survey of key informants in the aforementioned industries.

Financial vulnerability depends on various factors both outside a person's control, such as adverse economic conditions, and those that are specific, including levels of savings or debt. When assessing a person's financial vulnerability the following aspects must be taken into consideration.

- **Income vulnerability**, which includes job security, income growth, social grants and the ability to access transfers from family and friends.
- **Savings vulnerability**, which is influenced by the savings and assets that a person can access when times are tough.
- **Expenditure vulnerability**, which depends on various factors including whether a consumer is able to deal with rising costs of food and transport, or is living within his means.
- **Debt service vulnerability**, which is driven by the cost of servicing debt and the level of debt a consumer has.

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### About FinMark Trust and the Bureau of Market Research

*FinMark Trust is an independent trust created with initial funding from the UK's Department for International Development (DFID). The trust supports and promotes institutional and organisational development with the objective of increasing access to financial services to the unbanked and underbanked people of Southern Africa.*

*The Bureau of Market Research (BMR) was established in 1960 as a collaborative effort between UNISA and industry. The BMR has four focus areas, namely demographic research, behavioural and communication research, income and expenditure research, and economic research. The BMR provides contract research, syndicated research, skills development and database mining services to clients and BMR members.*

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