CONSUMER FINANCIAL VULNERABILITY INDEX

SECOND QUARTER 2010

Background

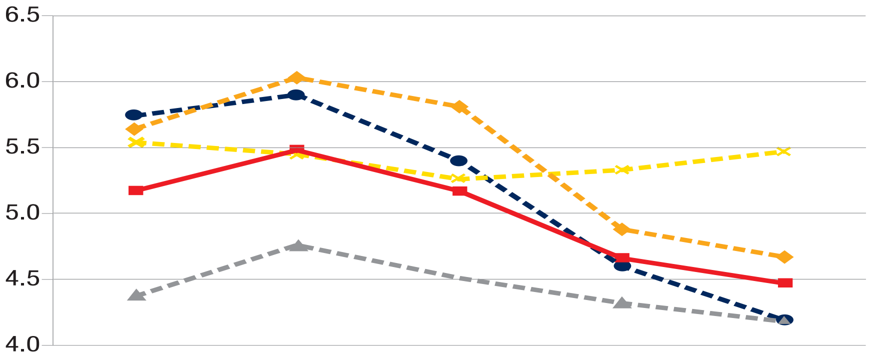
The Consumer Financial Vulnerability Index (CFVI) is constructed by the Bureau of Market Research (BMR) in collaboration with FinMark Trust. This is the fifth quarterly update and covers the latest trends in consumer financial vulnerability, as gathered from key informants during the second quarter of 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	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Income vulnerability	5.78	6.03	5.81	4.88	4.67
Savings vulnerability	5.74	5.90	5.40	4.60	4.19
Expenditure vulnerability	5.54	5.45	5.26	5.27	5.47
Debt servicing vulnerability	4.37	4.76	4.51	4.51	4.34
Overall CFVI	5.17	5.44	5.17	4.72	4.54

The overall CFVI decreased from 4.72 in the first quarter of 2010 to 4.54 during the second quarter of 2010. This is the third quarterly improvement following the third quarter 2009 CFVI peak of 5.44. It is evident that South Africans remain vulnerable although slightly less so in recent months.

Key findings

Savings vulnerability improved further to 4.19 during the second quarter of 2010. This was the third quarterly improvement in savings vulnerability since the third quarter of 2009. Although consumers continue to struggle to save due to a shrinking gap between income and expenditure, it would appear that consumers have made some attempts to adapt their lifestyles downwards and becoming better able to cope with existing savings at their disposal. Consumers also entered into fewer credit agreements, enabling them to save more.

Expenditure vulnerability showed a continuing improvement from the second quarter through to the fourth quarter of 2009, followed by increasing vulnerability during the first and second quarters of 2010. Data from the South African Reserve Bank echo this, indicating that consumption expenditure increased by 1.9%[1] from the first to the second quarters of 2010, while the disposable income growth of households was still constrained by job losses, business closures and high levels of indebtedness among consumers.

[1] Nominal Seasonally Adjusted

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Key findings continued

Both **debt servicing vulnerability and income vulnerability** levels improved from the third quarter of 2009 to the second quarter of 2010. Lower income vulnerability could be attributed to fewer jobs being lost towards the end of 2009 and the first two quarters of 2010. Lower levels of debt servicing vulnerability are likely to be as a result of both lower interest rates and lower credit-taking rates among consumers. Although the vulnerability in terms of debt servicing and income has abated slightly, on-going job losses and low levels of household disposable income (impacting amount available to service debt) continue to adversely impact financial vulnerability.

- During Q2 of 2010, 53% of key respondents disagreed with a statement 'The ability of consumers to service their debt improved'. This is somewhat less negative compared to 2009 when 64% of respondents disagreed.
- Similarly, key respondents are more inclined to support a view that the ability of consumers to make ends meet have improved. In Q2 and Q3 of 2009, respectively 55% and 64% of respondents disagreed with a statement 'The ability of consumers to make ends meet improved'. In Q2 of 2010, only 42% of key respondents disagreed.
- Over the four quarters up to June 2010 over 90% of respondents consistently agreed that an increasing number of consumers make arrangements to pay off their accounts over a longer period.

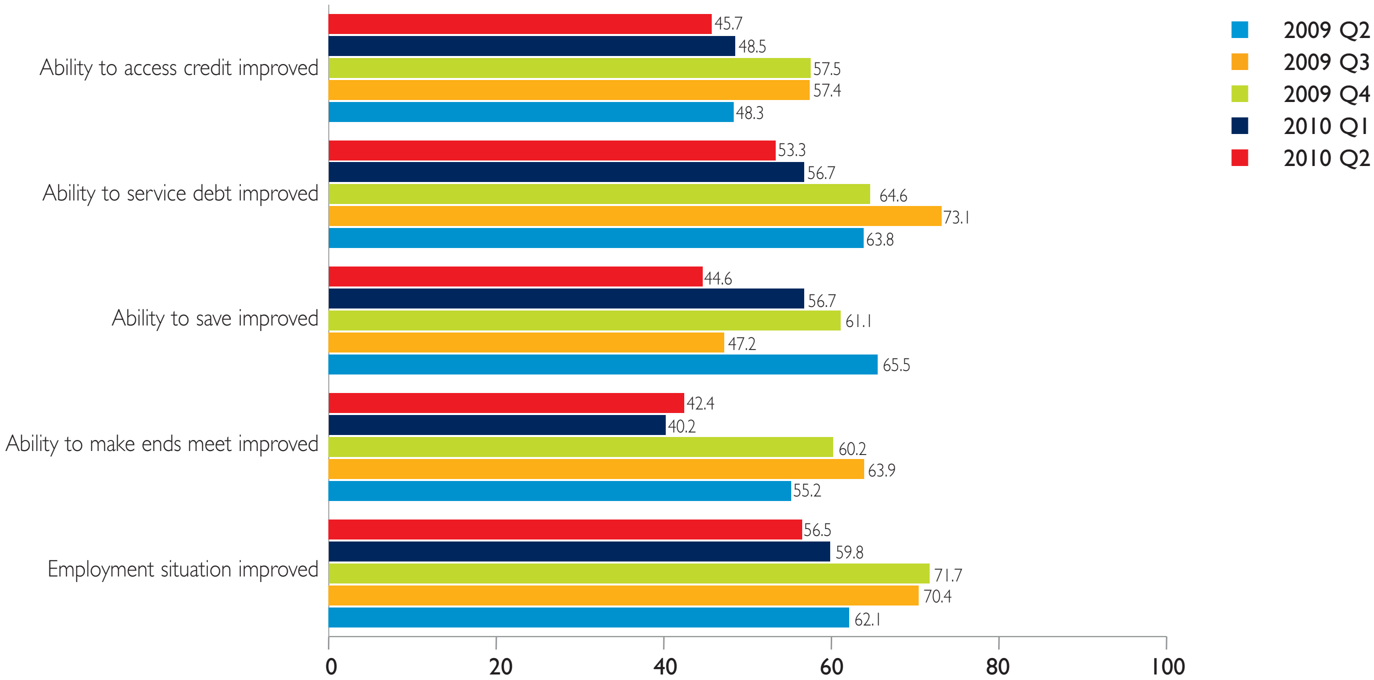
The survey was conducted during the period of the 2010 Soccer World Cup and as a cautionary note it must be mentioned that the feel good factor of this period may have positively influenced responses of key informants.

Financial situation of consumers

Key informants are requested to state whether they disagree or not with various statements testing their perception of the financial situation of consumers. Encouragingly, it appears that seven out of the ten indicator questions asked, reflected an improvement from the first to the second quarter of 2010. This should be contrasted to only four indicators showing quarterly improvements during the period Q2 to Q3 2009. (See Table 1).

Figure 1 provides an extract of five of the ten indicator questions and illustrates that key respondents in the second quarter of 2010 are less despondent about the financial situation of consumers compared to the middle of 2009. It can be seen that for all questions, except for a question related to 'the ability to make ends meet', an increasingly smaller percentage disagree with a statement that consumers' financial situation improved.

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



Financial problems of consumers

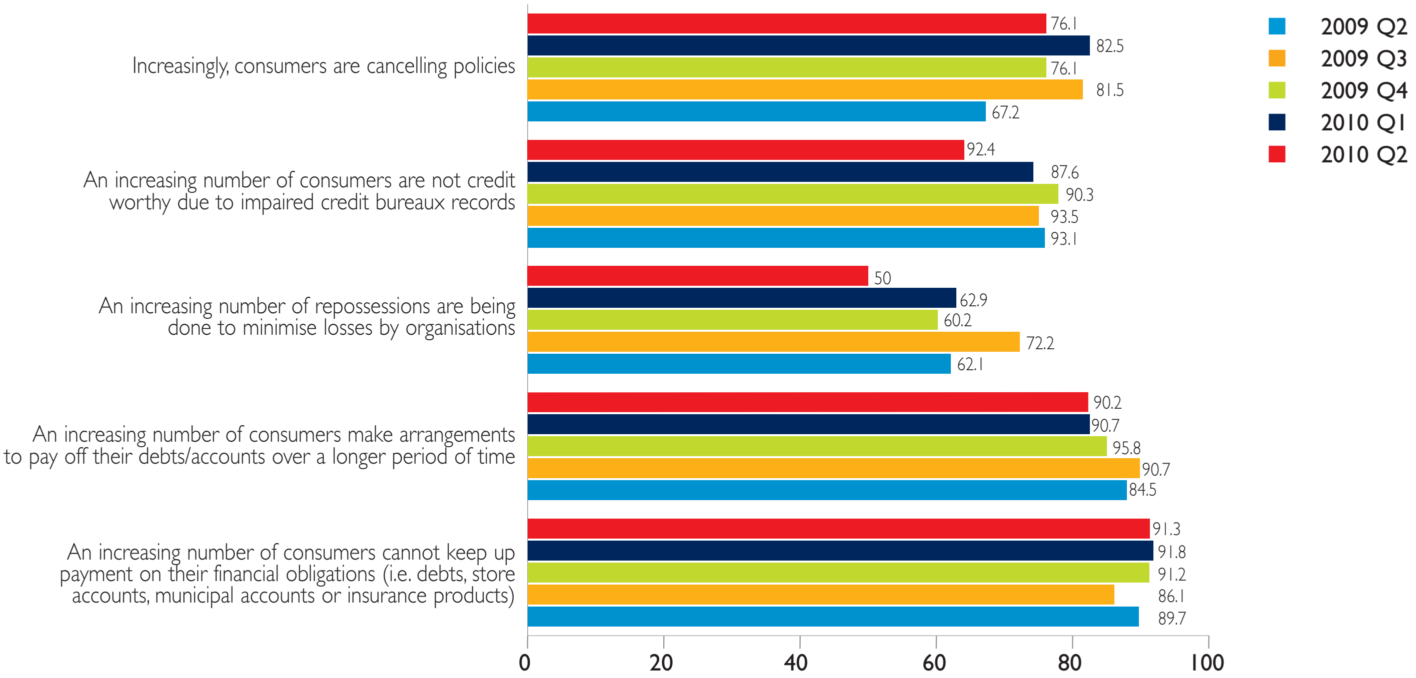
Key informants indicate their agreement or otherwise with the types of financial problems consumers are experiencing. The biggest problems identified during the second quarter of 2010 were consumers not being able to maintain payments on their financial obligations; consumers making debt repayment arrangements; and an increasing number of consumers not being creditworthy. (See Figure 2 and Table 2 at the back for more information)

Confirmation of these views expressed by key informants can be obtained from various recently published reports. One such report is the second quarter 2010 Credit Bureau Monitor[2] that 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.

[2] Published by the National Credit Regulator

A further source providing evidence in this regard is the Reserve Bank's September 2010 Financial Stability Review that 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 0.17 to 0.176.

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

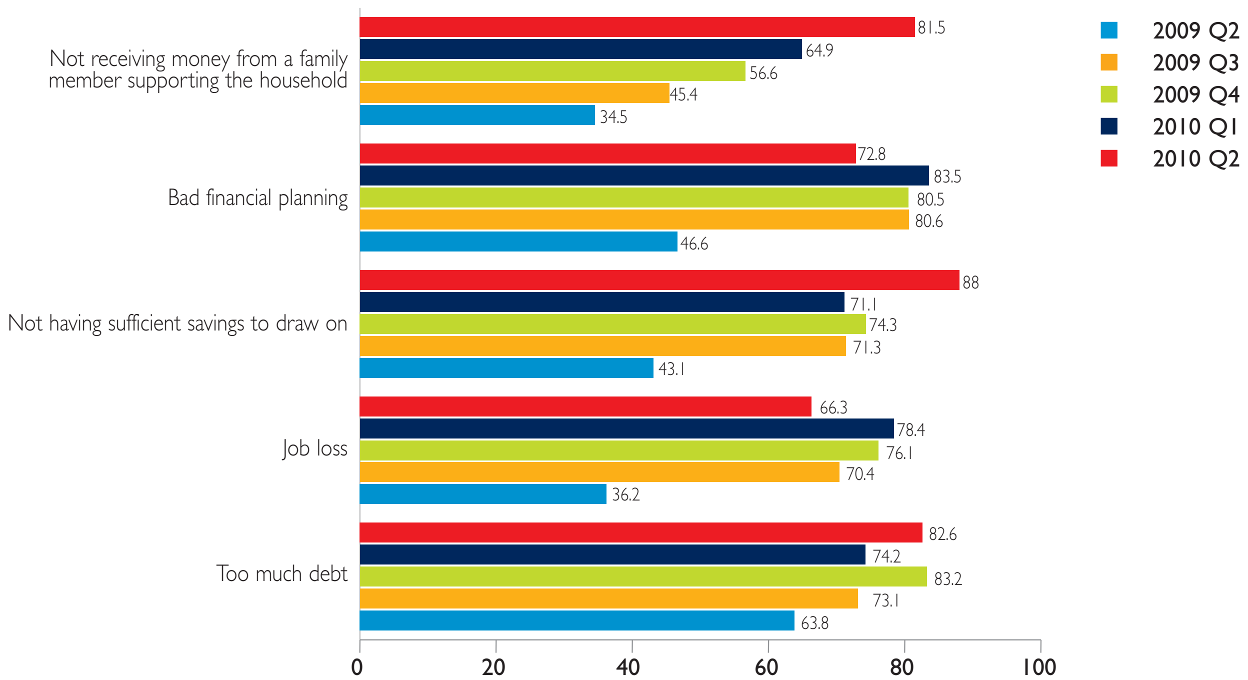


With arrears levels increasing, one would expect that credit providers would take definitive enforcement action including increasing repossessions. Repossessions however are not actively pursued as the debt counselling provisions of the National Credit Act make this a cumbersome process.

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 second quarter of 2010 were firstly, not receiving a cash income, secondly, not having sufficient savings to draw on, thirdly, consumers spending more than they earn, fourthly, too much debt, and fifthly, not receiving income from a family member supporting the household. The reasons mentioned above are broadly in line with statements in the Reserve Bank's September 2010 Quarterly Bulletin and its September 2010 Financial Stability Review where it is mentioned 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 both quarters of 2010. Encouragingly though, reasons related to job losses and bad financial planning appear to be on the decline.

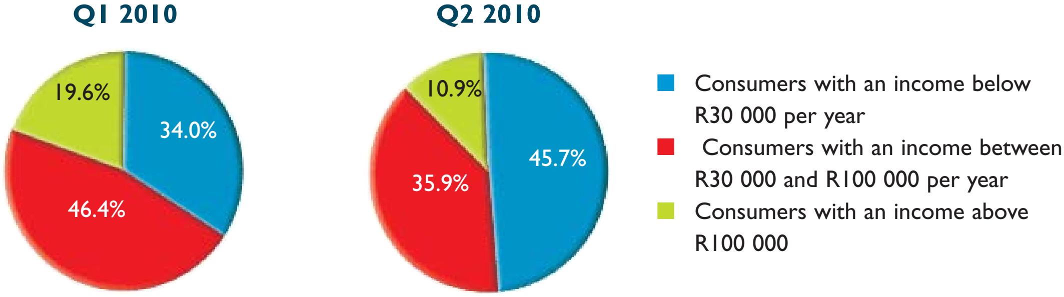
Figure 3: Percentage of key informants who state reasons that often influence the financial situation of consumers



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 and Table 4).

Figure 4: Consumer financial vulnerability according to income group

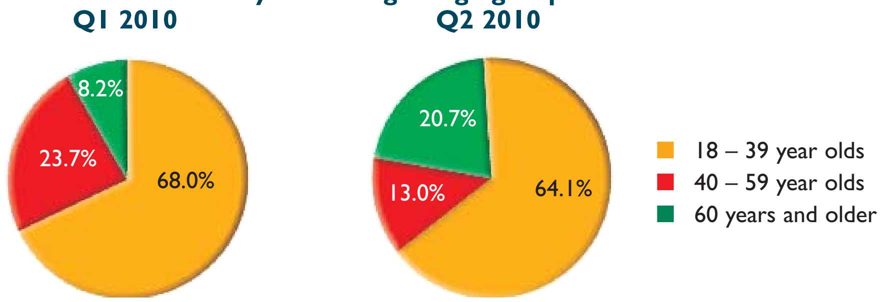


The reasons for financial vulnerability among different income groups differ, as is evident from the 2009 and 2010 All Media and Products Survey (AMPS) data, namely:

- 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 to some extent; 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 all five quarters indicate that consumers in the 18-39-year age group were the most vulnerable. (See Figure 5 and Table 5). This is exacerbated 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



Overall, the results indicate that the recession gave rise to increasing levels of vulnerability from the second to third quarter of 2009, with a decline in consumer financial vulnerability in the fourth quarter of 2009, the first quarter of 2010 and the second quarter of 2010. However, no large-scale decline in vulnerability is expected for the second half of 2010 as the main reasons for vulnerability remaining largely unaddressed. These include (1) high levels of poverty, (2) high levels of unemployment, (3) ineffective functioning of wealth transfer and service delivery institutions, (4) high levels of indebtedness and defaults on repayments, (5) low skills levels, and (6) the socioeconomic impact of HIV and AIDS.

Table 1: Financial situation of consumers in the previous year

Statement	Disagree: Q2 2009 (%)	Disagree: Q3 2009 (%)	Disagree: Q4 2009 (%)	Disagree: Q1 2010 (%)	Disagree: Q2 2010 (%)
Consumers' employment situation improved during the past 12 months	62.1	70.4	71.7	59.8	56.5
Consumers' income situation improved during the past 12 months	62.1	70.4	69.9	54.6	55.4
Consumers' ability to service their debt improved during the past 12 months	63.8	73.1	64.6	56.7	53.3
Consumers' ability to make ends meet improved during the past 12 months	55.2	63.9	60.2	40.2	42.4
Consumers' ability to access credit improved during the past 12 months	48.3	57.4	57.5	48.5	45.7
Consumers' ability to save improved during the past 12 months	65.5	47.2	61.1	56.7	44.6
Consumers' ability to access money from family, friends or others improved during the past 12 months	63.8	52.8	53.1	52.6	44.6
Consumers' ability to cover emergency expenses improved during the past 12 months	56.9	64.8	59.3	53.6	46.7
Consumers' ability to stick to their budgets improved during the past 12 months	70.7	69.4	59.3	64.9	59.8
Consumers' ability to manage their financial situation improved during the past 12 months	67.2	64.8	50.4	47.4	56.5

Table 2: Financial problems of consumers

Statement	Agree: Q2 2009 (%)	Agree: Q3 2009 (%)	Agree: Q4 2009 (%)	Agree: Q1 2010 (%)	Agree: Q2 2010 (%)
An increasing number of consumers cannot keep up payment on their financial obligations (i.e. debts, store accounts, municipal accounts or insurance products)	89.7	86.1	91.2	91.8	91.3
An increasing number of consumers are in arrears for three months or more	87.9	89.8	85.0	82.5	92.4
An increasing number of consumer accounts are being handed over for debt collection	91.4	88.9	82.3	86.6	87.0
An increasing number of consumers make arrangements to pay off their debts/accounts over a longer period of time	84.5	90.7	95.8	90.7	90.2
An increasing number of summary judgments for debt are being acquired to collect outstanding debts/accounts from customers	75.9	75.9	77.9	81.4	65.2
An increasing number of repossessions are being done to minimise losses by organisations	62.1	72.2	60.2	62.9	50.0
An increasing number of consumers are being blacklisted	75.9	75.0	77.9	74.2	64.1
An increasing number of consumers are cancelling policies to cover household expenditures	67.2	81.5	76.1	82.5	76.1
An increasing number of consumers are enhancing their incomes by having more credit facilities	77.6	75.9	63.7	80.4	81.5
An increasing number of consumers' financial situations are being negatively impacted upon by HIV/AIDS	60.3	54.6	50.4	52.6	41.3
An increasing number of consumers are not creditworthy due to being overindebted	94.8	96.3	88.5	88.7	91.3
An increasing number of consumers are not creditworthy due to impaired credit bureaux records	93.1	93.5	90.3	87.6	92.4

Table 3: Reasons for the bad financial situation of consumers

Reason	Often reason: Q2 2009 (%)	Often reason: Q3 2009 (%)	Often reason: Q4 2009 (%)	Often reason: Q1 2010 (%)	Often reason: Q2 2010 (%)
Too much debt	63.8	73.1	83.2	74.2	82.6
Job loss	36.2	70.4	76.1	78.4	66.3
Low income	43.1	65.7	69.0	71.1	54.3
Loss of income due to death of an income earner	22.4	43.5	48.7	58.8	47.8
Spending more than they earn	60.3	84.3	81.4	82.5	84.8
Unforeseen necessary expenses	39.7	66.7	64.6	74.1	69.6
Child/disability grants from government not being paid/received	17.2	15.7	27.4	18.6	28.3
Pensions not being paid/received	19.0	20.4	26.5	25.8	34.5
Drop in income	39.7	51.7	52.2	54.6	69.6
Not having sufficient savings to draw on	43.1	71.3	74.3	71.1	88.0
Carrying debts of partner/spouse/family/friends	41.4	50.0	61.1	61.9	67.4
Rising total cost of credit[1]	31.0	50.0	65.5	59.8	52.2
Unforeseen disaster (i.e. flood, fire, crime)	24.1	34.8	40.7	39.2	75.0
Not receiving cash income	34.5	66.7	51.3	61.9	89.1
Adverse economic conditions	41.4	68.5	70.8	68.0	58.7
Not receiving money from family member supporting household	34.5	45.4	56.6	64.9	81.5
Bad financial planning	46.6	80.6	80.5	83.5	72.8

Table 4: Financial vulnerability according to income group

Income group	Most financially vulnerable: Q2 2009 (%)	Most financially vulnerable: Q3 2009 (%)	Most financially vulnerable: Q4 2009 (%)	Most financially vulnerable: Q1 2010 (%)	Most financially vulnerable: Q2 2010 (%)
People with an income below R30 000 per year	55.2	48.2	38.9	34.0	45.7
People with an income between R30 000 and R100 000 per year	13.7	17.6	31.0	46.4	35.9
People with an income above R100 000 per year	31.1	34.2	30.1	19.6	10.9

Table 5: Financial vulnerability according to age group

Age group	Most financially vulnerable: Q2 2009 (%)	Most financially vulnerable: Q3 2009 (%)	Most financially vulnerable: Q4 2009 (%)	Most financially vulnerable: Q1 2010 (%)	Most financially vulnerable: Q1 2010 (%)
18 to 39 year olds	62.1	69.4	64.6	68.0	64.1
40 to 59 year olds	27.6	23.1	24.8	23.7	13.0
60 years and older	10.3	7.4	10.6	8.2	20.7

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, an independent trust based in Johannesburg, South Africa, was established in 2002 with funding provided by the Southern African office of the UK's Department for International Development (DFID). FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. FinMark Trust uses evidence-based information in its engagement with the public and private sectors across Africa, to bring about systemic change in making markets work for unserved and underserved consumers.

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, behaviour 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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