



CONSUMER FINANCIAL VULNERABILITY INDEX FIRST QUARTER 2010

Background

The Consumer Financial Vulnerability Index (CFVI) was developed by the Bureau of Market Research (BMR) in collaboration with FinMark Trust. It is constructed quarterly from a survey that collates financial vulnerability information from a group of key respondents. These respondents hold positions in banks, retailers, municipalities, credit bureaux and other organisations that track account payment behaviour of consumers.






A consumer financial vulnerability index must reflect the overall vulnerability of a consumer, but also capture 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 |

The results of the survey for the second, third and fourth quarters of 2009 and the first quarter of 2010 are as follows:

| CONSUMER FINANCIAL VULNERABILITY | Second quarter 2009 | Third quarter 2009 | Fourth quarter 2009 | First quarter 2010 | Movement Q4 2009 to Q1 2010 |
|----------------------------------|---------------------|--------------------|---------------------|--------------------|---|
| Savings vulnerability | 5.74 | 5.90 | 5.40 | 4.60 |  |
| Expenditure vulnerability | 5.54 | 5.45 | 5.26 | 5.33 |  |
| Debt servicing vulnerability | 4.37 | 4.76 | 4.51 | 4.32 |  |
| Income vulnerability | 5.64 | 6.03 | 5.81 | 4.88 |  |
| Overall CFVI | 5.17 | 5.49 | 5.17 | 4.66 |  |

The overall CFVI index decreased from 5.17 in the fourth quarter of 2009 to 4.66 in the first quarter of 2010. It is evident that South Africans remain vulnerable although they are becoming less so as the economy continues to recover, incomes increase and consumers become better able to service their debts.

Key findings

Savings vulnerability increased from the second quarter to the third quarter of 2009 but declined from the third quarter of 2009 to the first quarter of 2010. This could be explained by consumers hard hit by the recession having adapted 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, which depends on various factors including whether consumers are able to deal with rising costs of food and transport, or are living within their means, showed a continuing decline from the second quarter through to the fourth quarter of 2009, followed by a slight increase during the first quarter of 2010.

Debt servicing vulnerability and **income vulnerability** rates increased from the second to the third quarter of 2009 but declined from the third quarter of 2009 to the first quarter of 2010. Lower income vulnerability, which relates to job and income security, could be attributed to the rate of job losses declining towards the end of 2009 and in the first quarter of 2010. Lower levels of debt servicing vulnerability could be the result of both lower interest rates and lower credit-acquisition rates among consumers.

The overall consumer financial vulnerability index increased from the second to the third quarter of 2009, driven by a large number of job losses, negative economic growth and high levels of debt defaults. In contrast, consumer financial vulnerability improved slightly from the third quarter of 2009 to the first quarter of 2010 as the economy started to pick up momentum, job losses decreased, and consumers continued to adapt their lifestyles downwards.

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Key findings continued

The responses from key respondents highlighted the following:

- In Q2 of 2009, 55% of key respondents disagreed with a statement that consumers' ability to make ends meet improved during the past 12 months. This indicator improved to 40% disagreeing in Q1 of 2010.
- In Q2 of 2009, 67% of key respondents agreed with a statement that an increasing number of consumers are cancelling policies to cover household expenditures. This increased to 83% in Q1 of 2010.
- In Q2 of 2009, 22% of respondents indicated that "Loss of income due to death of an income earner is often a reason for the bad financial situation of a consumer". This increased to 59% in Q1 of 2010. Research by BMR indicates that this may be a result of AIDS-related deaths as the disease is reaching the maturing phase for many of those infected.
- Key respondents are asked which of the broad income groups they consider the most vulnerable: people earning below R30 000 a year, people with an income between R30 000 and R100 000, and those earning above R100 000. In Q2 of 2009, 13.8% of respondents indicated that people who earn between R30 000 and R100 000 are the most vulnerable. This increased to 46.4% in Q1 of 2010.
- On the positive side, it appears that while four of the financial situation indicators declined from the third to the fourth quarter 2009, only one indicator declined from the fourth quarter 2009 to the first quarter 2010.

Table 1 illustrates the views of the key informants about the financial situation of consumers during the 12 months before their interviews.

TABLE 1: FINANCIAL SITUATION OF CONSUMERS IN PREVIOUS YEAR

| Statement | Disagree: Q2 2009 (%) | Disagree: Q3 2009 (%) | Disagree: Q4 2009 (%) | Disagree: Q1 2010 (%) | Movement: Q4 2009 to Q1 2010 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|------------------------------|
| Consumers' employment situations improved during the past 12 months | 62.1 | 70.4 | 71.7 | 59.8 | ↓ 16.6% |
| Consumers' income situations improved during the past 12 months | 62.1 | 70.4 | 69.9 | 54.6 | ↓ 21.9% |
| Consumers' ability to service their debt improved during the past 12 months | 63.8 | 73.1 | 64.6 | 56.7 | ↓ 12.2% |
| Consumers' ability to make ends meet improved during the past 12 months | 55.2 | 63.9 | 60.2 | 40.2 | ↓ 33.2% |
| Consumers' ability to access credit improved during the past 12 months | 48.3 | 57.4 | 57.5 | 48.5 | ↓ 15.6% |
| Consumers' ability to save improved during the past 12 months | 65.5 | 47.2 | 61.1 | 56.7 | ↓ 7.2% |
| Consumers' ability to access money from family, friends or others improved during the past 12 months | 63.8 | 52.8 | 53.1 | 52.6 | ↓ 0.1% |
| Consumers' ability to cover emergency expenses improved during the past 12 months | 56.9 | 64.8 | 59.3 | 53.6 | ↓ 9.6% |
| Consumers' ability to stick to their budgets improved during the past 12 months | 70.7 | 69.4 | 59.3 | 64.9 | ↓ 9.4% |
| Consumers' ability to manage their financial situations improved during the past 12 months | 67.2 | 64.8 | 50.4 | 47.4 | ↓ 5.9% |

It is evident from the figures in Table 1 that, during the first quarter of 2010, consumers were still hard hit by:

- Job losses since the inception of the recession in 2008 (estimated to have been about 1.2 million job losses in total from 2008 till the end of 2009),
- Low incomes coupled with relatively high living expenses making it difficult for households to save,
- The inability of many consumers to service their debts as the result of low levels of household disposable income growth during 2009, and,
- The inability of consumers to save as the gap between income and expenditure closed, leaving less money to save.

Key informants were asked to indicate their agreement or otherwise about the kinds of financial problems consumers are having (see Table 2). The biggest problems identified were consumers not being able to maintain payments on their financial obligations; consumers' accounts being handed over for debt collection; consumers making debt repayment arrangements; and an increasing number of consumers not being creditworthy.

It is notable that 91% of key informants agreed with the statement "An increasing number of consumers are making arrangements to pay off their debt over a longer period of time" compared to 85% indicating this in Q2 of 2009. Further, an increasing number of consumers are cancelling policies to cover household expenditure while credit providers are dealing with the situation with repossessions and summary judgments for debt.

The consumer financial vulnerability picture emerging from both Tables 1 and 2 is of consumers remaining cash-strapped and unable to pay all their debts, trying to cut costs, making debt pay-off arrangements, and budgeting more carefully to ensure financial survival.

Key informants also gave reasons for the bad financial situations of consumers (see Table 3). The main reasons listed for the first quarter of 2010 were firstly, bad financial planning; secondly, consumers spending more than they earn; thirdly, job losses; and fourthly, too much debt and unforeseen essential expenses.

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TABLE 2: FINANCIAL PROBLEMS OF CONSUMERS

| Statement | Agree: Q2 2009 (%) | Agree: Q3 2009 (%) | Agree: Q4 2009 (%) | Agree: Q1 2010 (%) | Direction Q4 2009 to Q1 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 | 0.7% |
| An increasing number of consumers are in arrears for three months or more | 87.9 | 89.8 | 85.0 | 82.5 | 2.9% |
| An increasing number of consumer accounts are being handed over for debt collection | 91.4 | 88.9 | 82.3 | 86.6 | 5.2% |
| 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 | 5.3% |
| 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 | 4.5% |
| An increasing number of repossessions are being done to minimise losses by organisations | 62.1 | 72.2 | 60.2 | 62.9 | 4.5% |
| An increasing number of consumers are being blacklisted | 75.9 | 75.0 | 77.9 | 74.2 | 4.7% |
| An increasing number of consumers are cancelling policies to cover household expenditures | 67.2 | 81.5 | 76.1 | 82.5 | 8.4% |
| An increasing number of consumers are enhancing their incomes by having more credit facilities | 77.6 | 75.9 | 63.7 | 80.4 | 26.2% |
| An increasing number of consumers' financial situations are being negatively impacted upon by HIV/AIDS | 60.3 | 54.6 | 50.4 | 52.6 | 4.4% |
| An increasing number of consumers are not creditworthy due to being overindebted | 94.8 | 96.3 | 88.5 | 88.7 | 0.2% |
| An increasing number of consumers are not creditworthy due to impaired credit bureaux records | 93.1 | 93.5 | 90.3 | 87.6 | 3.0% |

TABLE 3: REASONS FOR BAD FINANCIAL SITUATION OF CONSUMERS

| Reason | Often reason: Q2 2009 (%) | Often reason: Q3 2009 (%) | Often reason: Q4 2009 (%) | Often reason: Q1 2010 (%) | Direction Q4 2009 to Q1 2010 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|------------------------------|
| Too much debt | 63.8 | 73.1 | 83.2 | 74.2 | 10.8% |
| Job loss | 36.2 | 70.4 | 76.1 | 78.4 | 3.0% |
| Low income | 43.1 | 65.7 | 69.0 | 71.1 | 3.0% |
| Loss of income due to death of an income earner | 22.4 | 43.5 | 48.7 | 58.8 | 20.7% |
| Spending more than they earn | 60.3 | 84.3 | 81.4 | 82.5 | 1.4% |
| Unforeseen necessary expenses | 39.7 | 66.7 | 64.6 | 74.1 | 14.7% |
| Child/disability grants from government not being paid/received | 17.2 | 15.7 | 27.4 | 18.6 | 32.1% |
| Pensions not being paid/received | 19.0 | 20.4 | 26.5 | 25.8 | 2.6% |
| Drop in income | 39.7 | 51.7 | 52.2 | 54.6 | 4.6% |
| Not having sufficient savings to draw on | 43.1 | 71.3 | 74.3 | 71.1 | 4.3% |
| Carrying debts of partner/spouse/family/friends | 41.4 | 50.0 | 61.1 | 61.9 | 1.3% |
| Rising total cost of credit ¹ | 31.0 | 50.0 | 65.5 | 59.8 | 8.7% |
| Unforeseen disaster (i.e. flood, fire, crime) | 24.1 | 34.8 | 40.7 | 39.2 | 3.7% |
| Not receiving cash income | 34.5 | 66.7 | 51.3 | 61.9 | 20.7% |
| Adverse economic conditions | 41.4 | 68.5 | 70.8 | 68.0 | 4.0% |
| Not receiving money from family member supporting household | 34.5 | 45.4 | 56.6 | 64.9 | 14.7% |
| Bad financial planning | 46.6 | 80.6 | 80.5 | 83.5 | 3.7% |

¹ High risk consumers face increasingly higher cost of credit as financial institutions are reluctant to lend in the uncertain economic climate.

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Looking at the trends in Table 3 from the second quarter of 2009 to the first quarter of 2010, it is evident that there was a significant rise in the percentage of key informants who thought that the bad situation of consumers had increased, specifically in the following categories: indebtedness of consumers, job losses, low incomes, consumers spending more than they earn, not receiving labour or transfer incomes, and bad financial planning.

Table 4 shows which income group is considered to be most vulnerable by key informants. As jobs continued to be lost during 2009, so did the financial vulnerability of income groups with jobs, namely the R30 000 to R100 000 a year income group. Available 2009 All Media and Products Survey (AMPS) data indicates that 20% of people who lost their jobs during 2009 were earning more than R100 000 a year.

Table 4 sets out the percentage of key informants who indicated which income groups they believe to be the most vulnerable.

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 (%) |
|---|--|--|--|--|
| People with an income below R30 000 per year | 55.2 | 48.2 | 38.9 | 34.0 |
| People with an income between R30 000 and R100 000 per year | 13.7 | 17.6 | 31.0 | 46.4 |
| People with an income above R100 000 per year | 31.1 | 34.2 | 30.1 | 19.6 |

On the question of which age groups were the most vulnerable, the results of all four quarters indicate that consumers in the 18-39 year age group were the most vulnerable (see Table 5). This is exacerbated by declining labour market absorption rates for new labour market entrants, as well as high levels of indebtedness among this age group.

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 (%) |
|--------------------|--|--|--|--|
| 18 to 39 year olds | 62.1 | 69.4 | 64.6 | 68.0 |
| 40 to 59 year olds | 27.6 | 23.1 | 24.8 | 23.7 |
| 60 years and older | 10.3 | 7.4 | 10.6 | 8.2 |

Overall, the results indicate that the recession gave rise to increasing levels of vulnerability from the second to third quarter of 2009, with consumer financial vulnerability declining in both the fourth quarter of 2009 and the first quarter of 2010. As economic growth improves in 2010, coupled with higher levels of job creation, lower levels of consumer financial vulnerability are expected. However, no large-scale decline in vulnerability is expected 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 socio-economic impact of HIV and AIDS.

For more information contact

BMR: Carel van Aardt | vaardcj@unisa.ac.za | cell: 082 950 4325

FinMark Trust: Rashid Ahmed | rashida@finmark.org.za | cell: 084 517 5745

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, 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

Contact

FinMark Trust at Tel +27 (0)11 315 9197/7943
www.finmarktrust.org.za

Bureau of Market Research(BMR) at Tel +27 (0)12 429 2940
www.unisa.ac.za/bmr