



**CONSUMER FINANCIAL
VULNERABILITY INDEX**

**FOURTH QUARTER
2009**

Background

The Consumer Financial Vulnerability Index (CFVI) was developed by the Bureau of Market Research (BMR) in collaboration with FinMark Trust. The first survey was conducted in the second quarter of 2009. This is the second quarterly update. It covers the latest trends in consumer financial vulnerability, as gathered from respondents during the fourth quarter of 2009.

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 are as follows:

CONSUMER FINANCIAL VULNERABILITY	Second quarter 2009	Third quarter 2009	Fourth quarter 2009	Movement Q3 – Q4
Savings vulnerability	5.74	5.90	5.40	↓
Expenditure vulnerability	5.54	5.45	5.26	↓
Debt servicing vulnerability	4.37	4.76	4.51	↓
Income vulnerability	5.64	6.03	5.81	↓
Overall CFVI	5.17	5.48	5.17	↓

The overall CFVI index decreased from 5.48 in the third quarter of 2009 to 5.17 in the fourth quarter. It is evident that South Africans are still at risk although becoming less at risk as the economy starts to recover and the number of retrenchments begins to taper off.

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Looking at the different components of financial vulnerability, the figures reflect that **savings vulnerability** increased from the second quarter to the third quarter but declined from the third to the fourth quarter. This could be explained by consumers hard hit by the recession adapting 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 decline from the second quarter through to the fourth quarter of 2009, driven by lower interest rates resulting from lower Reserve Bank repurchase rates.

Both **debt servicing vulnerability** and **income vulnerability** rates increased from the second to the third quarter of 2009 but declined from the third to the fourth quarter. Lower income vulnerability could be attributed to fewer jobs being lost towards the end of 2009. Lower levels of debt servicing vulnerability could be the result of both lower interest rates and lower credit-taking rates among consumers.

Key findings











The overall CFVI increased in the third quarter of 2009, driven by job losses, negative economic growth and defaults on debt. Vulnerability improved slightly in the fourth quarter as the economy started to pick up momentum and job losses decreased.

The responses from key informants highlighted the following:

- In Q3, 73% of respondents disagreed with the statement that consumers' ability to service their debt improved, compared to 64.6% in Q4. This implies that key informants believe that consumers are better able to service their debt although default rates remain high.
- In Q3, 69% of key informants disagreed with the statement that consumers' ability to stick with their budgets had improved. In Q4, only 59% of key informants disagreed.
- In Q3, 86% of respondents agreed with the statement that an increasing number of consumers cannot keep up with their financial obligations. In Q4, this increased to 91% of respondents.
- In Q3, 45.5% of key informants cited a consumer not receiving money from a family member or friend as a reason that often influences the bad financial situation of consumers. In Q4 this increased to 57%.

From the perspective of consumers, there is a slight improvement in levels of consumer financial vulnerability, but it is clear from the responses of key informants (credit providers, retailers, municipalities), that we are not yet out of the woods. Table 1 covers the views of the key informants about the financial situation of consumers during the 12 months preceding the second, third and fourth quarters of 2009. The table shows the percentage of key informants who disagreed with a statement that the financial situation of consumers improved in the 12 months before their interviews.

TABLE 1: FINANCIAL SITUATION OF CONSUMERS

Statement	Disagree: Q2 2009 (%)	Disagree: Q3 2009 (%)	Disagree: Q4 2009 (%)	Movement Q3 – Q4
Consumers' employment situations improved during the past 12 months	62.1	70.4	71.7	 1.8%
Consumers' income situations improved during the past 12 months	62.1	70.4	69.9	 0.7%
Consumers' ability to service their debt improved during the past 12 months	63.8	73.1	64.6	 11.6%
Consumers' ability to make ends meet improved during the past 12 months	55.2	63.9	60.2	 5.8%
Consumers' ability to access credit improved during the past 12 months	48.3	57.4	57.5	 0.2%
Consumers' ability to save improved during the past 12 months	65.5	47.2	61.1	 29.4%
Consumers' ability to access money from family, friends or others improved during the past 12 months	63.8	52.8	53.1	 0.1%
Consumers' ability to cover emergency expenses improved during the past 12 months	56.9	64.8	59.3	 8.5%
Consumers' ability to stick to their budgets improved during the past 12 months	70.7	69.4	59.3	 14.6%
Consumers' ability to manage their financial situations improved during the past 12 months	67.2	64.8	50.4	 22.2%

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It is evident from the figures in Table 1 that, during the fourth quarter of 2009, consumers were still hard hit by:













- Job losses since the inception of the recession in 2008 (estimated to have been about 1.2 million in total), and
- Low incomes coupled with relatively high living expenses making it difficult for households to save.

On the positive side, it appears that the ability of consumers to service their debts, to make ends meet, to cover emergency expenses, to stick to their budgets, and to manage their financial situations improved during the fourth quarter. This was the result of people incurring less debt, 'buying down' and 'living down'.

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 being in arrears for three months or more; consumers' accounts being handed over for debt collection; consumers making debt repayment arrangements; and an increasing number of consumers not being creditworthy.

Table 2 illustrates the percentage of key informants interviewed who agreed with the different statements that depict financial problems of consumers. It is notable that 91% of key informants agreed with the statement "An increasing number of consumers cannot keep up with their payment" – a five percentage point increase from 86% in the third quarter.

TABLE 2: FINANCIAL PROBLEMS OF CONSUMERS

Statement	Agree: Q2 2009 (%)	Agree: Q3 2009 (%)	Agree: Q4 2009 (%)	Movement Q3 to Q4
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	 5.9%
An increasing number of consumers are in arrears for three months or more	87.9	89.8	85.0	 5.3%
An increasing number of consumer accounts are being handed over for debt collection	91.4	88.9	82.3	 7.4%
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	 5.6%
An increasing number of summary judgments for debt are being acquired to collect outstanding debts/accounts from customers	75.9	75.9	77.9	 2.6%
An increasing number of repossessions are being done to minimise losses by organisations	62.1	72.2	60.2	 16.6%
An increasing number of consumers are being blacklisted	75.9	75.0	77.9	 3.9%
An increasing number of consumers are cancelling policies to cover household expenditures	67.2	81.5	76.1	 6.6%
An increasing number of consumers are enhancing their incomes by having more credit facilities	77.6	75.9	63.7	 16.1%
An increasing number of consumers' financial situations are being negatively impacted upon by HIV/AIDS	60.3	54.6	50.4	 7.7%
An increasing number of consumers are not creditworthy due to being overindebted	94.8	96.3	88.5	 8.1%
An increasing number of consumers are not creditworthy due to impaired credit bureaux records	93.1	93.5	90.3	 3.4%

The results show that although an increasing number of consumers cannot maintain payments on financial obligations, an increasing number are arranging to pay off their debts/accounts over a longer period.

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.

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Key informants also gave reasons for the bad financial situations of consumers (see Table 3). The main reasons listed for the fourth quarter were firstly, overindebtedness, secondly, consumers spending more than they earn, thirdly, bad financial planning and, fourthly, job losses. Table 3 sets out the percentage of key informants who identified a specific reason that 'often' influences the financial situation of consumers.

TABLE 3: REASONS FOR BAD FINANCIAL SITUATION OF CONSUMERS

Reason	Often reason: Q2 2009 (%)	Often reason: Q3 2009 (%)	Often reason: Q4 2009 (%)	Movement
Too much debt	63.8	73.1	83.2	↑ 13.8%
Job loss	36.2	70.4	76.1	↑ 8.1%
Low income	43.1	65.7	69.0	↑ 5.0%
Loss of income due to death of an income earner	22.4	43.5	48.7	↑ 12.0%
Spending more than they earn	60.3	84.3	81.4	↓ 3.4%
Unforeseen necessary expenses	39.7	66.7	64.6	↓ 3.1%
Child/disability grants from government not being paid/received	17.2	15.7	27.4	↑ 74.5%
Pensions not being paid/received	19.0	20.4	26.5	↑ 29.9%
Drop in income	39.7	51.7	52.2	↑ 1.0%
Not having sufficient savings to draw on	43.1	71.3	74.3	↑ 4.2%
Carrying debts of partner/spouse/family/friends	41.4	50.0	61.1	↑ 22.2%
Rising interest rates	31.0	50.0	65.5	↑ 31.0%
Unforeseen disaster (i.e. flood, fire, crime)	24.1	34.8	40.7	↑ 17.0%
Not receiving cash income	34.5	66.7	51.3	↓ 23.1%
Adverse economic conditions	41.4	68.5	70.8	↑ 3.4%
Not receiving money from a family member supporting the household	34.5	45.5	56.6	↑ 24.7%
Bad financial planning	46.6	80.6	80.5	↓ 0.1%

Looking at the trends in Table 3 for the third and fourth quarters of 2009, it is evident that there was a significant increase in the percentage of key informants who thought that the bad situation of consumers increased, specifically in the following categories: indebtedness of consumers, grants not being paid by government, being responsible for the debts of others, and not receiving labour or transfer incomes.

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Table 4 shows which income group is the most financially vulnerable. The lowest income group remains the most vulnerable. However, as the number of job losses increased during 2009, so did the financial vulnerability of income groups with jobs, namely the R30 000+ per annum income group. Available 2009 All Media and Products Survey (AMPS) data indicate 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 most vulnerable.

TABLE 4: FINANCIAL VULNERABILITY ACCORDING TO INCOME GROUP

Income group	Most financially vulnerable: Q2 2009 (%)	Most financially vulnerable: Q 3 2009 (%)	Most financially vulnerable: Q4 2009 (%)
People with an income below R30 000 per year	55.2	48.2	38.9
People with an income between R30 000 and R100 000 per year	13.7	17.6	31.0
People with an income above R100 000 per year	31.1	34.2	30.1

On the question of which age groups were the most vulnerable, the results of all three 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: Q 3 2009 (%)	Most financially vulnerable: Q4 2009 (%)
18- to 39-year olds	62.1	69.4	64.6
40- to 59-year olds	27.6	23.2	24.8
60 years and older	10.3	7.4	10.6

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. 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 remain 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.

ABOUT THE INDEX

The index is constructed from a survey of a representative sample of consumers in all nine provinces of South Africa. Key informants are people who work in credit bureaux and the motor industry or who have positions in the accounts departments of municipalities, banks, retailers and other credit providers. Although the responses of key informants are not used in the final index values, they are interviewed to explore and explain the findings of the consumer interviews.

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.

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