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2016
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The financial and social experiences of over-indebted low-income households in South Africa

Micha Alon Essers

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2016

ABSTRACT

Findings from the 2013 Finscope SA Consumer Survey suggest that almost 14% of all South Africans over the age of 16 are over-indebted (Finmark Trust, 2013). The same report suggests that almost one third of credit active individuals showed signs of over-indebtedness, suggesting that they may become over-indebted in the future. Additionally, the report found that 19% of individuals borrow money in order to service existing debts. These figures are concerning as the average South African household survives on income less than R8000 per month (Finmark Trust, 2013). Furthermore, in 2015, South Africa's unemployment rate ranked amongst the highest in the world, measuring between 24,3% and 34.6% depending on the definition of unemployment (International Labour Organization, 2015; StatsSA, 2014b). In an environment characterised by high unemployment, negative economic growth and rising consumer debt levels, consumers are becoming more vulnerable to getting caught in a debt spiral. Low-income households – those that earn R8000 or less every month - are arguably most at risk of getting caught in a debt trap, as their limited income is insufficient to pay for even their most basic necessities. Over-indebtedness in South Africa should thus be of national concern with sustainable strategies put in place to protect consumers from falling into a debt spiral.

In order to explore the financial and social experiences of over-indebted low-income households in the South African context, data was collected using in-depth, semi-structured, face-to-face interviews with both over-indebted and non-over-indebted individuals that earned an income of less than R8000 per month were conducted. This exploratory study employed a non-probability sampling approach to identify specific respondents to be interviewed.

The research found that financial and legal literacy levels are low in both over-indebted and non-over-indebted, low-income households. It also found that over-indebted low-income households are more susceptible to peer pressure and have lower self-control than households that are not over-indebted. And finally, the research found that credit is granted too easily in South Africa.

Low-income households that are vulnerable to over-indebtedness should look to their non-over-indebted counterparts for advice on how to avoid falling into a debt trap. Consumers should become aware of the dangers of peer pressure and should exercise self-control as a means of protecting themselves from making purchasing decisions that will push them into a debt spiral. Both the state and consumers should put measures in place to empower the public with becoming more financially literate. Consumers should look to purchase non-depreciating assets rather than items which have little or no resell value. Emphasis should be placed on creating a more egalitarian focus within a capitalist society. Additionally, the National Credit Regulator should monitor credit providers closely and enforce strict penalties on institutions found to be lending recklessly.

DECLARATION

I, Micha Alon Essers, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Micha Alon Essers

Signed at …….

On the …….. day of …… 2016

ACKNOWLEDGEMENTS

To my supervisor, Jenni Croll, your guidance throughout the research process has been invaluable. Thank you for always being available and for your tireless effort in getting me over this final hurdle.

To my family and friends, thank you for your care, support and encouragement throughout the duration of my MBA.

Mom, thank you for always encouraging me to view the world with an open mind and to never stop learning.

To my wife, Tracy, without your unconditional love and support this would never have been possible. Thank you for believing in me especially during those times I doubted myself. You made many sacrifices, both financial and emotional, so that I could pursue this. Thank you for your patience, understating, strength and unconditional love. You are my rock, my strength and the ultimate Blessing. With you in my life anything is possible.

To HaKadosh Baruch Hu, thank You for the constant Blessing You shower upon me!

TABLE OF CONTENTS

ABSTRACT ..... **ii**

DECLARATION ..... **iv**

ACKNOWLEDGEMENTS ..... **v**

LIST OF TABLES ..... **ix**

LIST OF FIGURES ..... **xi**

CHAPTER 1. INTRODUCTION **1**

1.1 PURPOSE OF THE STUDY 1
1.2 CONTEXT OF THE STUDY 1
1.3 PROBLEM STATEMENT AND SUB-PROBLEMS 3
1.3.1 SUB-PROBLEM 1 3
1.3.2 SUB-PROBLEM 2 3
1.3.3 SUB-PROBLEM 3 3
1.4 SIGNIFICANCE OF THE STUDY 3
1.5 DELIMITATIONS OF THE STUDY 4
1.6 DEFINITION OF TERMS AND ABBREVIATIONS 5
1.7 ASSUMPTIONS 6

CHAPTER 2. LITERATURE REVIEW **7**

2.1 INTRODUCTION 7
2.2 DEFINING OVER-INDEBTEDNESS 7
2.3 UNDERSTANDING OF HOUSEHOLD DEBT 9
2.4 THE PREVALENCE OF DEBT AMONG URBAN HOUSEHOLDS 10
2.5 THE SOURCE AND QUALITY OF DEBT 12
2.6 SELF-CONTROL AND THE ABILITY TO MANAGE EXPENDITURE 13
2.7 FINANCIAL LITERACY AND MONEY MANAGEMENT 14
2.8 EDUCATION AND FINANCIAL WELL BEING 15
2.9 SOCIAL INFLUENCES AND FINANCIAL DECISIONS 16
2.10 UNPLANNED EXPENSES AND ADVERSE INCOME SHOCKS 17
2.11 THE HIGH COST OF CREDIT 17
2.12 EMOLUMENT ATTACHMENT ORDERS (EAO'S) 19
2.13 CONCLUSION OF LITERATURE REVIEW 21
2.13.1 RESEARCH PROPOSITION 1: 22
2.13.2 RESEARCH PROPOSITION 2: 23

2.13.3 RESEARCH PROPOSITION 3: 23

CHAPTER 3. RESEARCH METHODOLOGY 24

3.1 INTRODUCTION 24
3.2 RESEARCH METHODOLOGY 24
3.3 RESEARCH DESIGN 24
3.4 POPULATION AND SAMPLE 25
3.4.1 POPULATION 25
3.4.2 SAMPLE AND SAMPLING METHOD 25
3.5 THE RESEARCH INSTRUMENT 27
3.6 PROCEDURE FOR DATA COLLECTION 28
3.7 DATA ANALYSIS AND INTERPRETATION 29
3.8 LIMITATIONS OF THE STUDY 29
3.9 VALIDITY AND RELIABILITY 30
3.9.1 EXTERNAL VALIDITY 30
3.9.2 INTERNAL VALIDITY 30
3.9.3 RELIABILITY 31
3.10 ETHICS 31

CHAPTER 4. PRESENTATION OF RESULTS 32

4.1 INTRODUCTION 32
4.2 RESEARCH PROPOSITION 1 32
4.2.1 LOW-INCOME HOUSEHOLDS' UNDERSTANDING OF FINANCIAL CONCEPTS 33
4.2.2 EDUCATION AND THE UNDERSTANDING OF FINANCIAL CONCEPTS 36
4.2.3 LOW-INCOME HOUSEHOLDS' EXPERIENCE WITH AND UNDERSTANDING OF LEGAL TERMS 39
4.2.4 SUMMARY OF THE RESULTS 42
4.3 RESEARCH PROPOSITION 2 42
4.3.1 CONSPICUOUS CONSUMPTION 43
4.3.2 PEER PRESSURE 43
4.3.3 SELF-CONTROL 44
4.3.4 SUMMARY OF THE RESULTS 47
4.4 RESEARCH PROPOSITION 3 47
4.4.1 ACCESS TO AND ISSUING OF CREDIT 47
4.4.2 MARKETING PRACTICES OF CREDIT PROVIDERS 48
4.4.3 SUMMARY OF THE RESULTS 50
4.5 CONCLUSION 51

CHAPTER 5. DISCUSSION OF RESULTS 53

5.1 INTRODUCTION 53
5.2 DEMOGRAPHIC PROFILE OF RESPONDENTS 53
5.3 DISCUSSION PERTAINING TO PROPOSITION 1 53
5.3.1 THE UNDERSTANDING OF FINANCIAL TERMS BY LOW-INCOME HOUSEHOLDS 53
5.3.2 EDUCATION AND THE UNDERSTANDING OF FINANCIAL CONCEPTS 54
5.3.3 THE UNDERSTANDING OF LEGAL TERMS BY LOW-INCOME HOUSEHOLDS 56

5.4 DISCUSSION PERTAINING TO PROPOSITION 2 58
5.4.1 CONSPICUOUS CONSUMPTION 58
5.4.2 PEER PRESSURE AND SELF-CONTROL 60
5.4.3 SELF-CONTROL 60
5.5 DISCUSSION PERTAINING TO PROPOSITION 3 61
5.6 CONCLUSION 63

CHAPTER 6. CONCLUSIONS & RECOMMENDATIONS 65

6.1 INTRODUCTION 65
6.2 CONCLUSIONS TO RESEARCH PROPOSITION 1 65
6.3 CONCLUSIONS TO RESEARCH PROPOSITION 2 65
6.4 CONCLUSIONS TO RESEARCH PROPOSITION 3 66
6.5 SUMMARY 66
6.6 RECOMMENDATIONS 67
6.7 SUGGESTIONS FOR FURTHER RESEARCH 70

REFERENCES 72

APPENDIX A: Research Instrument 77

APPENDIX B: Summary of research findings 80

LIST OF TABLES

Table 1: Profile of respondents 27

Table 2: Summary of findings: The understanding of financial concepts by low-income households 33

Table 3: The understanding of financial concepts by low-income households. 35

Table 4: Summary of findings: Education and the understanding of financial concepts by low-income households..... 37

Table 5: The role of education in the understanding of financial concepts by low-income households 38

Table 6: Summary of findings: Low-income households' experience with and understanding of legal terms. 39

Table 7: The understanding of legal concepts by low-income households 40

Table 8: Summary of findings: Conspicuous consumption..... 43

Table 9: Summary of findings: Peer pressure 44

Table 10: Summary of findings: Self-control 44

Table 11: Low-income households experience with peer-pressure, conspicuous consumption and self-control 45

Table 12: Summary of findings: Marketing practices of credit providers 48

Table 13: Summary of findings: Marketing channels employed by credit providers 49

Table 14: Low-income households' experiences with credit providers..... 49

Table 15: Summary of findings: Where respondents learnt financial terms 55

Table 16: Summary of findings: How respondents manage their expenses..... 58

Table 17: Summary of findings: Purchasing decisions 60

Table 18: Summary of findings: Self-control 60

Table 19: Summarised conclusions of the research 66

LIST OF FIGURES

Figure 1: Unemployment rates (Tradingeconomics, 2015) 2

CHAPTER 1. INTRODUCTION

1.1 Purpose of the study

The purpose of this study was to explore the financial and social experiences of over-indebted low-income households in South Africa. The researcher hoped to gain insight into the causes of over-indebtedness for low-income households so that appropriate recommendations could be made to reduce the prevalence of over-indebtedness for low-income households in South Africa. Additionally, by contrasting the financial and social experiences of over-indebted with non-over-indebted individuals, it was hoped that lessons that could be transferred to other low-income households would emerge and therefore help low-income households avoid becoming over-indebted themselves.

1.2 Context of the study

Findings from the 2013 Finscope SA Consumer Survey suggest that almost 14% of all South Africans over the age of 16 are over-indebted (Finmark Trust, 2013). The same report suggests that almost one third of credit active individuals showed signs of over-indebtedness, suggesting that they may become over-indebted in the future. Additionally, the report found that 19% of individuals borrow money in order to service existing debts. These figures are concerning as the average South African household survives on income less than R8000 per month (Finmark Trust, 2013). Furthermore, in 2015, South Africa's unemployment rate ranked amongst the highest in the world, measuring between 24,3% and 34.6% depending on the definition of unemployment (International Labour Organization, 2015; StatsSA, 2014b).

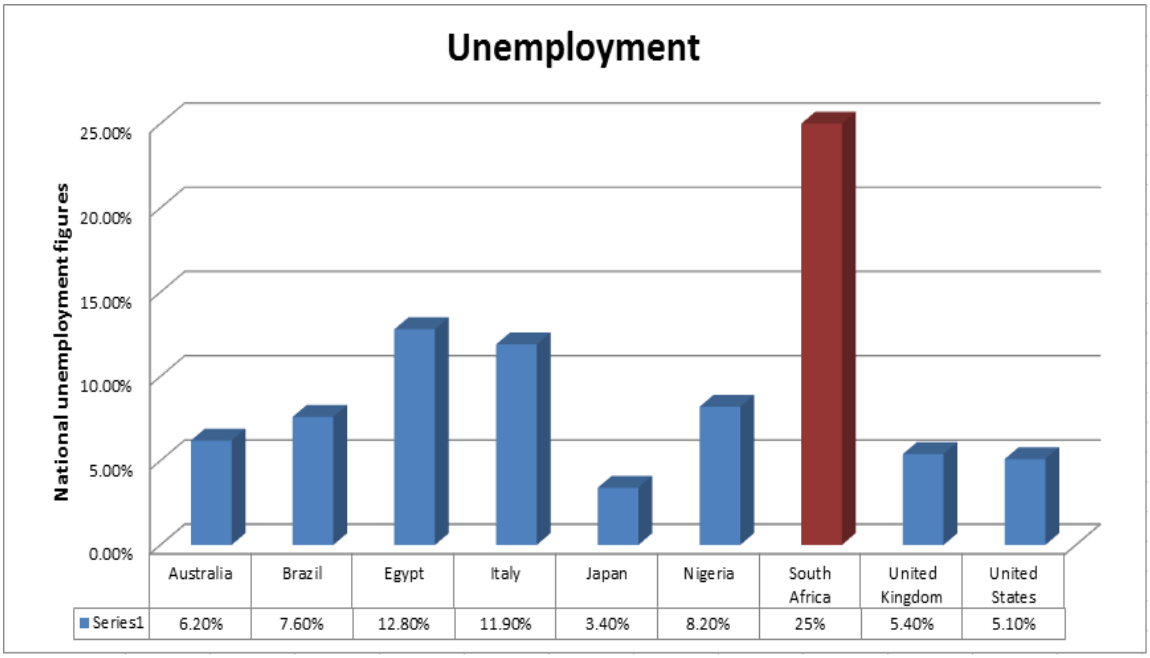


Figure 1: Unemployment rates (Tradingeconomics, 2015)

A significant segment of the population relies on high-cost finance in order to survive (Baumann, 2001; Mashigo, 2006). In order to alleviate some of the pressure on the unemployed and financially vulnerable, the state distributes social grants, in the region of R120 billion annually (SASSA, 2014). These disbursements however impact on the governments' investment into areas such as infrastructure, education, healthcare and general development which contribute to economic growth. As the current economic climate is characterised by high unemployment and low economic growth, over-indebtedness is becoming an increasingly serious concern not only because of its impact on the economy, but more importantly, because of the resulting humanitarian issues such as the poor being pushed further into poverty and therefore being caught both in a poverty and debt spiral (Daniels, 2001; Mashigo, 2006).

Studies suggest that indebtedness in the low-income household segment in South Africa is not a cause for concern as these households have lower debt levels than medium and high income households (Collins, 2008; Daniels, 2001). However, when exploring low-income household over-indebtedness, it is noted that these households are accumulating debt more rapidly than their higher income generating

counterparts (Human Science Research Council, 2003) . Additionally, it is noted that the burden of servicing debt for this segment of the population is significantly higher than it is for other segments of the population (Human Science Research Council, 2003). These findings therefore suggest that over-indebtedness among low-income households in indeed a growing concern and should be addressed urgently.

1.3 Problem statement and sub-problems

The main research problem is to describe the financial and social experiences specific to over-indebted households in South Africa, and to identify appropriate remedial measures to mitigate against over-indebtedness among these households.

1.3.1 *Sub-problem 1*

Understand the financial and social experiences of low-income households in South Africa.

1.3.2 *Sub-problem 2*

Compare the financial and social experiences of over-indebted low-income households in South Africa with non-over-indebted households.

1.3.3 *Sub-problem 3*

Identify appropriate remedial measures to mitigate against over-indebtedness among low-income households in South Africa.

1.4 Significance of the study

Quantitative studies analysing over-indebtedness in South Africa have been conducted in recent years (Daniels, 2001; Human Science Research Council, 2003; Schicks, 2014). Findings from such studies typically focus on numerical and statistical information to explain debt trends. They largely neglect the individuals' experiences of over-indebtedness. As policy is influenced by such research, it is feared that wrong or inadequate policies and regulations might be instituted which do

not address the true causes of, or alleviate the true consequences of over-indebtedness. Further, quantitative findings may result in policy makers and the broader society disregarding the social impact of over-indebtedness and thereby indirectly demeaning over-indebted individuals. Additionally, studies on over-indebtedness have under-emphasised the negative impact of over-indebtedness on low-income earners. This study therefore hopes to build on existing research into over-indebtedness, while placing emphasis on the human experiences of this societal issue. In so doing, it is hoped that the social and financial experiences of over-indebtedness for low-income households will be highlighted so that appropriate policies can be instituted which will result in reduced levels of over-indebtedness for low-income earners - the most vulnerable segment of the South African population. This research therefore hopes to make a modest contribution to existing studies, in the hope of encouraging researchers and policy makers to investigate over-indebtedness with greater sensitivity to the impact of over-indebtedness on the affected individuals.

1.5 Delimitations of the study

- This study focuses on over-indebtedness in the South African environment.
- Over-indebtedness is explored but only within low-income households.
- This study adopts a qualitative rather than quantitative approach. Therefore, interviews, rather than numerical and statistical data analysis, were conducted in order to explore individual, personal experiences of over-indebtedness.
- This study explores credit use in South Africa but does not offer an in-depth analysis of the regulatory environment of the South African credit market.

1.6 Definition of terms and abbreviations

Credit bureau: “An independent organisation that compiles information from credit grantors and other (private and public) sources regarding individuals’ credit applications and payment behaviour”. This information is shared amongst subscribers (including credit providers) and assists credit providers to reduce the risk of issuing loans to ‘risky’ borrowers (Experian, 2015).

Emoluments Attachment Orders (EAO): Court order permitting a creditor to attach a portion of debtor’s earnings in order to satisfy the repayment of an outstanding account. This is contemplated in section 65J of the Magistrates Court Act 32 of 1944 and obliges the debtors employer (the garnishee) to pay out specific instalments, as outlined in the EAO, to the judgment creditor “until the judgment debt and legal fees are paid in full” (University of Stellenbosch v The Minister of Justice and Correctional Services, unpublished Judgement, Case no.: 16703/14, pg. 3). EAO payments are commonly referred to as ‘*garnishee’* payments. Both terms are used interchangeably throughout this study.

Financial literacy: “Peoples’ ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt and pensions” (Lusardi & Mitchell, 2014).

Impaired credit record: If a consumer is reported to a credit bureau for non-payment of a credit agreement by a creditor, they become flagged as a delinquent payer. Subscribers to the credit bureau are notified of the individual’s credit status, which limits a person’s chances of being granted further credit in the future - until such time that their credit record has been cleared. An impaired credit record may compromise an individual’s prospects of securing future employment as the individual may be perceived as reckless and irresponsible by a prospective employer.

Legal Literacy: Peoples’ ability to understand of basic legal terms.

Micro-finance/micro-loan/micro-credit: Finance obtained through an institution other than a formal bank.

Over-indebted: No one universal definition of over-indebtedness exists. Rather, a number of indicators are generally used when referring to the term. For the purposes of this study, an individual is considered over-indebted if they have an impaired credit record or have been handed over to a credit bureau as a result of non-payment of an outstanding loan or account.

1.7 Assumptions

- The researcher was able to make contact with a sufficient sample of low-income earners willing to participate in this study.
- The participant's responses reflected their actual experiences.
- Language and cultural differences did not significantly impact the transfer and understanding of the participant's experiences by the researcher.
- The researcher presented the participants responses accurately and the findings were not influenced by the researcher's own biases or preconceived knowledge.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of seminal literature on the subject of over-indebtedness. It starts off by outlining the challenges of providing a conclusive definition of over-indebtedness. Following this, the concept of household debt is explored, together with a review of levels of household debt internationally and locally. Thereafter, literature that explores the relationship between education and indebtedness is reviewed together with literature that explains the difference between different types of debt that households can acquire. Literature that explores the relationship between over-indebtedness and financial literacy, legal literacy, self-control and conspicuous consumption is then reviewed together with literature that highlights the impact that peer pressure has on an individual's spending behaviour. Additionally, literature that explores the impact that social influences have on an individual's financial decisions is explored together with literature that delves into the way households manage their finances in the face of unplanned expenses and adverse income shocks. The chapter finally concludes with a review of literature that explores the high cost of credit and the widespread abuse of the Emolument Attachment Orders (EAO's) system in South Africa.

2.2 Defining over-indebtedness

There is no universally accepted definition of over-indebtedness (Betti, Dourmashkin, Rossi, & Ping Yin, 2007; d'Alessio & Iezzi, 2013; Disney, Bridges, & Gathergood, 2008; Gathergood, 2012; Schicks, 2013, 2014). Rather, a number of indicators are used to identify the degrees to which an individual, households or an economy is over-indebted. Indicators that are often used to determine over-indebtedness include the cost of servicing debt, debt-to-income ratios, whether an individual is in arrears on consumer debt and self-reported over-indebtedness - whether an individual or household expresses difficulty in paying off debts (Disney et al., 2008). Each of these indicators in isolation provides a very limited view of how persistent over-indebtedness is, as they look at the state of over-indebtedness at a particular point in

time. When using the debt-to-income indicator, households that use debt to acquire assets, for example, might display signs of indebtedness, as their debt-to-income ratio increases. But once the asset starts generating income, as in the case of a property which is purchased to let, or if dividends are paid on an equity investment or if the asset which was bought appreciates, in the long run, the individual or household will not only be able to repay the debt, but will be in a more financially stable situation as a result of the additional income generated by the asset. In these examples, the debt-to-income ratio alone does not account for future income that the household will generate. Therefore used in isolation, the debt-to-income ratio is a poor indicator of over-indebtedness.

Daniels (2001) shows that poor households display low debt-to-income ratios. If one uses the debt-to-income ratio as an indicator of over-indebtedness in isolation, they might conclude that poor households are much more financially stable than higher-income households. This conclusion however is incorrect as low-income households may be unable to repay even the small debt that they do have with the limited income they generate. In this example, arrears, or an individual's inability to maintain existing repayment agreements would be a better indicator of over-indebtedness than the debt-to-income indicator.

While it is apparent that defining over-indebtedness is complicated, the National Credit Act 2005, chapter 4, Part D, which regulates the practices of the credit market in South Africa, defines over-indebtedness as follows:

"A consumer is over-indebted if the preponderance of available information at the time of the determination is made indicates that the particular consumer is or will be unable to satisfy in a timely manner all the obligations under the credit agreements to which the consumer is a party" (Republic of South Africa, 2005).

This definition seems to suggest that over-indebtedness is closely related to an individual's inability to meet his/her financial obligations. Furthermore, it seemingly disregards indicators such as debt-to-income ratio as the determining factor of over-indebtedness. While it is clear that no one universal definition of over-indebtedness exists, for the purposes of this research, a number of indicators are used to identify degrees to which individuals or households might display signs of or be vulnerable to

over-indebtedness. However, for the purposes of this study, only individuals with impaired credit records are deemed to be over-indebted.

2.3 Understanding of household debt

As outlined earlier, debt-to-income ratios are often used as an indicator of over-indebtedness. A high debt-to-income ratio might indicate that an individual or household has more debt than they do income and therefore suggests that they might be unlikely to meet their immediate or future financial obligations. Economies which exhibit high debt-to-income ratios on a national level are considered to be more vulnerable than economies with low debt-to-income levels (Meniago, Mukuddem-Petersen, Petersen, & Mongale, 2013). Indebtedness often has very negative connotations as it suggests that an individual or household does not generate enough income to satisfy its expenses and therefore must rely on credit to smooth consumption. Households that cannot service their existing debt run the risk of falling into arrears and incurring additional costs on the debt. This would potentially push these households into a debt trap. High debt levels are not always bad as debt can be used to help household's smooth consumption during times of low or reduced income. Debt can also be used to accumulate income generating assets. Acquiring debt can enhance the quality of a person's life as it allows consumers to "pay for current expenses using future income" (Dickerson, 2008). For example, when interest rates are low, debt can be acquired cheaply and invested in assets which yield a higher return than the interest charged on the loan. In this case, a high debt-to-income ratio is not a bad thing, as the debt is likely to be repaid in the future. As an economic indicator, typically, countries that experience low household debt-to-income levels are more financially stable than those that experience higher levels (Meniago et al., 2013). Similarly, countries with high debt-to-income levels may be more exposed to economic shocks like unemployment, loss of income and increasing asset prices (Meniago et al., 2013). Additionally, in countries where the majority of the household debt is based on a variable interest rate, rising interest rates result in higher debt levels, making these economies even more vulnerable to adverse economic shocks (Debelle, 2004). Keeping debt-to-income ratios in check should therefore be an important national concern particularly where assets being acquired will not be income generating and depreciating.

Despite South Africans experiencing a marginal drop in the household debt-to-disposable income ratio in the fourth quarter of 2014, this ratio still remains very high, measuring 77,6% in 2015 (South African Reserve Bank, 2015). South Africa's debt-to-disposable income level is one of the highest ratios globally. Coupled with this, the cost of servicing debt in the country increased in the same period, and currently measures at 9,3% (South African Reserve Bank, 2015). This is disturbing considering that such a large percentage of the population are unemployed, and suggests that much of this is unlikely to be serviced.

2.4 The prevalence of debt among urban households

The Permanent-Income Hypothesis which was developed in 1957 by economist Milton Friedman proposes that "consumers form estimates of their ability to consume in the long run and then set current consumption to the appropriate fraction of that estimate (Hall, 1978). Put simply, the hypothesis suggests that consumption behaviour is not based solely on a consumer's current financial position, but future earnings also help to inform their current consumption behaviour (Meniago et al., 2013). When exploring the riskiness of a particular household's debt levels it is important to understand the stage in the life cycle that the household is in. Dynan and Kohn (2007) and Meniago et al. (2013) who make reference to the life cycle hypothesis suggests that households who have just started working will often have a negative saving rate. As the household generates more income they move from a negative saving rate to a position of increased savings and thus reduced indebtedness. When the household enters retirement they will move back into a position of dissaving, as in their early working lives. When looking at household debt it is therefore important to consider that at different stages in the household life cycle, there are different preferences for saving and consuming (Keese, 2010). It is also important to look at the debt repayments in relation to the household income. For example, if a young married couple, where both partners are working and generating an income, were to take on debt it would be far less risky than if a retired couple, with limited income and where neither party works were to take on debt.

Daniels (2001), who explores the prevalence of indebtedness among urban South African households between 1995 and 1999 using the debt-to-income indicator as

the primary measure of indebtedness, found that indebtedness is highest among high income earners. Additionally it was found that indebtedness increases as income increases (Daniels, 2001). These findings are supported by James (2012) who found that rather than the poor, it is the fast growing African middle class, or 'Black diamonds' that are the most indebted and are therefore most at risk. Dynan and Kohn (2007) note that the more educated a household is, the steeper their life cycle incomes become and therefore the more borrowing these households do. As higher income households that tend to be more educated, it is they rather than low income households who therefore accumulate higher debt levels.

Meniago et al. (2013), on the other hand, who explored the causes of increased household debt in South Africa, came to a different conclusion. They found that an inverse relationship between household debt and household income exists, suggesting that it is the low income households, rather than the high income households that experience high degrees of indebtedness.

According to StatsSA (2014a), in 2011, more than 94,6% of poor people in South Africa were black whereas only 0,4% of poor people were white. These statistics highlight that, in general, white South Africans generate greater income than black South Africans. As mentioned previously, it is the higher income earners rather than low income earners that accumulate high debt levels (Dynan & Kohn, 2007). It is therefore not surprising that, when analysing indebtedness by race, Daniels (2001) noted that white South Africans displayed the highest levels of indebtedness while black South Africans displayed the lowest debt levels. Another explanation for why black South Africans displayed lower levels of indebtedness than white South Africans might be that impoverished households have limited access to formal credit (Baumann, 2001; Mashigo, 2006).

Wagmiller (2003, p. 2) notes that the debt levels of low –medium income households have increased "substantially" in recent years and that their financial situations are becoming increasingly "precarious". These households are also likely to experience more permanent indebtedness as, unlike high income households, they do not have enough liquid assets to weather even short term income loss, nor can they afford to invest in assets (Wagmiller, 2003). Therefore, while low income households might

not display high levels of indebtedness, they are more vulnerable than high income households.

Daniels (2001) observes that education and healthcare expenditure as a percentage of income increased among South African households as income levels increased. This suggests that higher income households spend more on healthcare and education than their poorer counterparts and are therefore likely to experience better quality education and healthcare than their poorer counterparts. This is an important observation as better educated and healthier individuals are more likely to find formal employment. This might help to explain the growing income divide in South Africa.

2.5 The source and quality of debt

When exploring the type of debt prevalent among South African households, Daniels (2001) notes a marked difference in the debt profiles of low and high income households. High income households procure debt from formal financial institutions with the debt being used for "housing and vehicles primarily" (Daniels, 2001, p. 14). Among low-income households, debt is sourced through retailers, furniture stores and family members (Mashigo, 2006). This is an important observation as retail and furniture debt typically carry higher fees than loans from banks. As income generated by low-income households is limited, high-cost debt instruments add to the financial burden experienced by these households. Therefore, while their debt levels might be perceived to be lower than higher income households, the cost of servicing debt is much higher. This erodes the little income that these households do generate and therefore drives the poor even further into poverty. Additionally, as low-income households do not have sufficient income to purchase appreciating assets, the likelihood of improving their financial situations is limited (Wagmiller, 2003). In order to generate additional income, many households rely on the informal market. Daniels (2001) notes that, between 1995 and 1999, indirect income-to-total expenditure rose 68.1%. This further emphasises the importance of income from the informal sector as a means of smoothing consumption for low-income households. Finally, it is noted that debt levels increased between 1995 and 1999 for all income level households. This is understandable as this period was characterised by financial liberalisation

and therefore more formalised financial institutions were catering for the lower income households.

Rising debt levels might be associated with a growing economy, as it suggests that the economy has greater access to finance which is being used for consumption. However, this needs to be analysed in context, as, if debt levels are rising within poor households who do not have the means to service the finance, the result might be that they become even more financially constrained as a result of repaying their debts. Further, the type of debt being incurred is an important consideration when evaluating the vulnerability of households to over-indebtedness, as mortgage debt is not only cheaper than retail, furniture or micro debt, but it also results in an income generating asset, whereas micro debt is often used to smooth consumption.

2.6 Self-control and the ability to manage expenditure

Gathergood (2012) argues that individuals that lack self-control and who lack financial resources, are likely to source credit to satisfy their desire to consume. This may lead such individuals to incur high cost debt, such as credit card or micro finance, which can result in the individual becoming over-indebted. Gathergood (2012) finds that individuals in the UK with high degrees of self-control are less inclined to make use of “in-store cards, mail order catalogues, home credit and pay day loans” (Gathergood, 2012, p. 591). Conversely, individuals that display low levels of self-control are more inclined to make impulsive purchases (Gathergood, 2012). In-store cards, mail order catalogues and pay day loans are forms of credit which are easily accessible but which carry very high transaction costs. Individuals that report having a lack of self-control are more likely to become over-indebted (Gathergood, 2012). This is supported by Ameriks, Caplin, Leahy, and Tyler (2007) who find that individuals who exhibit self-control problems tend to over consume and display low levels of wealth. Self-control is an important factor when studying over-indebtedness, particularly among low-income earners who are already burdened with limited disposable income. By incurring high cost debt, low-income households are likely to increase their chances of becoming over-indebtedness. It is the low-income households that lack self-control when making purchasing decisions that are the most vulnerable to becoming over-indebted as higher income households

typically have assets and stronger cash flows which can be used to service debt (Daniels, 2001).

2.7 Financial literacy and money management

Individuals, who display low levels of financial literacy or understanding of financial concepts, tend to participate in financial markets less often than those that have higher levels of financial literacy (Van Rooij, Lusardi, & Alessie, 2011). Additionally, the less financially literate are less financially prepared for retirement than individuals with higher levels of financial literacy. Retirement planning is important in the South African context as social grants do not adequately cover all expenses that individuals might incur. Rather, these grants are intended to supplement savings that individuals have accumulated over time. Therefore, individuals that do not understand how to plan for retirement are likely to struggle financially during their retirement years. For the poorest households, this means even greater hardships. Consumer credit has become increasingly easy to access in South Africa as the financial market has become liberalised in recent years. This has meant that a larger percentage of the population has been able to access credit. While this is an important development, particularly for poor households, where it is believed that credit can help to get them out of poverty (Schicks, 2013, 2014), there is a danger that the less financially literate will acquire high cost credit rather than asset generating debt, as credit providers market their high cost products in an attractive way to the financially illiterate (Schicks, 2013). The less financially literate may also take on more credit than they can manage, pushing them into a debt trap (Disney et al., 2008; Gathergood, 2012). Research conducted by Lusardi and Tufano (2009) on the subject of debt literacy and over-indebtedness in the United States, found that a positive relationship between debt illiteracy and over-indebtedness exists. This implies that individuals who do not understand financial terms, concepts of compounding interest and contractual terms of taking out loans are likely to become over-indebted. This is supported by Schicks (2014), who studies over-indebtedness of micro-borrowers in Ghana and makes similar findings. Additionally, Lusardi and Tufano (2009) earlier found that individuals who reported low levels of debt literacy were more inclined to transact in high cost vehicles such as credit cards. This can be attributed to the fact that concepts of compound interest and the ways in which credit

cards work are not understood by almost 35% of the US population. In a study conducted by Disney and Gathergood (2013), it is noted that in the UK there is a greater tendency to take on high cost credit by borrowers with poor financial literacy than by people with higher financial literacy. This suggests that debt literacy is an important driver of over-indebtedness. Interestingly, and contrary to conventional wisdom, debt illiteracy is not a result of lack of formal education. DeLaune, Rakow, and Rakow (2010) found that financial illiteracy exists even amongst college students in the United States, and that some US students are not able to adequately manage their personal finances.

The UK is one of the least regulated credit markets in the world and also displays similar characteristics to the South African credit market. Given the rise of a largely unregulated micro lending market in South Africa, these findings from Gathergood (2012) are of particular interest as they might help to explain high levels of over-indebtedness in the South African context.

2.8 Education and financial well being

Over the past two decades there has been an increase in the number of financial education programs rolled out across both the public and private sectors within the United States (Fox, Bartholomae, & Lee, 2005). These programs have been developed to help educate consumers who display low levels of financial literacy by helping them to improve their financial management. Fox et al. (2005) found that the savings rates of individuals that participant in financial education programs improved after having gone through the programs. A similar study conducted by Bernheim and Garrett (2003) found that individuals who were engaged in financial education programs within the work place displayed higher savings rates (on average 22% higher) than individuals that did not participate in financial education programs. Elliehausen, Lundquist, and Staten (2007) conducted a study on the subject of credit performance among individuals with high debt levels. They compared individuals that displayed high debt levels and who underwent debt counselling sessions against individuals with high debt levels that did not undergo debt counselling sessions. They found that more than 50% of the individuals that underwent debt counselling sessions had reduced their credit risk, while the majority had also reduced the

number of outstanding accounts, total outstanding debt as well as delinquencies (Elliehausen et al., 2007).

2.9 Social influences and financial decisions

There is a tendency amongst people who perceive their income to be lower than their peers, to borrow money in order to consume more in an effort to keep up appearances amongst their peers (Georgarakos, Haliassos, & Pasini, 2014). While households that do this might be accepted into a specific social circle, this behaviour increases the chances of these households becoming financially distressed. This notion relates back to the 'relative income hypothesis' which was introduced by Duesenberry (1967) and suggests that below average income earners tend to consume more of their income in order to keep up with their 'wealthier' peers (Georgarakos et al., 2014). More recent studies exploring the relationship of social influence on consumption finds that after winning a national lottery, both the value and quantity of goods consumed by the winner increased. Additionally, it was noted that the likelihood of a neighbour buying a new car also increased, suggesting that the neighbours consumption behaviour was influenced by the lottery winners' behaviour (Georgarakos et al., 2014).

These occurrences could be explained by a 2009 study which finds that, in the United States, conspicuous consumption is related very closely to an individual's status. The study finds that some races in the United States spend larger percentages of their income on status symbols, in an effort to display their social status (Charles, Hurst, & Roussanov, 2009). A study into conspicuous consumption within the South African context revealed that "coloureds and blacks spend between 30 to 50 percent more on a basket of visible consumption goods and services than comparable whites" (Kaus, 2013, p. 14). Conspicuous consumption is therefore influenced both by the need to display social status but also by the need to keep up with peers. The danger of such behaviour, particularly for low-income households, is that they may borrow more than they can afford in order to keep up with their peers. These individuals might therefore be lured into a debt trap.

In a 2014 study examining the influence of social interactions on household debt, “outstanding and sizeable loans” were noted within households that perceive their income to be lower than their social circles (Georgarakos et al., 2014, p. 1426). This supports the notion that social influences and particularly, comparison of perceived income levels, leads individuals to borrow more in order to keep up appearances. By extension, this leads to a greater chance of financial distress, especially among low-income households.

2.10 Unplanned expenses and adverse income shocks

Low-income households by definition earn very limited income. The income they do earn is used for consumption and the cost of everyday living. As a result, they have very little money left over for savings. Savings are important as they help smooth consumption during times of distress and therefore act as a means of insurance for households that do not have formal insurance policies (Babiarz, Widdows, & Yilmazer, 2013). Households that do not have savings are therefore vulnerable to adverse income shocks which can occur as a result of rising inflation, unemployment, medical expenses, funeral expenses and crime. Such events place a significant burden on low-income households who must find additional income to pay for additional expenses. State support often helps to supplement income under such circumstances however this support is limited. Therefore, when experiencing adverse income shocks low-income households rely on family, friends and informal lenders for credit. While family and friends might not charge interest on loans, micro lenders charge excessively high interest (Baumann, 2001; Mashigo, 2006, 2012, 2014). During times of distress, low-income households often have no choice but to seek short term loans from micro lenders. This makes low-income households increasingly vulnerable to becoming over-indebted.

2.11 The high cost of credit

Prior to the NCA, consumer credit markets were governed by the Usury Act. The Usury Act was intended to regulate the amount of interest that registered financial institutions were allowed to charge consumers. It was also intended to ensure proper disclosures in credit agreements between consumer and lenders were in place. This

Act however proved to be too stringent with regards to its regulation of lending practices and resulted in a large percentage of the population not able to access credit. To remedy this, the government exempted loans below R6000 from being regulated by the Act. This effectively meant that the lending rate ceiling for loans below R6000 was removed (Daniels, 2001). The unintended consequence of the exemption is that lenders were able to charge exorbitant interest on these loans. This resulted in the emergence of a number of micro credit operators within the financial industry who targeted low-income households that were previously excluded from the financial markets. These institutions were able to profit from the high interest that they charged (Daniels, 2001).

Historically, the banking sector in South Africa was geared towards the white population and therefore these institutions positioned themselves geographically, commercially and structurally accordingly (Baumann, 2001). This deliberate structural evolution came at the expense of the poor and marginalised population who were not able to access formal financial institutions. In response, micro lenders and loan sharks positioned themselves in closer geographical and cultural proximity to the lower income market (Mashigo, 2012). Although micro lending plays an important part in providing finance to individuals unable to access formal loans, it runs the risk of driving borrowers into over-indebtedness (Schicks, 2014). Micro financers typically employ more lenient lending criteria than formal financial institutions. For example, these institutions will often forgo security, company financials and other regulatory documentation from borrowers in order to accommodate the population. In return for the easy access to finance, borrowers will accept higher repayment charges, usually in the form of interest. However, the low-income households that take on this high cost credit are often not financially literate and do not fully understand the terms of the credit agreement. Households that do understand the terms might not be able to repay the interest but incur the debt often as a last measure. This ultimately pushes low-income households even further into poverty (Mashigo, 2006). Micro finance therefore might help to explain high levels of over-indebtedness that exists in the South African context.

2.12 Emolument Attachment Orders (EAO's)

An EAO, which is often erroneously referred to as garnishee order, is a court order, that obliges an employer to deduct instalments from an employee's salary (Botes & Aukema, 2014). The employer is obliged to pay over these deductions to the creditor who obtained the judgment, as a means of repaying a loan taken out by the debtor (employee). Such instalments are paid until the debtors' loan is repaid or until the employee leaves employment. A garnishee order, which is issued in terms of s72 of the Magistrates Court Act (32 of 1994) allows a creditor to attach debt owed by a debtor and is usually collected by the creditor on an ad-hoc basis (Botes & Aukema, 2014). In order to obtain an EAO, debtors are required to sign an 'acknowledgment of debt' and 'consent to judgment'. This is sometimes included, often without the debtor being aware, in a settlement agreement that the creditor negotiates with the debtor. Once the debtor defaults on the new repayment plan as outlined in the settlement agreement, the creditor takes the 'acknowledgment of debt' and 'consent to judgment' to a court where an EAO is usually granted. This process has become common practice as a means of collecting debt as it is effective in securing monthly debt repayments. However, because of the manner in which EAO's are issued, the process is open to abuse (Botes & Aukema, 2014).

Despite the EAO process being governed by the Magistrates Court Act 32 of 1944, the process has been abused in recent years (Botes & Aukema, 2014; Young, 2013). Some of the steps that credit providers take to get EAO's granted include getting court documents stamped by corrupt court clerks and by getting judgments granted in different jurisdictions to that which the debtor resides or works. In this way, the debtor is not able to contest the EAO as, in order to do so, they must be present in the court where the EAO was granted. In addition to the trickery that some creditors practise in obtaining EAOs, once obtained, there is no statutory limit to the amount that can be deducted from the debtors' earnings. Nor is there a limit to the number of EAO's that one individual may have. An individual might therefore be in a situation where their employer is obliged to make monthly deductions against their salary to the value of their entirely monthly salary in order to satisfy the EAO's. The EAO process therefore appears to compound the challenges that low-income

households and particularly already over-indebted households face in repaying their debts.

A study which examined the incidence and prevalence of EAO's in South Africa revealed that 52% of all EAO's were obtained by micro-lenders and retailers and that the average employee had 1.86 EAO deductions coming off their salary (University of Pretoria Law Clinic, 2008). This same report found that of all the public servants' records that were analysed for making garnishee payments, 86% of them were black South Africans and R269 million was paid in garnishee debt payments by public servants. While these individuals would not necessarily be considered to be low-income earners, the prevalence of garnishees in South Africa is a concern and may contribute towards over-indebtedness of low-income households.

In the 2013 Budget speech, Finance Minister Pravin Gordhan raised concern about the abuse of the EAO system and informed the public that the ministry was "in discussion with the National Credit Regulator, the Department of Justice and banks, to ensure that the lending market remedies its behaviour" in order to protect consumers from garnishee abuse (National Treasury of South Africa, 2013). Representing a number of individuals who claimed to have had garnishees illegally granted against them, on the 18th of September 2014, the University of Stellenbosch Legal Aid Clinic (the applicant) lodged a motion to contest the garnishees, on the basis that they were issued fraudulently. Less than a year later, on the 8th of July 2015, Judge Siraj Desai, who presided over the hearing in the Western Cape High Court, ruled in favour of the University of Stellenbosch Legal Aid Clinic, declaring the EAO's "unlawful, invalid and of no force and effect" (University of Stellenbosch v The Minister of Justice and Correctional Services, unpublished Judgement, Case no.: 16703/14, pg. 3). It is expected that this judgement will pave the way for a full investigation into both the debt collections and credit industries. This judgement is seen as a victory for the poor as it highlights the systematic problem that exists with the garnishee system. It is hoped that through further regulation and more stringent checks and balance, that creditors will no longer be able to garnish individual's salaries to the extent that they have no income to cover their living expenses.

2.13 Conclusion of Literature Review

This section of the research provided a review of seminal literature on the subject of over-indebtedness. It highlighted the fact that no universal definition of over-indebtedness exists and that instead, a number of indicators are used to identify the degrees to which individuals or households might be vulnerable to over-indebtedness. It was suggested that for the purposes of this study, individuals with impaired credit records as a result of falling into arrears on outstanding credit, would be considered to be over-indebted. Household debt as an indicator of over-indebtedness was explored in detail. South African household debt was also explored and compared to international debt levels. It was concluded that South African household debt-to-disposable income was high and that this made the country economically vulnerable. Further, it was found that the cost of servicing debt increased. The high debt levels and rising cost of servicing debt coupled with the county's growing unemployment rate painted a bleak picture of the average households' ability to repay outstanding debts. It was therefore concluded that South Africans are vulnerable to becoming over-indebted. Literature exploring the prevalence of debt among urban households revealed that low-income households display low debt levels, implying that they are less vulnerable to becoming over-indebted than higher income households. This was shown to be misleading as low-income households often incur credit which carries higher costs than formal credit which they are required to repay despite earning only a limited income. Therefore it was proposed that low-income households are actually more vulnerable than high income households despite a low debt-to-income ratio. It was explained that low debt levels among low-income households was a result of these households not having access to formal credit, specifically mortgage debt, rather than these households not having a need for credit. It was also emphasised that low-income households are the most in need of credit to smooth their income as their low income does not adequately provide for their needs. Following this, literature which explored some of the causes of over-indebtedness was reviewed. Common themes that emerged from the literature as impacting on over-indebtedness includes lack of self-control, lack of financial literacy, conspicuous consumption as a result of social influence and the need to keep up appearances. The role of financial education was explored and it was concluded that education programs increased financial literacy

levels among participants and that financial education programs positively impacted on participants ability to manage their savings and personal finances. The impact of adverse income shocks such as unemployment, health expenses and death on low-income earners was also explored. It was concluded that adverse income shocks force low-income earners to incur debt. However, because these households often lack access to formal credit, they resort to high-cost micro-finance, which is more easily accessible, to help smooth consumption. This high cost debt often results in low-income earners falling into arrears on their debt repayments as they are not able to service the debt with their limited income. This has resulted in a large number of EAO's being granted. A number of problems with the EAO system were highlighted, specifically that there is no limit to the number of EAO's one debtor can have. Additionally there is no limit to the amount that an employer is obliged to deduct from an employee's salary. This prompted a High Court application into the lawfulness of the EAO system where it was found that the EAO system was abusive and, in some cases, unlawful. The court case also exposed that in some instances employees took home almost no money because of multiple garnishee deductions.

Based on the literature review, the following research propositions have been put forward:

2.13.1 *Research proposition 1:*

Over-indebted low-income households display lower levels of financial and legal literacy than households that are not over indebted.

This proposition was founded on findings from seminal studies exploring the prevalence of over-indebtedness, (Disney et al., 2008; Disney & Gathergood, 2013; Gathergood, 2012; Lusardi & Mitchell, 2014; Lusardi & Tufano, 2009) which find that members of over-indebted households do not understand basic financial terms such as interest and inflation, and that households with lower financial and legal literacy are susceptible to accumulating high-cost credit and are therefore at greater risk of falling into arrears on their repayment schedules.

2.13.2 *Research proposition 2:*

Over-indebted low-income households are more susceptible to peer-pressure and have lower self-control than households that are not over indebted.

This proposition is based on studies conducted by Georgarakos et al. (2014) which explores social behaviour and concluded that below average income earners tend to consume more of their income in order to keep up with their 'wealthier' peers. As a result, these households are susceptible to becoming financially distressed and over-indebted.

2.13.3 *Research proposition 3:*

Credit is granted too easily in South Africa.

This proposition is based on the fact that 14% of all South Africans over the age of 16 are over-indebted (Finmark Trust, 2013). This proposition is further informed by the argument that credit providers are not regulated enough; that they prey on the weak and vulnerable to drive profits; and have lost sight of their social objective of providing finance in order to alleviate poverty in exchange for greater returns for their shareholders (Schicks, 2013), which has been exacerbated in recent years as the South African credit market has become more liberalised, facilitating greater access to credit, especially by those who were excluded from the credit markets in the past.

CHAPTER 3. RESEARCH METHODOLOGY

3.1 Introduction

This section of the research outlines the methodology used to address the research propositions mentioned in Chapter 2. Further, the methodology and research design that have been employed is expounded on together with a description of the population, sample, sample method and data collection methods.

3.2 Research methodology

There are three universally accepted methods or approaches to research- Quantitative methods (eg experiments and surveys), Qualitative methods (eg ethnographies and interviews) and Mixed methods (eg explanatory sequential) (Creswell, 2013). According to Mack, Woodsong, MacQueen, Guest, and Namey (2005), qualitative research methods provide insight into a research problem from the perspective of the participant. Further, a qualitative research approach allows researchers to gather descriptive information about a population's values, experiences and social contexts and is effective in identifying "intangible" factors such as body language, which can be overlooked in quantitative research (Mack et al., 2005). As this research is exploratory and seeks to understand experiences from the participant's perspective, a qualitative method is appropriate.

3.3 Research Design

A research design is the "framework for the collection and analysis of data" (Bryman, 2013, p. 47). It can also be described as the "plan for conducting the study" (Creswell, 2013, p. 49). While a multitude of qualitative research designs have emerged over the years, Creswell (2013) suggests that all designs can ultimately be grouped into five generic categories, namely: narrative research; phenomenological; grounded theory; ethnography and; case study research. The researcher's intention throughout this study is to understand the phenomenon from the human and social

perspective. A qualitative exploratory approach is therefore appropriate and will be employed.

3.4 Population and sample

3.4.1 *Population*

The term *population* refers to the group from which conclusions for a study will be drawn (Babbie, 2014, p. 116). The population for this study consists of all low-income households in South Africa.

3.4.2 *Sample and sampling method*

Although there is a sizeable population of poor black South Africans, poverty is not limited to one particular race. In order to understand South African low-income earners' experiences with over-indebtedness, a more representative sample needed to be explored. For this reason, the researcher identified individuals from all races in South Africa to be interviewed. The study therefore explored the experiences of over-indebtedness among of all races in South Africa, offering a more accurate reflection of the experiences of low-income households in South Africa.

This study focused on low-income earners in the Gauteng region, which is a predominantly urban area. As such, the majority of the Gauteng population lives in urban dwellings. This study was therefore limited to low-income earners in urban areas. This is important to note as the experiences and prevalence of over-indebtedness in rural areas may differ significantly from that of urban dwellers. Although the experiences of over-indebtedness within rural households is beyond the scope of this study, this should be an area for further research.

Poverty standards vary across South Africa. For example, Gauteng and Western Cape have relatively low levels of poverty when compared to Eastern and Northern Cape (Collins, 2008). It would be interesting to conduct this research on a national level, however due to cost and time constraints it is impractical to do so. Therefore, this study focused solely on individuals that reside in the Gauteng province and, in particular, Johannesburg.

It was impractical for the researcher to study all constituents of the population. Therefore, only a limited number of 'members' or a *sample* of the population was observed (Babbie, 2014; Bryman, 2013). As this study sought to explore over-indebtedness among low-income households, a *purposeful* or *purposive sampling method* was employed. This approach allowed the researcher to identify key individuals to participate in the research that could "purposefully inform an understanding of the research problem" (Creswell, 2013, p. 156). As this was a non-probability sampling approach, the findings of this study cannot be extrapolated to the larger population (Bryman, 2013, p. 418).

Two groups of respondents were profiled for the study. The profiles of the respondents are outlined in Table 1 below.

Given the lengthy and costly nature of qualitative research, 20 respondents were interviewed. As the researcher engages with over-indebted and low-income households in a professional capacity (the company that the researcher works for is involved in debt counselling), the researcher used company data to augment the population and identify possible participants for this research. The researcher specifically looked at individuals aged between 21 and 35 in order to try and reduce the impact that apartheid had on over-indebtedness, as during apartheid the segregation laws restricted financial inclusion of a significant portion of the population.

Potential participants were contacted telephonically and the purpose of the research was explained to them. It was further explained that there was no obligation to participate in the research and that results would be published anonymously. It was emphasized that their participation in the research would in no way be used against them and would have no adverse effects on them or their credit record. If a respondent agreed to participate in the study, individual, semi-structured, face-to-face interviews were conducted at the respondent's convenience.

Table 1: Profile of respondents

Description of respondents	Number to be sampled
Group 1: • Aged between 21 and 35 • Had an impaired credit record • Earned a monthly income of R8000 or less • Lived in the Gauteng province • Was able to converse in English (but English was not necessarily their mother tongue)	10 (all ethnicities)
Group 2 • Aged between 21 and 35 • Did not have an impaired credit record • Earned a monthly income of R8000 or less • Lived in the Gauteng province • Was able to converse in English (but English was not necessarily their mother tongue)	10 (all ethnicities)

3.5 The research instrument

Interview questions constituted the *research instrument* for this study. Relevant interview questions were constructed based on themes that emerged from the literature review. Questions from historical interviews exploring over-indebtedness (eg. Finmark Trust, 2013) were adapted and incorporated into this interview. A draft of the questions for the interviews is annexed to this report (Appendix A).

Semi-structured interviews by nature are more flexible than structured interviews and allowed the researcher to delve into the research problem more deeply. By conducting semi-structure interviews, the researcher was able to obtain a rich description of the problem (DiCicco-Bloom & Crabtree, 2006). Semi-structured interviews also helped the researcher to gain insight into sometimes sensitive issues

which other approaches (survey, telephonic interview) cannot (Creswell, 2013). Face-to-face interviews allowed the interviewer to pick up on the unspoken and non-verbal responses which provided valuable insights, where email surveys or telephonic interviews cannot. For these reasons, semi-structured interviews were conducted.

3.6 Procedure for data collection

With the respondents' permission, interviews were recorded, allowing the interviewer to concentrate on the respondents' responses (Whiting, 2008). As the researcher was not distracted with note taking during interviews, he was able to pick up on any non-verbal cues and nuances. Although a recording device might have initially made the respondent feel uneasy and may have influenced their responses, the researcher managed to build rapport with respondents by finding common ground through the sharing of personal anecdotes. In this way it was hoped that any inhibited feelings that the respondent might have had would dissipate (Whiting, 2008). By building rapport, meaningful information could also be gathered from the interviewee. Rapport between researcher and respondent also reduces the chances of the interview being an oppressive experience where the respondent becomes an object "waiting to be described" (DiCicco-Bloom & Crabtree, 2006, p. 317).

After the interviews, two recordings of each interview were made. One copy remained with the researcher while the other, a backup of the original, remained in a secure environment to be accessed only in the event that the original copy was damaged or misplaced. The researcher only took limited notes during the interview for the purposes of impressing certain ideas for further exploration. Brief comments were recorded at the end of the interview which was used as a reference when reviewing the recordings at a later stage. These notes were later digitally copied and stored securely in the 'cloud'.

Interviews adopted an informal, conversational approach and were conducted in an environment that the respondents were most comfortable with. Questions were prepared prior to the interview to prevent the interview from degenerating into a chat (Whiting, 2008).

The researcher acknowledged that his personal values, assumptions and prejudices might influence both the topics he chose to investigate as well as the framing and communications of the findings (Hand, 2003; Malterud, 2001). In order to avoid this, throughout the interview process, the researcher adopted a reflexive approach and continuously assessed the effect that his background and position might have had (Malterud, 2001).

3.7 Data analysis and interpretation

The analysis of the data began at the data collection stage and continued after the data had been collected. After the interviews had been conducted and transcribed, the researcher read through the transcripts multiple times with the information being codified in order to identify common themes (Merriam, 2009). The researcher codified the data by hand, highlighting key concepts and ideas. At this point a process of winnowing took place whereby the researcher disregarded unnecessary data (Creswell, 2013).

The researcher adopted a general inductive approach when analyzing and interpreting the data which allowed the researcher to identify common themes from the data (Thomas, 2006). As qualitative research has been often criticized as being too broad and subjective, the researcher linked the common themes and ideas together, resulting in a meaningful interpretation of the data (Merriam, 2009).

3.8 Limitations of the study

- Findings from qualitative research can be very broad given the subjective responses of participants.
- The results from this research are not transferable outside of the South African context, nor are they representative of the broader population.
- As the researcher does not speak any of the official South African languages other than English, only participants comfortable conversing in English were considered for the study. Refer to Table 1 above for the profile of the respondents.

- As the researcher resides in Gauteng, this study only looked at individuals that live in the Gauteng province.
- As the interview process was done face-to-face, interviews were subject to participants' availability.
- The study also had time and budget constraints

3.9 Validity and reliability

The terms *validity* and *reliability* are typically associated with quantitative research, while in quantitative research the terms are substituted for trustworthiness, credibility and authenticity (Creswell, 2013). The researcher employed an iterative, "self-correcting" strategy to ensure credibility (Morse, Barrett, Mayan, Olson, & Spiers, 2002, p. 13). Reflexivity was also maintained throughout the research process in order to achieve rigor (Malterud, 2001). Further, the researcher depicted "rich and vigorous" research findings with enough detail in order to meet measure of trustworthiness (Graneheim & Lundman, 2004, p. 110).

3.9.1 *External validity*

Merriam (2009, p. 223) defines *external validity* as being "concerned with the extent to which the findings of one study can be applied to other situations". Malterud (2001, p. 484) defines it as "the range and limitations for application of the study findings, beyond the context in which the study was done". According to these definitions, *external validity* is closely associated with Lincoln and Guba (1985)'s idea of *transferability*. As this study looked at personal experiences of over-indebtedness, the findings of this study are **not** transferable to different contexts. Rather, the findings are relevant only to the specific sample of the population and only within the South African context.

3.9.2 *Internal validity*

Internal validity deals with how accurately the findings of the research reflect reality (Merriam, 2009). However, because qualitative studies look at individual subjective experiences, the concept of 'credibility' as outlined by Lincoln and Guba (1985),

should be the measure of internal validity (Merriam, 2009). To attain credibility and therefore internal validity the researcher employed the strategy of *triangulation*- using multiple sources of data (interview responses) and comparing these against each other to validate the findings (Creswell, 2013, p. 251). Further, to ensure that the researcher had not misunderstood or misrepresented the respondents' responses due to the researchers own biases, *respondent validation* was practised. This strategy involved the researcher providing feedback on their findings to the respondent who then either validated or rejected the findings (Merriam, 2009).

3.9.3 *Reliability*

Sound research is expected to be reliable. Reliability refers to "the extent to which research findings can be replicated" (Merriam, 2009, p. 220). Reliability in qualitative research is difficult to achieve as human experience is subjective and dynamic (Merriam, 2009). Steps however were taken to ensure greater degrees of reliability, including accurate recording and reporting of interview responses and research findings.

3.10 Ethics

In order not to breach any ethical boundaries the researcher undertook the following measures: No interviews were conducted nor were potential respondents contacted prior to the research proposal being approved by the academic panel. The exploratory, iterative nature of qualitative research can be invasive and because the research explored sensitive issues, the researcher made every effort to conduct the interviews in the most sensitive manner in order to protect and uphold the dignity of all the respondents. Although the researcher works in the debt counselling arena, the research was not used to further the organisation's objectives nor would the information gathered be used against the respondents in any way. Further, all findings were presented anonymously.

CHAPTER 4. PRESENTATION OF RESULTS

4.1 Introduction

The results and findings of the face-to-face, semi-structured interviews are outlined in this chapter. The findings result from the 20 interviews that were conducted and are outlined in relation to each of the research propositions as put forward in Chapter 2.

4.2 Research Proposition 1

Over-indebted low-income households display lower levels of financial and legal literacy than households that are not over-indebted.

This proposition was founded on findings from seminal studies exploring the prevalence of over-indebtedness, (Disney et al., 2008; Disney & Gathergood, 2013; Gathergood, 2012; Lusardi & Mitchell, 2014; Lusardi & Tufano, 2009) which find that members of over-indebted households do not understand basic financial terms such as interest and inflation, and that households with lower financial and legal literacy are susceptible to accumulating high-cost credit and are therefore at greater risk of falling into arrears on their repayment schedules and thus becoming over-indebted.

The first section of each interview was focused on exploring the respondents understanding – both in theory and practice - of basic financial terminology, including but not limited to concepts such as compound interest, inflation adjusted income and repayment terms. This section also probed the respondent's knowledge and understanding of general legal terms and their experience with legal contracts.

4.2.1 *Low-income households' understanding of financial concepts*

The respondents were asked questions relating to their experience with and their understanding of financial concepts in order to establish whether or not one group of respondents had a better understanding of financial concepts than the other.

Table 2: Summary of findings: The understanding of financial concepts by low-income households

	Non-over-indebted		Over-indebted	
Have the respondents heard of the following terms?	**Yes**	**No**	**Yes**	**No**
Interest	9	1	9	1
Compound interest	7	3	5	5
Appreciation	8	2	6	4
Depreciation	8	2	6	4
Inflation	9	1	9	1

	Non-over-indebted		Over-indebted	
Could the respondents adequately explain the following terms?	**Yes**	**No**	**Yes**	**No**
Interest	9	1	8	2
Compound interest	3	7	3	7
Appreciation	5	5	4	6
Depreciation	5	5	5	5
Inflation	4	6	3	7

a. ***Interest***

Nine out of the 10 non-over-indebted respondents had heard of the term *interest* before. All of the respondents that had heard the term before were able to explain the term correctly.

Nine out of the 10 over-indebted respondents had heard of the term *interest* before. All but one of the respondents that had heard the term before were able to explain the term correctly.

b. ***Compound interest***

Seven out of the 10 non-over-indebted respondents had heard of the term *compound interest* before. Only three of the respondents were able to explain the term correctly.

Five out of the 10 over-indebted respondents had heard of the term *compound interest* before. Only three of the respondents were able to explain the term correctly.

c. ***Appreciation***

Eight out of the 10 non-over-indebted respondents had heard of the term *appreciation* before. Five of the respondents were able to explain the term correctly.

Six out of the 10 over-indebted respondents had heard of the term *appreciation* before. Four of the respondents were able to explain the term correctly.

d. ***Depreciation***

Eight out of the 10 non-over-indebted respondents had heard of the term *depreciation* before. Five of the respondents were able to explain the term correctly.

Six out of the 10 over-indebted respondents had heard of the term *depreciation* before. Five of the respondents were able to explain the term correctly.

e. ***Inflation***

Nine out of the 10 non-over-indebted respondents had heard of the term *inflation* before. Four of the respondents were able to explain the term correctly.

Nine out of the 10 over-indebted respondents had heard of the term *inflation* before. Only three of the respondents were able to explain the term correctly.

The responses to the questions relating to financial literacy have been tabled below.

Table 3: The understanding of financial concepts by low-income households

Non-over-indebted respondents	**Over-indebted respondents**
• Interest is the money that a lender earns on the money they have lent out. The combination of interest and other fees is how lenders make their money. • Appreciation and depreciation are economic terms relating to the value of an asset over time. If an asset appreciates it means it has grown in value. Depreciation means that same asset has lost value. • If you have money in the bank, then you earn interest. If you take out a loan, interest is the additional amount you will have to pay back. • The danger of taking out a loan is that when you add up all the interest you need to pay on top of the loan amount, you can end up paying back sometimes double the loan amount you originally took. • If you borrow R100 and you have to pay back R110 then you have been charged interest of 10%	• When I take out a loan I know that the amount I must pay back is more than the amount I got in my bank account. • I only pay cash for my clothes because they [retail stores] charge very high interest and so my clothes end up costing me more than the price on the floor. • I do not know what depreciation is. I have never heard of this. • My loan with African Bank must be paid back every month with interest of 38%. I know that I must pay R1500 every month for maybe 36 months. • Interest I know because the bank told me I must pay them back with interest, but I do not know what is depreciation or appreciation. • It [inflation] works with currencies, if there is inflation then there is inflation. For example the Rand might be more expensive than the Pound. This affects the economy.

• Interest in a saving context means how much money you earn on the money you have saved. • I have heard the terms depreciation, appreciation but have not heard the term compound interest. Appreciation is when something goes up in value, depreciation is the opposite. • Appreciation is if you pay your accounts up to date the company rewards you with certain benefits. • Inflation is the increase in GDP of a country.	• If you work for a company and you go the extra mile and you do not get recognised, you do not get appreciated. If you are the 'head boy' and you get recognised and you get R20 000 you are appreciated. • Depreciation is what happens when you put in all the effort and you do not get any recognition or even a well done. • Inflation is when the rent goes up and down. Inflation is something that fluctuates. • Inflation has to do with country's currency; how the economy is doing against the rand value.

4.2.2 *Education and the understanding of financial concepts*

The respondents were asked questions relating to where they learnt or heard a number of financial terms. A number of questions were asked of the respondents in order to help the researcher understand whether one learning environment/medium was more prevalent than another. Furthermore, the researcher wanted to determine whether there was a distinction between the modes of learning among over-indebted and non-over indebted participants. A summary of the findings is found in Table 4 below.

Table 4: Summary of findings: Education and the understanding of financial concepts by low-income households

Where did the respondents learn / heard the financial terms?	Non-over-indebted				
	Interest	**Compound interest**	**Appreciation**	**Depreciation**	**Inflation**
School	6	6	5	5	6
Work	1	0	1	1	1
News/Media	1	1	1	1	1
Self-taught/family	1	1	1	1	1
Never heard the term	1	2	2	2	1
	10	**10**	**10**	**10**	**10**

	Over-indebted				
	Interest	**Compound interest**	**Appreciation**	**Depreciation**	**Inflation**
School	5	4	4	4	5
Work	2	0	0	0	1
News/Media	1	0	1	1	2
Self-taught/family	1	1	1	1	1
Never heard the term	1	5	4	4	1
	10	**10**	**10**	**10**	**10**

Eight out of the 10 non-over-indebted respondents expressed having learnt or been taught about financial concepts in one form or another. School was the predominant environment where these financial concepts were taught. Five out of the 10 over-indebted respondents expressed that they had never heard of some of the financial concepts.

The responses to the questions relating to the role of education in the understanding of financial literacy have been tabled below.

Table 5: The role of education in the understanding of financial concepts by low-income households

Non-over-indebted respondents	Over-indebted respondents
• I learnt a lot from my grandfather. He was a businessman and so I would listen and watch how he acts. • I have always enjoyed business…I was an entrepreneur at school…selling clothes, sweets or anything I could to my classmates • There is a lot that people can learn by reading. You do not only learn things in school. When people throw their [news]papers away I always read them, especially the business and finance [sections] • I loved accounting and business studies at school. • I taught myself. I saw from a young age how difficult life was for my mother. I made a decision to learn as much as I could about money. Even though I had heard the terms interest, inflation and depreciation, it was only after many months of reading that I began understanding how they	• I don't know about these things • My brother owns a taxi business. I learn about these things from him. He is a business man • My grandmother is involved in a stokvel. She is very good with money and understands these things very much. • The people I work for often talk about money and other things. I think I have heard them speak about those words but I don't know what they mean. • At school I was taught some of these things. I know about them from school. • I have heard these things before from the TV and also from school. I have even heard about these words in the news but I do not understand what they mean all the time. • Where I work we are trained about these things because I work in a call-centre and so we have to explain some of these things to people

work. • There is so much information on the internet. I read a lot of financial news sites like moneyweb.co.za, biznews.com and fin24.com. I even email them with questions and they reply. • I leant about financial terms in school. I took accounts and business economics.	• There are shows on TV that talk about money. • I learnt about interest for the first time when I took out a loan. I didn't realise that when you borrow money you have to pay it back [with interest]. So it was the bank consultant that informed me about the [concept of] interest.

4.2.3 *Low-income households' experience with and understanding of legal terms*

A number of questions were asked of the respondents relating to their experience with and their understanding of legal terms so that the researcher might identify whether one group of respondents had a better understanding of legal concepts than the other. Furthermore, the researcher wanted to establish whether there were clearly identifiable behavioural patterns in the experiences of the participants. A summary of the findings are found below.

Table 6: Summary of findings: Low-income households' experience with and understanding of legal terms.

	Non-over-indebted		Over-indebted	
	Yes	**No**	**Yes**	**No**
Have the respondents signed a legal contract before?	10	0	10	0
Did the respondents read the entire contract prior to signing?	4	6	1	9
Did the respondents understand the entire contract?	4	6	1	9
Did the respondent rely on the consultant/agent to explain the contract?	7	3	8	2

All of the 20 respondents have signed a legal document at some stage in their lives.

Four out of the 10 non-over-indebted respondents read through the entire contents of the contract. And only one of the 10 over-indebted respondents read the entire contents of the contract.

All of the respondents (both non-over-indebted and over-indebted) that read the entire contents of their contracts understood the contents of the contract.

Seven non-over-indebted and 8 over-indebted respondents said that they relied almost entirely on the agent to explain the terms of the contract. The balance of the respondents relied on their own understanding.

A summary of the answers to the questions relating to the respondents experience with and understanding of legal terms have been tabled below.

Table 7: The understanding of legal concepts by low-income households

Non-over-indebted respondents	**Over-indebted respondents**
• If I was to default on repayments on a loan it could have dire consequences. For example I could be reported to the credit bureau and possible become blacklisted. • I never sign any document without fully understanding the terms and conditions. That said I must admit that I do not always understand every details. • Contracts are sometimes tricky to read because the font is	• I was surprised when I had to make a balloon payment on my car. I was not aware that I had to pay an extra R30 000. They told me that the consultant explained everything to me on the phone, but I do not remember. • The company stopped debiting my account. It is not my responsibility to manage the bank! • The contract is too long, I never read it. I always rely on the

small and they sometimes use words that I don't always understand but I do my best to read everything. • If I do not understand something I will ask the consultant. If the answer doesn't sound right I will not sign • When I sign a contract I do not always understand every detail and I don't always read every line, but I scan the whole document to check that what the consultant is telling me is in the agreement. • Contracts are often long so I don't really read through them. I do try and understand the main points though. • I have to admit that when I took out my loan I did not read the contract. I really should have though because there are so many things there that the consultant did not tell me about. I learnt my lesson!	consultant to explain the conditions to me • I was told to sign the documents but I did ask the consultant some questions. • How must I understand everything that is written in these contracts especially because my mother tongue is isiZulu? • I sometimes read through the contracts but not everything because the writing is so small. • If I don't sign the contract I can't get the loan. When I need money I can't wait to read these long documents • I make a point of reading every word of the contacts I sign • I trust people that the things they tell me are the truth. • The mains things I want to know the consultant tells me. If there are things that the consultant doesn't tell me about it's not my responsibility. They are employed to explain these things.

4.2.4 *Summary of the results*

The following themes emerge with reference to the understanding of financial and legal terms by the respondents:

- The majority of all the respondents had heard of the financial terms *interest, compound interest, appreciation, depreciation* and *inflation.*
- Less than half of all the respondents were able to accurately explain these concepts and give accurate practical examples of their application.
- The majority of the respondents said that they had heard of or learnt about these financial terms at school. Some respondents expressed having learnt about them through work and one respondent said that they were self-taught.
- Almost all of the respondents expressed that legal contracts tend to be exhausting; using convoluted, complicated wording and so when signing a contract they rely on consultants to explain the terms and conditions to them. Neither the non-over-indebted nor the over-indebted respondents were more inclined than the other to read through their contracts. The interviewees expressed that they generally trust the consultant's advice as they are the "experts". Only five out of the 20 respondents said that they make a point of reading and understanding everything outlined in a contract before signing.

4.3 Research Proposition 2

Over-indebted low-income households are more susceptible to peer-pressure and have lower self-control than households that are not over-indebted.

This proposition is based on studies conducted by Georgarakos et al. (2014) which explore social behaviour that concluded that below average income earners tend to consume more of their income in order to keep up with their 'wealthier' peers. As a result, these households are susceptible to becoming financially distressed and over-indebted.

The second section of the interview schedule was focused on three key concepts: 1) Conspicuous consumption - exploring how the respondents manage their monthly expenses together with their experiences when making purchases of non-essential items; 2) Peer pressure – how respondents behave and how they make financial decisions when faced with peer pressure; 3) Self-control - the notion of personal self-control in relation to managing of their personal finances was also explored. The researcher asked the respondents questions which probed their experiences with managing their finances, the degrees to which they felt pressurised into purchasing various items and their purchasing preferences when faced with limited income.

4.3.1 *Conspicuous consumption*

Six out of the 10 non-over-indebted respondents said that they had a clear budget outlining their monthly expenses and would not expend money on any non-essential items if these fell outside of their budget.

Six out of the 10 over-indebted respondents said that they manage their finances on an ad hoc basis and that they make purchases of non-essential items if they have the money, without thinking about their other monthly expenses. Four of the 10 over-indebted respondents said that they kept a monthly budget.

Table 8: Summary of findings: Conspicuous consumption

	Non-over-indebted		Over-indebted	
	Budget	**Ad hoc**	**Budget**	**Ad hoc**
How does the respondent manage their expenses (ad hoc / budget)	6	4	4	6

4.3.2 *Peer pressure*

All respondents said that they feel envious (to varying degrees) when seeing friends or colleagues with an expensive item that they did not have or could not afford.

Six out of the 10 non-over-indebted respondents and five of the over-indebted respondents said that they only feel “a little bit” envious when seeing a friend or colleagues with an expensive item that they did not have or could not afford. And four of the non-over-indebted and five of the over-indebted respondents expressed that they felt somewhat envious.

Four of the non-over-indebted respondents said that they felt envious to the point that they would make a purchase in order to fit in or gain approval from their peers. Six of the over-indebted respondents said that they felt envious to the point that they would make a purchase in order to fit in or gain approval from their peers.

Table 9: Summary of findings: Peer pressure

	Non-over-indebted		Over-indebted	
	Yes	**No**	**Yes**	**No**
Does the respondent make purchases in order to 'fit in'?	4	6	6	4

4.3.3 *Self-control*

Seven of the 10 over-indebted respondents expressed that if they saw an item that they desired, but could not afford that they would either purchase it on credit or ask family or friends to lend them money in order to buy it. In contrast, seven of the 10 non-over-indebted respondents said that when faced with the same dilemma they would rather make short term sacrifices, and go without that particular item.

Table 10: Summary of findings: Self-control

	Non-over-indebted		Over-indebted	
	Go without	**Borrow from family/buy on credit**	**Go without**	**Borrow from family/buy on credit**
If the respondent can’t afford to buy something that they really like what do they do?	7	3	3	7

A summary of the responses to the questions relating to the social experiences and consumption behaviour of low-income households have been tabled below.

Table 11: Low-income households experience with peer-pressure, conspicuous consumption and self-control

Non-over-indebted respondents	Over-indebted respondents
• There is definitely a sense of wanting to keep up appearance with family and friends and it does sometimes prompt me to buy things that I don't really need or want • Budgeting is really important but it is also important to enjoy yourself. • I tend to pay for items with cash. I very rarely buy clothes from retailers; rather I go to markets and thrift shops. • My friends are often envious of my clothes. I prefer to buy a few great pieces and look after them really well • I do not go out often because when I do I often pay for most of the bill so it becomes very expensive. • When I am with my friends I make sure to only take a limited amount of cash with me and I never bring a [credit/debit] card. That way I can never over spend. • People think that because	• Even though I might want to buy something I think very hard about whether I truly need it. If I don't then I leave it. • If I want something I buy it. If I have the money for it or even if I can pay for it on my account. I am young and must have a good time. • If I do not have money I will not buy something. I must make sacrifices because I cannot get credit. • It is important that my friends see me with nice things. • I bought a car but I got a very good deal. I didn't buy it because I wanted to impress anyone, I bought it because my family lives in the Eastern Cape and transport there is difficult and expensive. I did think very hard before I bought the car. • I don't often buy clothes or anything that I don't really need. My partner and I don't socialise that much so it is not difficult for us [to be pressurised by

others have nice cars or fancy clothes that they must be well off but they don't realise that so many of those people actually struggle with money. I don't care what people think of me. What is important is that I can secure my child's future. • If I lose friends because of it [not spending money on unnecessary items] I don't care, it means they are not true friends. • Saving is more important to me than spending. One day I want to buy a house. • Even though I would love to have a Gucci bag I would rather save up to one day buy a house…you can't sleep in a bag! • Friends sometimes tease me that I don't enjoy life enough but they don't realise that I am planning for my future.	friends]. • When I see some I really want I will make a plan to get it. Especially if I know it is something my friends will like. • Of course I feel jealous when my friend has something I don't, it's normal, everyone does. • I know more or less how much my things [expenses] cost me every month, but usually I pay for the things I know I need to pay for like rent. The rest I pay for when I need to. • In my community if you do not have a CITI Golf with tinted windows and a booming sound system you have not done well. I didn't want people to think that of me, so I bought a car last year even though I didn't really need it. • If you can buy something on credit why not. At least I will get the thing that I want today.

4.3.4 *Summary of the results*

- Over-indebted households make more sacrifices when it comes to spending than their non-over-indebted counterparts.
- The overwhelming majority of non-over-indebted respondents felt it was more important to take care of their family's needs than to gain social acceptance from their peers, however respondents did acknowledge that peer pressure influenced the types of items they purchased.
- Non-over-indebted respondents were more likely to make short-term sacrifices, and go without certain items, when faced with limited income, whereas over-indebted respondents, when faced with limited income, were inclined to borrow money form family or friends, or purchase items on credit rather than go without them.

4.4 Research Proposition 3

Credit is granted too easily in South Africa.

This proposition is based on the fact that 14% of all South Africans over the age of 16 are over-indebted (Finmark Trust, 2013). This proposition is further informed by the argument that credit providers are not regulated enough; that they prey on the weak and vulnerable to drive profits; and have lost sight of their social objective of providing finance in order to alleviate poverty in exchange for greater returns for their shareholders (Schicks, 2013) which has been exacerbated in recent years as the South African credit market has become more liberalised, facilitating greater access to credit, especially by those who were excluded from the credit markets in the past.

The third part of the interviews explored the respondents' experience obtaining a loan, interaction with credit providers and the marketing practice of credit providers. The results follow:

4.4.1 *Access to and issuing of credit*

Seven out of the 10 non-over-indebted respondents said that they had applied for and had been issued a loan in the past. Nine out of the 10 over-indebted

respondents said that they had applied for and had been issued a loan in the past. Of the 16 respondents that had obtained a loan, all said that the process of obtaining a loan was “very easy” and that within 24 hours they had access to the capital amount.

4.4.2 *Marketing practices of credit providers*

Both the over-indebted and the non-over-indebted respondents said that credit providers make contact with them on a monthly basis offering them loans, credit and various other credit related products.

On average, the over-indebted respondents are contacted 12 times per month by various credit providers offering them some type of loan, credit or finance. The non-over-indebted respondents are contacted on average 6 times per month by various credit providers offering them some type of loan, credit or finance.

Two non-over-indebted respondents explained that some credit providers contacted them more than 11 times per month. Five of the 10 over-indebted respondents complained that some credit providers contacted them more than 11 times per month.

Table 12: Summary of findings: Marketing practices of credit providers

How regularly is the respondent contacted?	**Non-over-indebted**	**Over-indebted**
Never	0	0
1 - 5 times per month	8	3
6 - 10 times per month	0	2
11+ times per month	2	5

The predominant channel of communication by credit providers is via SMS.

Table 13: Summary of findings: Marketing channels employed by credit providers

How do the credit providers generally contact you?	Non-over-indebted	Over-indebted
SMS	6	7
Phone	1	2
Email	0	0
All of the above	3	1

The responses to questions relating to the interviewees experiences with obtaining credit and engaging with credit providers have been tabled below.

Table 14: Low-income households' experiences with credit providers

Non-over-indebted respondents	**Over-indebted respondents**
• These companies bombard me with offerings including access to instant credit, life insurance and short term insurance • I do not know how these companies get my details. These must be some law against hounding me. • I can only imagine how many people fall for these campaigns disguised as promotions. I'm not surprised there is a debt problem in this country • Credit is relatively easy to obtain. I often get calls from different banks telling me I qualify for a credit card or a	• I get at least 2SMS's every week offering me credit • Why must these places [credit providers] send me these things [loan/policy offerings] when they know I am not [able to] afford it? • I was desperate and needed money. A friend of mine worked at a bank and told me I could get a loan. After I took out the loan the same bank phoned me about a year later offering me a new loan. They said I could pay off the old loan with the new loan. It seemed like a good idea but I have been paying the loan off for 5 years and I still have

loan. • I applied for a home loan recently. They required lots of documents and it took a long time but I eventually got it. • When I bought my car I took out a loan. I pay I back every month and have no problems with it. • I try to avoid debt at all costs, I believe if I cannot afford to pay for something with cash then I must not have it except a house, which is different. • If I wanted to take out a loan I would go to my bank. I would never go to a loan shark or reply to an SMS. • It took less than an hour to apply for the loan and on the same day the money reflected in my account. • I would say that I get an SMS or a call [from a credit provider] maybe 8 times each and every week. • These people call me all the time offering me a loan	more than R10 000 left to pay off. • I took a R4000 loan to help pay for things and I ended up paying back more than R12 000. How can that be? • The bank told me when I took the loan that they were also giving me insurance. But when I lost my job and could no longer afford to repay the loan they told me that the insurance does not cover that. They lied to me those people! • Taking a loan was easy because I was banking with them for many years. There were some documents to sign and I needed to bring a few things but it took very quick. • Even though I need money I cannot get a loan because I have been blacklisted. • It was very easy for me to get the loans. They even offered me a credit card.

4.4.3 *Summary of the results*

- All respondents expressed having been approached by credit providers to obtain credit in some form.
- Over-indebted households were more likely to respond to these campaigns.

- Non-over-indebted households expressed that they were cautious of SMS's offering them credit although two non-over-indebted admitted to having taken credit as a result of such campaigns in the past. Conversely, the vast majority of the over-indebted respondents explained that they took out multiple loans when approached by credit providers.
- Both over-indebted and non-over-indebted respondents expressed that SMS and telesales were the predominant channel used by credit providers when marketing their products.

4.5 Conclusion

Despite the majority of the respondents having been exposed to financial and legal terms in the past, very few were able to explain them accurately, suggesting that they display low levels of financial and legal literacy. Sixteen out of the 20 respondents have taken out a loan before and the majority of the respondents expressed that, when signing a legal document, they rely almost entirely on an agent or the party issuing the contract to explain the terms and conditions. Furthermore, the main points that the respondents were concerned about when signing a credit agreement was the repayment period, and the repayment amount. The consequences of defaulting were low on their list of priorities. The way in which over-indebted and non-over-indebted respondents manage their monthly expenses differs significantly. Six out of the 10 of over-indebted respondents manage their money on an ad hoc basis, meaning that they have no budget, only a vague idea of that their monthly expenses are. Conversely, six out of the 10 of non-over-indebted respondents manage their expenses very closely, according to a strict budget which they adjust from time to time. All respondents said that they feel envious (to varying degrees) when seeing friends or colleagues with an expensive item that they did not have or could not afford, but the over-whelming majority of all respondents said that they would not purchase an item because of peer pressure, if the item in question would cost them a significant amount. With regards to self-control, the results varied drastically. The majority of the over-indebted respondents expressed that if they saw an item that they desired, but could not afford that they would either purchase it on credit or ask family or friends to lend them money in order to buy it. In contrast, the majority of non-over-indebted respondents, when faced with the same dilemma,

explained that they would rather make short terms sacrifices, and go without that particular item. Most of the respondents were able to access credit “very easily”, without any difficulty. Credit providers also market their products to both non-over-indebted and over-indebted individuals but, over-indebted respondents are contacted almost twice as often as non-over-indebted respondents. Access to credit appears to be readily available and respondents expressed that obtaining credit was a quick and easy process.

CHAPTER 5. DISCUSSION OF RESULTS

5.1 Introduction

The researcher conducted 20 interviews with respondents from low-income households. This chapter discusses and explains the results from these interviews as derived from the respondents.

5.2 Demographic profile of respondents

The participants in this study are members of low-income households. Low-income households have been defined as any household that generates a total income of less than R8000 every month. The 20 respondents were separated into two groups of 10. The one group comprised individuals that were classified as non-over-indebted. The other group comprised individuals that were classified as over-indebted. An individual was considered to be over-indebted if they had been reported to a credit bureau for non-payment of an account or if they were blacklisted before or during the interview process. Similarly, an individual was deemed to be non-over-indebted if they had a 'clean' credit record with the credit bureau.

5.3 Discussion pertaining to Proposition 1

Over-indebted low-income households display lower levels of financial and legal literacy than households that are not over-indebted.

5.3.1 *The understanding of financial terms by low-income households*

The interviews revealed a clear distinction in the levels of exposure to financial terminology by the respondents. The vast majority of the non-over-indebted individuals expressed that they were familiar with or had heard of the financial concepts presented to them, whereas only some of the over-indebted respondents expressed having heard of the terms before. This finding seems to be consistent with past studies which conclude that financially illiterate individuals are more likely to

become over-indebted than are financially literate households (Disney et al., 2008; Disney & Gathergood, 2013; Gathergood, 2012; Lusardi & Mitchell, 2014; Lusardi & Tufano, 2009). However, when unpacking the results of the interviews further, it became apparent that the understanding of the financial terms and the levels of financial literacy of non-over-indebted and over-indebted low-income South Africans actually do not differ significantly. While more non-over-indebted respondents expressed having heard of financial terms than the over-indebted group of respondents, when asked to explain how the financial concepts work in practice, the majority of all the respondents were unable to do so accurately. Therefore, while more of the non-over-indebted respondents expressed having heard of the financial terms when compared to the over-indebted individuals, both groups appear to have a limited understanding of financial terminology. Therefore, both the non-over-indebted and the over-indebted respondents could be considered financially illiterate. Given that the study comprised both over-indebted and non-over-indebted individuals, this finding might suggest that financial literacy is not a determinant of over-indebtedness for low-income households in South Africa. However, as past studies conclude that financial illiteracy is a determinant of over-indebtedness, a more likely explanation of the findings from this research is that the non-over-indebted respondents might be vulnerable to becoming over-indebted in the very near future.

5.3.2 *Education and the understanding of financial concepts*

Although the relationship between over-indebtedness and education was not a primary focus of this study, it was an important construct to explore, particularly in relation to the financial and legal literacy levels of the respondents. The study revealed that, in general, the respondents learnt about financial concepts primarily at school, with half of all respondents expressing that school was the source of their financial literacy.

Table 15: Summary of findings: Where respondents learnt financial terms

Where did the respondents learn the financial terms?	Non-over-indebted	Over-indebted	Non-over-indebted	Over-indebted	Non-over-indebted	Over-indebted	Non-over-indebted	Over-indebted	Non-over-indebted	Over-indebted
	Interest		Compound interest		Appreciation		Depreciation		Inflation	
School	6	5	6	4	5	4	5	4	6	5
Work	2	2	1	0	2	0	2	0	2	1
News/Media	1	1	1	0	1	1	1	1	1	2
Self-taught	0	1	0	1	0	1	0	1	0	1
Never heard the term	1	1	2	5	2	4	2	4	1	1

In relation to education and over-indebtedness, DeLaune et al. (2010, p. 103) comment that “a lack of personal financial education has contributed to the increase in consumer credit debt”. This statement suggests that individuals that are empowered with financial education are less likely to become over-indebted.

Based on the above remarks, and considering that the majority of the respondents expressed having learnt about the financial concepts in school, it could be suggested that the non-over-indebted respondents received a better quality education than their over-indebted counterparts, which is why they were more familiar with the financial terms. Further, it could be concluded that the non-over-indebted individuals would have a greater understanding of what the terms mean and how they work in practice, which is why they were able to avoid becoming over-indebted. However, the research revealed that the non-over-indebted respondents were able to explain the financial concepts only marginally more accurately than their over-indebted counterparts. This finding suggests that both groups lacked a firm understanding of financial concepts and could therefore be considered to be largely financially illiterate.

As a means of ultimately reducing levels of over-indebtedness, DeLaune et al. (2010, p. 103) suggests that financial education needs to be more fully incorporated into the school curriculum in order to “combat this [debt] problem”. Studies (Bernheim & Garrett, 2003; Elliehausen et al., 2007; Fox et al., 2005) reveal that financial education positively impacts an individual’s ability to save, manage their personal finance and reduce debt. Given South Africa’s high over-indebtedness levels, research which explores the level and quality of financial education being taught in South African schools should be conducted in order to ascertain the appropriateness of the syllabi being, as a solid financial education can help to reduce the likelihood of an individual becoming over-indebted.

5.3.3 *The understanding of legal terms by low-income households*

Although all respondents expressed having signed a legal contract at some point in their adult lives, the majority of both over-indebted and non-over-indebted respondents admitted that they generally did not read through the

contracts before signing them. Alarmingly, nine of the 10 over-indebted respondents admitted to neither reading nor understanding the contracts they were presented. Some of the explanations given for not reading the contracts were that the contracts were “too lengthy”, that the terminology was “too complicated” and that the “print was too small”. What is of concern is that many of the respondents explained that the contracts were drafted in English, rather than in their mother tongues, which is the predominant reason that the respondents did not understand all the terms of the contract. This could explain why the majority of respondents expressed the need to rely on the agent or consultant, rather than themselves, to explain the terms and conditions of the contracts. While agents are helpful in explaining the various legal terms to the customer, it is likely that they do not explain the *entire* contents of the contracts. One explanation for this might be that the agents do not have the time to go through every word of the contract with the individual as their time needs to be invested in other aspects of the business. Alternatively, the agent might be dis-incentivised to explain the entire contract as their remuneration might be directly related to the number and value of policies that they sell. However, if the borrower is not fully aware of the terms of their loan, it is likely that they will default on their loan repayments. This not only puts the quality of the institution’s portfolio at risk, but it can put the entire stability of the institution at risk (Schicks, 2013). It is therefore in both the borrower and the lender’s best interest that the terms of the loan are fully understood so that neither the borrower nor the lender is at risk. While the NCA outlines steps that financial institutions must make in order to ensure that consumers understand the terms of their credit agreements, based on findings from this study, it appears that either these measures are inadequate, or the financial institutions are not enforcing them strictly enough. The researcher therefore proposes that further studies into the prevalence of this phenomenon be explored and that additional policies be put in place by financial institutions to ensure that the borrower fully understands all terms and conditions of the loan agreement. Further, the lender should ensure that proper credit checks are done prior to issuing a loan, and that strict measures are adhered to in order to filter out potential default payers. In so doing, the likelihood of a consumer becoming over-indebted will be

reduced as will the likelihood of the financial institution not being able to collect their outstanding capital.

5.4 Discussion pertaining to Proposition 2

Over-indebted low-income households are more susceptible to peer-pressure and have lower self-control than households that are not over-indebted.

5.4.1 *Conspicuous consumption*

Table 16: Summary of findings: How respondents manage their expenses

	Non-over-indebted		Over-indebted	
	Budget	**Ad hoc**	**Budget**	**Ad hoc**
How does the respondent manage their expenses (ad hoc / budget)	6	4	4	6

Findings from this study reveal that over-indebted individuals are more inclined than non-over-indebted individuals to make impulse purchases. It also reveals that over-indebted individual tend to manage their expenses on an ad hoc basis. This means that rather than sticking to a strict budget, these individuals will purchase items as-and-when they feel the need. This suggests that over-indebted individuals do not prioritise their monthly expenses. By not prioritising expenses and by not understanding the essential expenses that they need to make provisions for, it is likely that any income that these individuals do generate will not be spent optimally. This is likely to result in such individuals not being able to stretch their money until their next pay cheque. It is therefore worrying that so many of the over-indebted individuals do not adhere to a monthly budget as this suggests that they are likely to spiral even further into debt.

Further, the study revealed that over-indebted individuals are less inclined to make short-term sacrifices in exchange for a better financial position in the

future. These findings are concerning as they suggest that over-indebted individuals are not prepared to make the trade-offs necessary to improve their future financial positions. The 2015 Sanlam Benchmark Survey, which provides an annual review of the retirement industry in South Africa, found that only 25% of all South Africans will be able to sustain their standard of living during retirement. This means that 75% of the retired population will need to rely on state support. This places not only a significant burden on the state, but, in an economic environment which is characterised by high unemployment and low growth, the likelihood of the state being able to adequately support the population is remote. Add to this that approximately 8 million, or half of all credit-active consumers are considered to be over-indebted (Moneyweb, 2015) and that South Africans owe approximately R1.6trillion to lenders (Maswanganyi, 2015), both the economy at large and the basic fabric of society is likely to be negatively impacted. It is therefore essential that a paradigm shift takes place and that people become comfortable making short term sacrifices in order to secure a brighter future not only for themselves but for all South Africans. There must not only be individual will to make this change, but political will must exist to encourage the populous to make such short term financial sacrifices.

Findings from the research suggest that for the overwhelming majority of non-over-indebted respondents, it was more important to take care of their family's needs rather than to gain social acceptance from their peers. As a result, they were more inclined to make short term sacrifices and therefore were able to protect themselves from becoming over-indebted. Over-indebted individuals should seek to learn from their non-over-indebted counterparts who were also more inclined to stick to a strict monthly budget. It might therefore be advantageous to set up support groups in areas that experience high levels of over-indebtedness where financially secure individuals can mentor the financially vulnerable. In this way, individuals can share their experiences and learn from each other which may help to reduce incidences of over-indebtedness.

5.4.2 *Peer pressure and self-control*

Table 17: Summary of findings: Purchasing decisions

	Non-over-indebted		Over-indebted	
	Yes	**No**	**Yes**	**No**
Does the respondent make purchases in order to 'fit in'?	4	6	6	4

Peer pressure is a phenomenon that affects almost everyone, albeit to varying degrees. The people we associate with have the ability to influence our behaviour for the good or for the bad. Van Rooij et al. (2011) note that individual financial decisions are influenced by our peers, and that the decision to invest in the stock market or to purchase assets will be influenced by the types of investments our peers make. The research suggests that the same principle holds true for purchasing decisions of the respondents that were interviewed. Of the over-indebted respondents that were interviewed, many expressed that they made purchases in order to fit in with their peers. Additionally, the majority of the over-indebted respondents were inclined to borrow from family or make purchases on credit. This suggests that peer pressure has a negative impact on over-indebted individuals. It also implies that the individuals who are influenced by peers when making purchasing decisions are likely to be caught in a debt trap for longer periods than over-indebted people that do not make purchasing decisions to ‘fit in’.

5.4.3 *Self-control*

Table 18: Summary of findings: Self-control

	Non-over-indebted		Over-indebted	
	Go without	**Borrow from family/buy on credit**	**Go without**	**Borrow from family/buy on credit**
If the respondent can’t afford to buy something that they really like what do they do?	7	3	3	7

This study found that, when faced with limited income, over-indebted individuals were inclined to borrow money from family or friends, or purchase items on credit rather than go without them. Conversely, non-over-indebted individuals were prepared to forfeit certain items rather than purchase on credit or borrowing from friends or family. The distinction in behaviour outlines a fundamental principal in relation to financial well-being and is closely related to the previous finding related to conspicuous consumption, namely that individuals that are not prepared to make certain short term sacrifices are likely to find themselves taking on high-cost credit simply to fund consumption. Individuals and households, especially low-income households, that accumulate high-cost credit, are likely to become over-indebted. This finding is consistent with recent findings made by Gathergood (2012) that individuals who lack self-control and who lack financial resources, are likely to source credit to satisfy their desire to consume and are likely to become over-indebted. This is supported by earlier findings by Ameriks et al. (2007) who conclude that individuals who exhibit self-control problems tend to over consume and display low levels of wealth. The contrast in the behaviour patterns of the two respondent groups clearly indicates the importance of self-control. The overwhelming majority of non-over-indebted respondents expressed the willingness and ability to exert self-control when faced with purchasing decisions. The over-indebted respondents however displayed a lack of self-control as only 3 respondents expressed the willingness and ability to exert self-control when faced with purchasing decisions.

5.5 Discussion pertaining to Proposition 3

Credit is granted too easily in South Africa.

It has been argued that access to credit is essential to stimulate growth within an economy and that stringent credit policies not only impact negatively on an economy's ability to grow but also hampers the ability of the poor from lifting themselves out of poverty (Baumann, 2001). Micro finance, which has seen significant growth over the past few decades, was seen as the catalyst for economic growth as its emergence was facilitated, in part, to bring access to

finance to the previously unbanked and financially excluded population. The micro finance industry therefore had a dual objective: to enhance the lives of the previously financially excluded by providing them with credit and to create shareholder wealth through the profits generated from lending to the previously financially excluded (Schicks, 2013). Compromising on its commercial objectives could have a disastrous impact on the financial industry, while compromising on its social objective could result in the poor being trapped even further in the spiral of poverty. If financial institutions' lending practices are too lax and inadequate checks and balances are in place to filter out potential bad payers, then the institutions portfolio could be at risk. Conversely, if lending practices are too stringent, economic growth will be hampered. It is therefore critical for the economy at large that an optimal balance is struck in order to satisfy both their social and commercial objectives.

This study found that seven out of the 10 non-over-indebted respondents had applied for and had been issued a loan in the recent past. While this finding might not appear to be a concern, this study did not delve into the value of the loans issued. Further studies exploring the value of loans in relation to borrower's total income might be beneficial in order to understand whether or not non-over-indebted low-income individuals might be susceptible to over-indebtedness in the future. What is of significant concern is that nine out of the 10 over-indebted respondents said that they had applied for and had been issued a loan in the past, despite being over-indebted! Additionally, of the 16 respondents that had obtained a loan, all said that the process of obtaining a loan was "very easy" and that within 24 hours they had access to the capital amount. The finding that nine out of the 16 borrowers that were issued with loans were over-indebted at the time of the loan being granted suggests that financial institutions do not have appropriate measures in place to filter out bad payers from good payers. Further, it suggests that some financial institutions lend recklessly, without considering the financial status of the borrower or the consequences that lending to over-indebted individuals might have on the institution and the broader economy. The NCR, who is responsible for the regulation of the credit industry, should be more proactive in regulating and investigating incidences of reckless lending. Further, institutions found to be

lending reckless should have severe penalties imposed on them. Additionally, unregistered lenders need to be identified and encouraged to register with the NCR so that they can be regulated. Incentives should be offered for unregistered financial institutions to become registered. By taking a more active role in the regulation of the credit industry and by imposing severe penalties on institutions that are involved in reckless lending practises, not only will the institutions themselves be protected against lowering the quality of their portfolios and therefore putting themselves at risk, but the broader public will be protected against getting caught up in the spiral of debt.

Additional findings from the study reveal that financial institutions are preying on the already vulnerable members of society by actively marketing their products to over-indebted individuals. Both non-over-indebted and over-indebted individuals expressed that they were contacted by credit providers who offered them various financial 'products', despite not being in a position to repay the loans on offer. Furthermore, the study revealed that the over-indebted respondents were contacted on average twice as often as the non-over-indebted respondents. This is a clear indication that over-indebted individuals are specifically targeted by credit providers even though they are already over-indebted and cannot afford to take on additional debt.

5.6 Conclusion

Over-indebtedness is a complex construct influenced by an array of variables. This research has identified financial and legal literacy, peer pressure and self-control as factors that influenced the respondent's financial positions. Additionally the marketing behaviour of financial institutions also impacts on an individual's propensity to acquire debt. Low-income households by definition have limited income. These household must make informed and educated purchasing decisions in order for their limited income to cover all of their expenses. There are distinct differences in the characteristics of over-indebted and non-over-indebted individuals. Appendix B provides a comprehensive outline of the research findings.

The key findings of this research suggest that:

a) Over-indebted individuals are not significantly less financially/legally literate that non-over-indebted individuals. There appears to be very little variance between the financial and legal literacy levels of the two groups. This suggests that the over-indebted respondents might be susceptible to becoming further indebted in the future and that non-over-indebted respondents might be susceptible to becoming over-indebted in the future.
b) Individuals who expressed making purchasing decisions in order to fit in with their peers were more likely to be over-indebted than individuals who did not. Furthermore, individuals that expressed that they would borrow money from family or make purchases on credit if they could not afford an item were more likely to be over-indebted than individuals who expressed that they would rather go without an item if they could not afford to pay cash for it.
c) A lack of self-control when it comes to making purchases, impacts on an individual's propensity to become over-indebted.
d) Financial institutions prey on vulnerable consumers by marketing their products to individuals who are over-indebted twice as often as they market their products to individuals who are not over-indebted. Furthermore, individuals appear to be harassed by credit providers as these institutions contact individuals on average 9 times per month.
e) Individuals expressed that obtaining credit was an easy processes and that credit was often granted to them despite being over-indebted.

CHAPTER 6. CONCLUSIONS & RECOMMENDATIONS

6.1 Introduction

A summary of the research findings is outlined in this chapter and these are contrasted against findings from the literature. Furthermore, recommendations and suggestions for future research are also put forward in this chapter.

6.2 Conclusions to research proposition 1

Over-indebted low-income households display lower levels of financial and legal literacy than households that are not over-indebted.

The results of the research are **inconsistent** with the theory. The research found that both over-indebted and non-over-indebted groups of respondents displayed low levels of financial and legal literacy. Therefore, the proposition that over-indebted low-income households display lower levels of financial and legal literacy than non-over-indebted households is **rejected**.

6.3 Conclusions to research proposition 2

Over-indebted low-income households are more susceptible to peer pressure and have lower self-control than households that are not over indebted.

Findings from this study reveal that a) over-indebted individuals are more inclined than non-over-indebted individuals to make impulse purchases and that b) over-indebted individual tend to manage their expenses on an ad hoc basis rather than by using a budget. Furthermore, non-over-indebted individuals were c) less susceptible to making purchasing decisions because of peer pressure than over-indebted individuals and d) non-over-indebted individuals displayed higher levels of self-control than the over-indebted respondents. The results of the research are therefore **consistent** with the theory that concludes that over-

indebted low-income households are more susceptible to peer pressure and have lower self-control than households that are not over indebted. Therefore, this proposition is **accepted.**

6.4 Conclusions to research proposition 3

Credit is granted too easily in South Africa.

The research found that almost all of the over-indebted respondents had applied for and had been issued a loan in the past, despite being over-indebted. Additionally, of all the respondents who had obtained a loan, all said that the process of obtaining a loan was “very easy” and that within 24 hours they had access to the capital amount. This finding is **consistent** with the literature that argues that credit providers are not regulated enough; that they prey on the weak and vulnerable to drive profits; and have lost sight of their social objective of providing finance in order to alleviate poverty in exchange for greater returns for their shareholders (Schicks, 2013). This finding may also explain why 14% of all South Africans over the age of 16 are over-indebted (Finmark Trust, 2013). Therefore, the proposition that credit is granted too easily in South Africa is **accepted**.

6.5 Summary

Table 19: Summarised conclusions of the research

Proposition	Finding
Over-indebted low-income households display lower levels of financial and legal literacy than households that are not over-indebted.	**Reject**
Over-indebted low-income households are more susceptible to peer pressure and have lower self-control than households that are not over-indebted.	**Accept**
Credit is granted too easily in South Africa.	**Accept**

6.6 Recommendations

The following recommendations are put forward in order to combat rising debt levels in South Africa:

Support structure: Kast, Meier, and Pomeranz (2012) conducted research in Chile into the effect of self-help groups for under-savers in Chile. They found that self-help groups helped consumers to increase savings. It might therefore be advantageous to set up similar support groups in areas that experience high levels of over-indebtedness in South Africa where individuals can share their experiences and learn from each other. By sharing experiences with people in a similar situation, the group may find creative solutions to their collective problem.

Education: A culture of saving rather than consuming needs to be established in South Africa. This can be achieved through a series of government funded financial workshops which should be run in areas that experience high levels of over-indebtedness. The goal of these workshops should be that of educating South Africans not only on the importance of saving but also on how to save. Financial concepts should be taught, together with basic budgeting techniques. Awareness needs to be created of the impact that over-indebtedness has on the individual, family and broader society. Additionally, individuals need to be empowered with tools that they can use to help prevent themselves from becoming over-indebted. Lessons can be depicted through a series of cartoon strips published in weekly newspapers with strong readership, such as the Sunday Times and the Daily Sun. In this way a large audience can be reached. Cartoons are a non-intimidating form of education as concepts are depicted through images. They also have much broader appeal than classroom learning as lessons can be depicted not only through words but through visuals as well. Illiterate people can therefore also learn from the cartoons.

Stronger regulation: Financial institutions should be more closely monitored by the National Credit Regulator in order to prevent vulnerable consumers from being lured into taking up high cost fancy packaged products which might push them into further debt. Marketing practises of financial institutions should also

be scrutinised to ensure that consumers are not being harassed. Additionally, credit issuing institutions MUST be registered with the NCR, and the NCR should ensure that all companies that do not conduct proper affordability checks on consumers before issuing credit cannot take action against the consumer, in the event of them defaulting on their repayment terms. The NCR must be more vigilant in cracking down on and punishing institutions found not to be registered or compliant with the NCA.

Consumer protection: While the Consumer Protection Act outlines a course of action that consumers can take when being harassed by organisations, it is possible that these steps are too cumbersome for consumers to follow. It is also likely that consumers are not aware of their rights when it comes to protecting themselves against such behaviour. Greater effort should be made to communicate the recourse available to consumers and consumers should be educated on the type of action they can take and the steps to follow to lodge a complaint.

Strict, enforceable penalties: Companies that are found to harass consumers or that are found to lend recklessly should have severe penalties imposed on them. In this way, incidences of harassment may be reduced and consumers would find further protection against becoming over-indebted.

Institute an interest ceiling on key items: A ceiling should be placed on the amount of interest that institutions can charge consumers, especially within markets that sell non-appreciating assets such as furniture. In this way consumers who place high value on depreciating items such as furniture, will not be taken advantage of to the extent that they have in the past. The Ellerines / African Bank debacle is an example of the dangers that charging excessive interest on non-appreciating assets can have on the economy.

Government subsidies on essential items: Government should offer subsidies to consumers that purchase essential non-appreciating assets as a way of protecting them against being taken advantage of by high-charging retailers. Retailers often take advantage of the fact that a large portion of the population are prepared to pay exorbitant prices for non-appreciating assets

such as furniture as they regard furniture as an ‘investment’. By providing subsidies on such items consumers will enjoy a degree of financial relief rather than experiencing financial constraints.

Preferential lending rates: Retailers that sell essential non-appreciating assets, such as furniture, should receive preferential lending rates from banks and other financial institutions. In this way their repayment amount will be reduced and the reduction can be passed onto the consumer while the company still maintains their profit margins on their products. As a result low-income earners will become less over-extended when purchasing highly regarded non-appreciating assets such as furniture and the retailers will still make enough of a profit to make staying in business worthwhile. This needs to be closely monitored to ensure that retailers actually pass the discount onto consumers.

Charge higher interest rates for appreciating assets than non-appreciating assets: When purchasing appreciating assets which grow in value over time, individuals should be charged higher interest rates than if they were purchasing non-appreciating or depreciating items, which lose value over time. This is because the purchaser of an asset will be in a position to repay the higher interest at a later stage as they would be in a position to sell their asset for a higher price than they originally paid. When purchasing depreciating assets however, the buyer is less likely to be in a position to repay the interest they have accumulated because if they are to sell their item, it would be worth far less than what they originally paid for it. A mortgage on a property for example carries significantly lower interest charges than furniture, yet the resell value of a property typically appreciates over time whereas furniture has very limited resell value over time. This needs to be reviewed at a government level in order to address the growing debt concerns in South Africa as a significant portion of the population continue to place disproportionate value on non-appreciating assets such as furniture rather than on appreciating assets such as property.

6.7 Suggestions for further research

The role of formal education in reducing debt levels should be explored to ascertain whether or not the South African education system is appropriately structured towards reducing financial illiteracy and therefore lowering over-indebtedness. An exploration of the syllabi in both public and private schools should be conducted and contrasted in order to identify valuable financial/budgeting content taught in the one arena that might be transferable to the other. Further, in the event that insufficient content is covered in the school curricula, this should be amended so that financial education is taught to school-going individuals so that they can make more informed financial decisions later on in life. In this way over-indebtedness might be reduced.

Part of the mandate of the National Credit Act, as outlined in Chapter 2, section 16 of the Act, is to implement education and information measures to develop public awareness of the provisions of the Act. The Act was instituted to protect both consumers and financial institution against abuse. Therefore, research should be conducted that investigates how successful the NCA has been at achieving its goals of raising public awareness of the provisions of the Act among low-income households in South Africa. In the event that the NCA has failed in its mandate to raise public awareness of the provisions of the Act among low-income households in South Africa, further measures should then be put in place to remedy this as a matter of urgency. Failing to do so may result in low-income households being taken advantage of by financial institutions. The research highlighted that financial institutions contacted over-indebted, low-income households twice as often as non-over-indebted, low-income households in order to offer credit. Consumer protection measures thus need to be put in place and households need to be made aware of their rights as a matter of urgency. Failing this, over-indebted, low-income households are likely to acquire further debt and are likely to be caught up in the debt spiral for years to come.

The study did not explore the extent to which EAO's impact on over-indebtedness, however a recent study conducted by the University of Pretoria Law Clinic highlights the prevalence of garnishee orders in South Africa.

Further, the recent case brought to the Western Cape High Court, by the University of Stellenbosch Legal Aid Clinic against the Minister of Justice and Correctional Services highlighted the chronic and systematic problem that exists with the garnishee system, specifically, the issuing of illegal EAO's. Further studies that explore the extent to which low-income households are impacted by EAO's should be conducted in order to ascertain the extent to which such households are pushed into over-indebtedness as a result of EAO's. By understanding this, measures might be put in place to protect such households from the abusive EAO system.

And finally, as this study only looked at over-indebtedness among low-income households in urban Gauteng, further research should be conducted exploring the financial and social experiences of over-indebtedness in rural areas. Although the determinants of over-indebtedness may vary across geographical contexts, the impact is felt across the different geographical environments.

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APPENDIX A: Research Instrument

Disclosure (to be explained before beginning the interview)

- Thank you so much for agreeing to participate in this interview
- Before we begin I would just like to remind you that as we discussed telephonically, I am conducting research as part of an MBA degree which I am pursuing through the Wits Business School.
- The topic of my research report is “The financial and social experiences of over-indebted low-income households in South Africa”.
- The aim is to understand financial and social experiences of over-indebted low-income households in South Africa and to understand some of the personal experiences that some families endure.
- Some of the things we are going to talk about might be sensitive. I want you to know that all your responses will be treated confidentially. Also, your responses will only be used for research purposes and will not be linked to your identity. Additionally, your responses will in no way be used against you and will in no way affect your credit record or financial status negatively.
- If at any point throughout this interview you feel uncomfortable we will stop the interview. Please understand that you are under no obligation to participate in this interview.
- With your permission I would like to record this interview.
- The recording will be used for the solely for this research.
- At the end of this interview the recording will be stored under lock and key and accessed only for the purposes of this research.

Note: Prior to asking questions, try and ‘break the ice’ by creating familiarity with the interviewee and sharing a little bit about yourself:

Before I start with the interview, I would like to share with you a little bit about myself. I was born in Durban and have 2 siblings (brothers). My older brother Natan is 32 years old and lives overseas. My younger brother Orli is 26 and

lives in Durban. When I was 4 years old my parents got divorced and it was a difficult time for me. Growing up was difficult as my family struggled financially. I did not grow up with the privileges that many of the people I associated with had. Looking back though, this taught me strength and courage and to appreciate and be grateful for the small things in life. That's a little bit about me…

Note: The interview should adopt a conversational approach. The questions are designed to allow open ended answers. The following questions should be used as a guideline for the interview. It is not necessary to stick strictly to these questions. Other issues might arise which the researcher might want to explore.

Financial Literacy

Question 1: Have you ever hear of the terms: interest; compound interest; appreciation; depreciation; inflation?

Question 2: If so can you explain how they work?

Question 3: Where did you hear/learn about these terms?

Legal understanding/legal literacy

Question 4: Have you ever signed a contract before?

Question 5: Did you read the entire contents of the contract?

Question 6: If so, did you understand what was outlined in the contract?

Question 6: To what extent did you rely on the agent/other party to explain the contents of the contract?

Peer pressure, conspicuous consumption and self-control

Question 8: How do you manage your spending? Budget or ad hoc?

Question 9: Do you know what peer pressure is? Is this something that you are affected by?

Question 10: If you can't afford to buy something that you really like what do you do?

Experience with credit providers

Question 11: Have you ever taken out/applied for a loan before?

Question 12: If so, how did you hear about the company that you applied for the loan through?

Question 13: What has your experience been with credit providers/companies offering you loans? Have you found it easy to obtain a loan in the past, what was the experience like? Was it complicated? Did you have to sign any forms?

Question 14: Are you ever contacted by credit providers offering you loans/policies?

Question 15: If so, how regularly do they try contact you (per month)?

Question 16: What channels do they use to communicate with you e.g. SMS/Phone/email/other

Question 16: Is there anything else you would like to add?

APPENDIX B: Summary of research findings

Financial literacy

Have the respondents heard of the terms?	Non-over-indebted		Over-indebted	
	Yes	**No**	**Yes**	**No**
Interest	9	1	9	1
Compound interest	7	3	5	5
Appreciation	8	2	6	4
Depreciation	8	2	6	4
Inflation	9	1	9	1
	41	9	35	15

Could the respondents explain the terms?	Non-over-indebted		Over-indebted	
	Yes	**No**	**Yes**	**No**
Interest	9	1	8	2
Compound interest	3	7	3	7
Appreciation	5	5	4	6
Depreciation	5	5	5	5
Inflation	3	7	4	6
	25	25	24	26

Where did the respondents learn the financial terms?	Non-over-indebted	Over-indebted
	Interest	**Interest**
School	6	5
Work	2	2
News/Media	1	1
Self-taught	0	1
Never heard the term	1	1
	10	**10**

	Compound interest	**Compound interest**
School	6	4
Work	1	0
News/Media	1	0
Self-taught	0	1
Never heard the term	2	5
	10	**10**

	Appreciation	**Appreciation**
School	5	4
Work	2	0
News/Media	1	1
Self-taught	0	1
Never heard the term	2	4
	10	**10**

	Depreciation	**Depreciation**
School	5	4
Work	2	0
News/Media	1	1
Self-taught	0	1
Never heard the term	2	4
	10	**10**

	Inflation	**Inflation**
School	6	5
Work	2	1
News/Media	1	2
Self-taught	0	1
Never heard the term	1	1
	10	**10**

Where did the respondents learn the financial terms?	Non-over-indebted				
	Interest	**Compound interest**	**Appreciation**	**Depreciation**	**Inflation**
School	6	6	5	5	6
Work	2	1	2	2	2
News/Media	1	1	1	1	1
Self-taught	0	0	0	0	0
Never heard the term	1	2	2	2	1
	10	**10**	**10**	**10**	**10**

Where did the respondents learn the financial terms?	Over-indebted				
	Interest	**Compound interest**	**Appreciation**	**Depreciation**	**Inflation**
School	5	4	4	4	5
Work	2	0	0	0	1
News/Media	1	0	1	1	2
Self-taught	1	1	1	1	1
Never heard the term	1	5	4	4	1
	10	**10**	**10**	**10**	**10**

Legal literacy

	Non-over-indebted		**Over-indebted**	
	Yes	**No**	**Yes**	**No**
Have the respondents signed a legal contract before?	10	0	10	0
Did the respondents read the entire contract prior to signing?	4	6	1	9
Did the respondents understand the entire contract?	4	6	1	9
Did the respondent rely on the consultant/agent to explain the contract?	7	3	8	2

Peer pressure, conspicuous consumption and self-control

	Non-over-indebted		Over-indebted	
	Budget	**Ad hoc**	**Budget**	**Ad hoc**
How does the respondent manage their expenses (ad hoc / budget)	6	4	4	6

	Non-over-indebted		Over-indebted	
	Yes	**No**	**Yes**	**No**
Does the respondent make purchases in order to 'fit in'?	4	6	4	6

	Non-over-indebted		Over-indebted	
	Go without	**Borrow from family/buy on credit**	**Go without**	**Borrow from family/buy on credit**
If the respondent cant' afford to buy an item that they really like what do they do?	7	3	3	7

	Non-over-indebted		Over-indebted	
	Yes	**No**	**Yes**	**No**
Have the respondents ever been contacted by credit providers offering them loans/policies ?	10	0	10	0

How regularly is the respondent contacted?	Non-over-indebted	Over-indebted
Never	0	0
1 - 5 times per month	8	3
6 - 10 times per month	0	2
11+ times per month	2	5

How do the credit providers generally contact you?	Non-over-indebted	Over-indebted
SMS	6	7
Phone	1	2
Email	0	0
All of the above	3	1