ANALYSING SOUTH AFRICAN INDIVIDUALS' BEHAVIOUR REGARDING LIABILITY USAGES

by

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Summary

In South Africa household debt has increased rapidly over the past few years, therefore illustrating the importance of analysing liability usage behaviour of individual members within the household. In order to comprehend the behaviour of South Africans regarding liability usages, this study provides insight into why individuals find it necessary to obtain liability products as well as to indicate whether liability products are used to address the financial needs for the purpose it was developed for.

To achieve the aim of this study, it was firstly necessary to develop a theoretical framework for the process of selecting credit products when satisfying financial needs. Secondly, the characteristics and intended usage purposes of different credit products available in South Africa were discussed and a debt classification framework was developed. Finally, data obtained from the Finscope South Africa survey was analysed according to the developed frameworks following a combination of two approaches. Firstly, a qualitative approach was used to identify the different financial needs which are satisfied when using liabilities. The financial needs identified were classified according to Alderfer's existence relatedness growth (ERG) theory and the factors that have an influence on liability usage. Secondly, a quantitative approach was followed to indicate which financial needs are fulfilled when using different credit products.

The results of this study suggest that individuals do not use liabilities only for the purpose what the products were originally developed for. The findings clearly indicated that individuals mainly use liabilities to satisfy basic needs which are classified as existence needs according to Alderfer's ERG theory. Based on the data analysis a variety of factors such as access to credit and certain demographic characteristics have an influence on liability usage behaviour of individuals. The results further show that individuals mainly use informal, unsecured, short-term loans when satisfying their financial needs which might indicate that South Africans are unable to access formal credit products.

Keywords:

- Financial needs
- Liability usages
- Credit products
- Household debt
- Alderfer's ERG theory
- Maslow's theory of human motivation
- The individual's decision to use liabilities
- The process of selecting credit products to satisfy financial needs
- Factors influencing liabilities usage
- Debt classification framework

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CHAPTER 1
INTRODUCTION

1.1 INTRODUCTION

1.1.1 Background information and problem statement

In the past few years, financial stress in South African households has increasingly become a topic of conversation among ordinary South Africans and with good reason. The South African Reserve Bank reported that South African household debt amounted to R1 494 billion at the December 2012 year end, in comparison with the total household debt of R697 billion in 2005, more than doubling over the period (South African Reserve Bank 2013).

Despite the negative effect of growth in household debt, it does have a positive side because consumer spending is a vital stimulator of the economy and economic growth. The importance of household consumption expenditure is clear when considering that it contributes 60.8% to South Africa's total gross domestic product (South African Reserve Bank 2013). Although economic activity is measured at household level, individual members of the household are legally obligated to take up credit products on behalf of the household. To understand the debt behaviour of households, the behaviour of the members of the household has to be studied. Although consumer spending has a positive impact on economic growth, if household debt keeps increasing at the same rate as in the last couple of years without a simultaneous increase in income, it could result in an increase of over-indebtedness, lower savings rates of households or bankruptcy, which could lead to blacklisting of some members in the household.

To understand the debt situation (including the over-indebtedness) of members of the household, application of the fundamental accounting equation provides a valuable framework for analysis. The accounting equation is based on the seminal work of Luca Pacioli (a Franciscan friar) in 1494, and can be used to explain the financial relationship between equity, assets and liabilities. The accounting equation can be expressed as follows:

$$E = A - L$$

where

E	=	equity
A	=	assets
L	=	liabilities

An individual becomes over-indebted if the value of his or her liabilities exceeds the sum of his or her assets and equity (L > A + E). This situation is exacerbated when a person's expenses for a period (e_i) exceed his or her income for the period (i_i) which then results in the person having to take up additional liabilities to pay for his or her expenses (De Clercq 2014). It is therefore important to determine why individuals in South African households find it necessary to increase their liabilities by taking up additional credit to finance certain expenses. A better understanding of the motivations for liability usage can assist in comprehending liability use behaviour.

To understand liability usage drivers, factors such as material and social needs, culture and traditions, the general increase in both the standard and level of living, the existing debt of the household as well as income earned should be considered (Prinsloo 2002). According to Dickerson (2008), many Americans use credit to pay for living costs because of stagnant or declining wages. Similarly, owing to increasing unemployment, South Africans might also find themselves in a position of having to use liabilities in order to keep up with the costs of living (Statistics South Africa 2014).

In South Africa, there is some information on the liability usage of the household sector available from different sources, including which types of credit products are used, for what purpose and if there are certain factors influencing the use of certain types of credit products. The purpose of this study is to analyse the liability usages of South African individuals in order to provide an indication of the credit products they are using to satisfy different needs. The value of this study lies in the fact that it is the first to provide a better understanding of household liability usage behaviour which could assist financial sector policy makers, analysts, economic researchers and financial providers in policy-making decisions relating to the development and improvement of the financial position of South African households.

1.1.2 Research question and research objectives

In order to achieve the overall purpose of the study the following research question was formulated:

"Do South Africans use liabilities to address the financial needs they were intended for?"

To answer the research question the following research objectives were formulated:

- Develop a theoretical framework for the process of selecting credit products to satisfy financial needs of South Africans by
  - identifying the individual's financial needs
  - analysing the individual's financial position
  - determining the factors that influence the individual's liability usage

- Analyse the different credit products available to develop a debt classification framework that can be used to indicate which credit products were developed to satisfy different types of needs.

- Analyse the actual needs satisfied by individuals when using different liabilities.

1.1.3 Purpose and importance of the study

The rising levels of household debt in South Africa illustrate the importance of analysing liability usage and its relationship with the financial position of individuals (South African Reserve Bank 2013). The purpose of this study is to analyse liability usage by members of South African households in order to provide insight into why households find it necessary to use liabilities (also referred to as credit products) and which needs they satisfy when using these liabilities. Ideally households should use long-term liabilities to finance the acquisition of long-term assets that can grow in value resulting in an increase in financial wealth. In order to achieve the purpose of the study, it consisted of two phases.

The first phase of the study involved a literature review with two distinct focuses. The first focus of the literature review was on identifying the financial needs satisfied when using liabilities, analysing the financial position of the individual and describing the factors that influence liabilities usage (chapter 2). The second focus area of the literature review was on which credit products are available to household members, with specific emphasis on the characteristics and terms of the products in order to map them against the financial needs identified in the first part of the literature review (chapter 3). Followed by the literature review, the research design and methodology of the study was discussed (chapter 4).

In the second phase of the study, the empirical data obtained from the Finscope South Africa survey (for academic purposes, the 2010 data was the latest information available at the time this study was conducted) was analysed based on the results of the literature review. The findings were presented to indicate which financial needs are satisfied when using liabilities (chapter 5) and which credit products individuals are using to satisfy their identified needs (chapter 6).

By understanding the liability usage behaviour of individuals, measures could be developed to ensure that credit is accessible to all South Africans; the over-indebtedness of individuals is addressed and possibly prevented; individuals are provided with appropriate education on credit and consumer rights; and finally, to ensure that the necessary resources and information are available to individuals in order for them to make informed choices regarding their credit needs and options. In some cases, financial service providers could use the information on liability usage behaviour to improve on current financial products and services to bring them in line with the expectations and needs of South African individuals.

1.2 DEFINITIONS OF KEY TERMS

This study focuses on the liability usage of individuals in South Africa. Various definitions and descriptions of liabilities exist. For accounting purposes, liabilities include debt and obligations, but are formally defined as follows:

"A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits" (International Accounting Standards Board 2010a).

Although accounting uses the term "liabilities", different subject fields (e.g. economics and national accounting) prefer to use terminology such as debt and credit. Unless stated otherwise, for the purpose of this study, the terms "liabilities", "debt" and "credit" have similar meanings and are therefore used interchangeably depending on the context of the discussion provided.

This study is gender neutral. The terminology "he" or "his" is used throughout the study and does not refer to the male gender only, but includes both males and females.

1.3 LITERATURE REVIEW

1.3.1 Introduction

This study analyses the liability usages of members in households to provide an indication of how credit products are used to satisfy different financial needs.

In order to gather an overall understanding of liability usage of members of the household, this section first provides an overview of household debt in South Africa (section 1.3.2). Thereafter the decision to make use of liabilities by individuals to satisfy their needs is discussed (section 1.3.3).

1.3.2 Household debt in South Africa

Information on household debt in South Africa can be obtained from various sources. The South African Reserve Bank constructs an estimate of household balance sheets at a macroeconomic level on a quarterly basis using measures published in Aron and Muellbauer (2006). The first report containing the official household balance sheet estimates for the period from 1975 to 2005 was published in June 2006 (Aron, Muellbauer & Prinsloo 2006). Since the publication of the first report, reports have been adapted to incorporate additional data sources and apply new international standards.

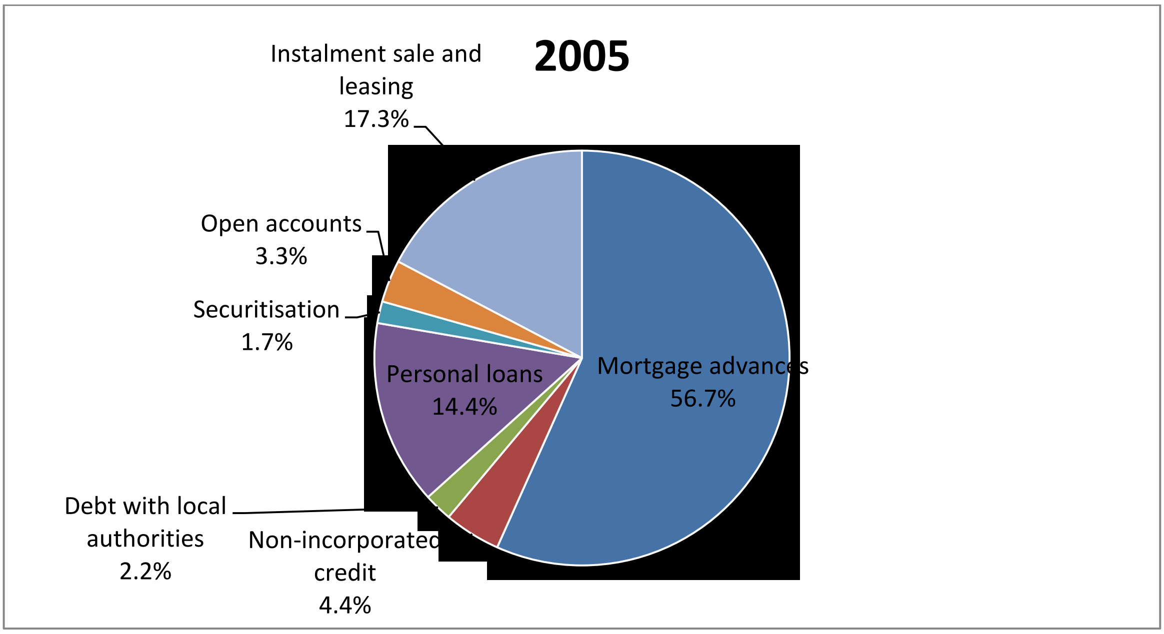
Although more recent figures have been published, this study focuses on reported household debt figures for 2010. The reason for this is that it makes interpretation and comparison of data in this study more relevant as the study uses secondary data obtained from the Finscope survey which was conducted in 2010. The reason for the use of the 2010 data is that the latest survey data are firstly available for commercial purposes and thereafter become available for academic purposes. At the time the study was conducted, the 2010 data were the latest available data to be used for academic purposes.

An analysis of the South African Reserve Bank's household balance sheet indicated that for the year ended December 2010, total household debt amounted to R1 258 billion. When comparing this figure with the total household debt for the year ended December 2005 of R697 billion, it shows that there was a significant increase in household debt over this five-year period (Kuhn 2011).

According to Kuhn (2011), household debt can be divided into seven groups with the largest group being mortgage advances. See figures 1.1 and 1.2.

FIGURE 1.1

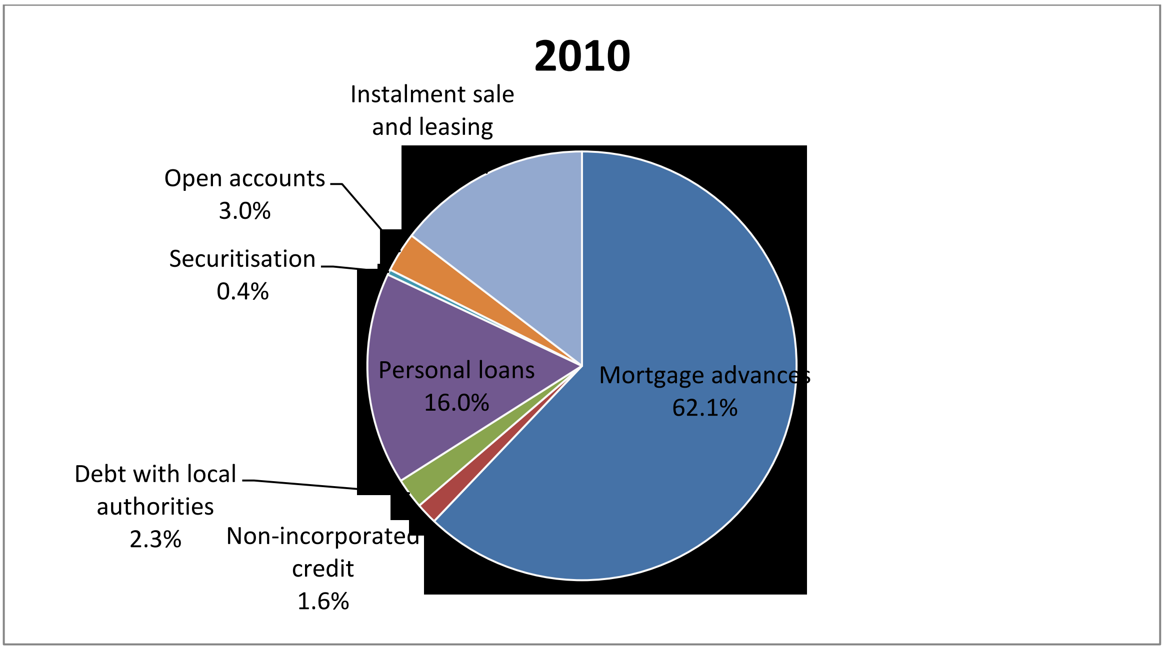
COMPOSITION OF HOUSEHOLD DEBT IN 2005



Source: Kuhn (2011)

FIGURE 1.2

COMPOSITION OF HOUSEHOLD DEBT IN 2010



Source: Kuhn (2011)

It is clear from figures 1.1 and 1.2 that there were several changes in the composition of household debt during the five-year period, although mortgage advances remained the largest component of household debt in both years. Figure 1.2 also indicates that the other two large components of household debt were instalment sale and leasing and personal loans. However, it should be noted that household debt balances published by the South African Reserve Bank do not only consist of transactions of private households, but also include debt balances of unincorporated business enterprises (proprietors and partnerships) and non-profit institutions. Despite this, private households represent more than 93% of the total household debt published by the South African Reserve Bank (Prinsloo 2002). While the South African Reserve Bank reports on households in the household sector, other bodies that also report on debt held by individuals and households in South Africa include the National Credit Regulator and Finmark Trust. In order to obtain a better understanding of the household debt situation, reports published by the National Credit Regulator and Finmark Trust were also analysed in this study.

Even though the information in figures 1.1 and 1.2 indicates which types of debt are used by individuals in the household according to the South African Reserve Bank, it does not provide an indication of the financial needs that are satisfied using each of these credit products. In order to understand individuals' behaviour when using credit, it is essential to gain an understanding of their decision-making process that motivates them to use liabilities. This will be discussed in the next section.

1.3.3 The individual's decision to use liabilities

1.3.3.1 Introduction

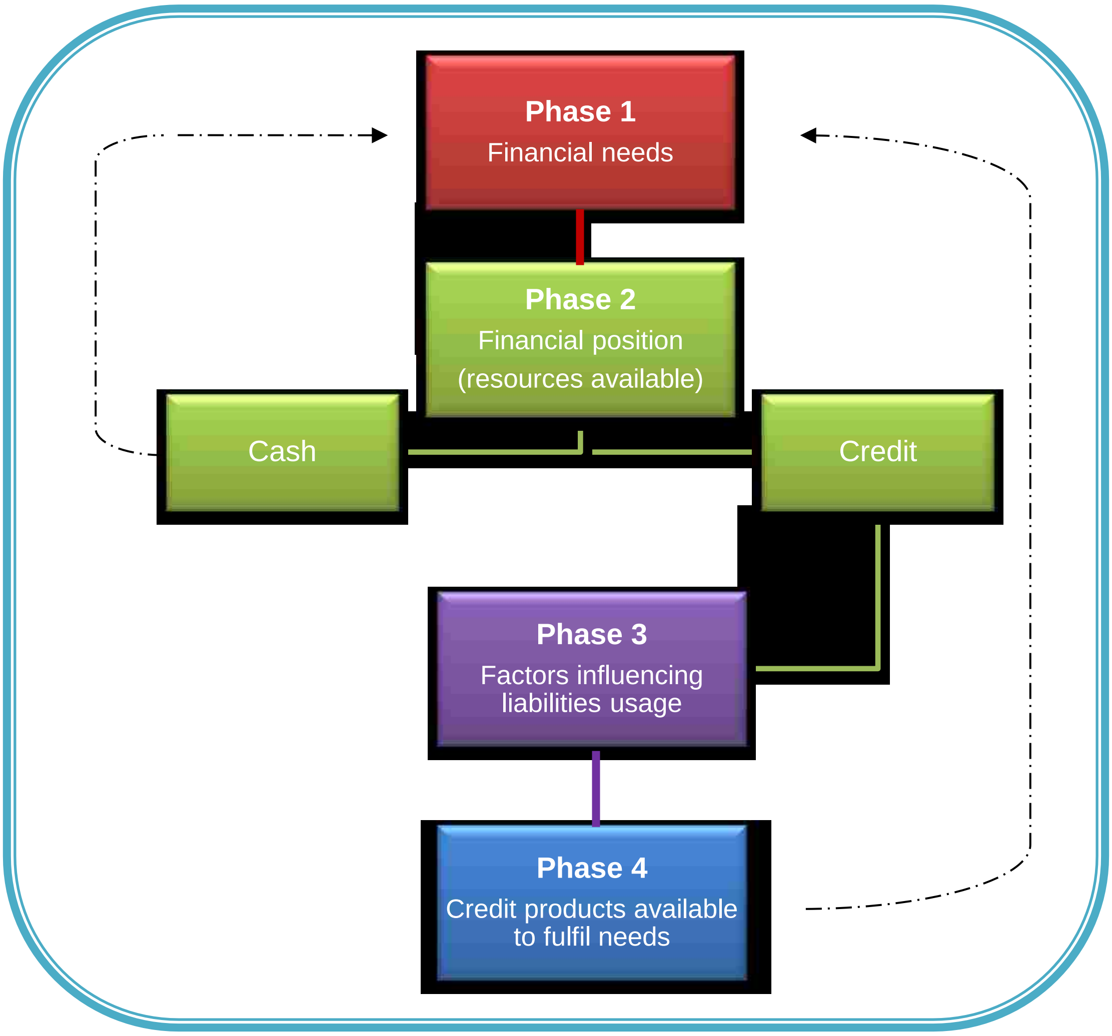
From the discussion in the previous section it is clear that there has been an increase in household debt over the last couple of years. Even though the information indicates an increase in debt, the behaviour regarding liability usage by individuals has not been clearly documented in South Africa. To gain a better understanding of the liability usages of individuals, this section discusses the individual's decision to use credit by referring to the process of selecting credit products to satisfy financial needs.

1.3.3.2 The process of selecting credit products to satisfy financial needs

Credit enables an individual to fulfil his financial needs by consuming now by obtaining a liability for which he will pay at a later stage (Barba & Pivetti 2009; Prinsloo 2002). Before individuals use credit to fulfil their needs, they have to make a financial decision to determine if they want to satisfy a need now and how they will pay to satisfy the need. The decision to make use of credit is a process that can be subdivided into four different phases (see figure 1.3).

FIGURE 1.3

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

Each of the four phases in the process of selecting credit products to satisfy financial needs will now be briefly introduced (see figure 1.3).

- ***Phase 1: Identifying the individual's financial needs***

The first phase relates to the individual's needs (see section 2.2). This study describes two human needs theories namely Maslow's theory of human motivation and Alderfer's existence relatedness growth (ERG) theory that can be used to describe human needs which develop into financial needs (see sections 2.2.3 and 2.2.4).

Human needs include needs that are necessary for the individual to survive and live, for example, food, water and shelter (Oleson 2004; Seeley 1992; Garman & Forgue 1988). Human needs often develop into financial needs when an individual has to use financial means, such as cash or credit, to satisfy a human need. The fulfilment of financial needs is a complex process in which the individual's financial position (as determined by his assets and liabilities as well as income and expenses - see the fundamental accounting equation) plays a significant role when deciding if the person is going to use credit and which type of credit. When a financial need arises, the individual has to analyse his financial position in order to determine how he can fulfil his needs with the available resources (phase 2).

- ***Phase 2: Analysing the individual's financial position***

After the individual has developed and identified a financial need in the first phase, he has to analyse his financial position in the second phase by determining whether he has enough savings or whether he should use credit to satisfy the need (see section 2.3). The financial position of the individual can be explained by referring to the fundamental accounting equation which is the financial relationship between equity, assets and liabilities. The fundamental accounting equation relationship can be expressed as follows:

Equity (E) (household wealth) = assets (A) – liabilities (L).

The relationship can be explained by means of an example. An individual decides to provide his family with shelter in the form of a house. The need for shelter is an example of a human need which results in a financial need, namely financing the purchase of the house. This financial need can be satisfied by one of two options. The first option is to use available cash either from existing assets such as a bank or investment accounts or cash accessible through liquid assets. This implies that if an individual has enough cash or liquid assets, he can withdraw the cash from his assets and purchase the house without any further credit product usage. However, if an individual finds that his cash and liquid assets are not sufficient to meet his financial need, the second option will be to consider obtaining money by using credit products. This means that the individual incurs a liability in order to fulfil his needs. The implication on the individual's assets (A) and liabilities (L) in this example can be summarised as follows:

Option	**E**	**A**	**L**
Use **cash** to purchase a house	No change	Assets increase (acquire a house) and assets decrease (withdraw cash in existing bank accounts, investment accounts or liquid assets)	No effect
Use **credit** to purchase a house	No change	Assets increase (acquire a house)	Liabilities increase (receive a loan which has to be repaid)

After a financial need develops (phase 1) and the individual decides to use credit to fulfil his financial need (phase 2), the next phase in the process is to consider the factors that influence the individual's decision to use credit, for example, current income and expenditure (phase 3).

- ***Phase 3: Determining the factors that influence the individual's liability usage***

In the third phase of the process, the factors influencing liability usage should be considered (see section 2.4). Factors such as access to credit, demographic characteristics and certain other factors have been identified in previous studies (Finmark Trust 2010; Tippett 2010; Lee, Lown & Sharpe 2007). Finmark Trust (2010) identified that if individuals do not possess the necessary income sources they have limited access to credit, which has the effect of them not being able to fulfil their needs. Tippett (2010) points out that labour market instability, wage inequality or no wages due to unemployment prevents individuals from adequately preparing for financial emergencies. This could result in individuals becoming unable to satisfy their basic needs such as food, transport, education and medical costs, requiring them to use credit to finance most of their expenses. Lee et al. (2007) found that variables such as age, gender, race, education, marital status, family status and employment status have an impact on access and the use of liabilities.

Once all these factors and the influence they have on the individual's financial decision have been considered, the individual then decides which products to use in order to fulfil identified financial needs (phase 4).

- ***Phase 4: Determining which credit products can be used to fulfil the individual's financial needs***

The last phase of the process entails determining which credit products to use to fulfil the individual's financial needs that were determined in the first phase (see section 3.3). Financial institutions develop different credit products to meet specific needs of the user. By gaining a better understanding of the objectives considered when the credit products were developed and comprehending their characteristics, their use can be determined. Although it is not possible to analyse each financial product available in South Africa, credit products can be divided into groups of products with similar characteristics. Accounting and economic theory suggests that if a short-term financial need is identified, the individual should use a short-term credit product to fulfil the need. However, if a long-term financial need is identified, the individual should use a long-term credit product to fulfil the long-term need. Different bodies such as the South African Reserve Bank, the National Credit Regulator, the International Accounting Standards Board and Finmark Trust also use different methods to classify debt and credit products. Chapter 3 of this study discusses the different credit products and the purposes for which they were developed, as well as developing a debt classification framework based on the guidelines formulated by the different bodies. By using this framework, liability usage of South Africans is analysed to indicate which credit products are used to fulfil different financial needs.

1.3.3.3 Conclusion

The research objectives of this study were achieved by referring to the process of selecting credit products to satisfy needs. The first research objective of this study was achieved by developing a theoretical framework for the first three phases in the process of selecting credit products to satisfy needs (see chapter 2). The second research objective was achieved by referring to the last phase of the process where the different credit products that are available to individuals are discussed and a debt classification framework was developed (see chapter 3). To achieve the third research objective, the theoretical framework and debt classification framework was used to analyse the liability usage of South Africans in order to provide an indication of the actual needs satisfied when using different liabilities (see chapters 5 and 6).

1.3.4 Conclusion

An overview of the growth of household debt in South Africa over the past few years indicates the importance of analysing liabilities usage of individuals. In order to answer the research question and to achieve the research objectives, this study analysed liability usage by referring to the process of selecting credit products to satisfy needs.

1.4 RESEARCH DESIGN AND METHODS

This study analysed South African individuals' behaviour regarding liability usages to provide an indication of the needs satisfied when using different credit products within the household.

To conduct this analysis, a combination of qualitative thematic analysis and quantitative statistical analysis was used to analyse secondary data obtained from the Finscope South African Survey 2010, as this was the latest information available for academic purposes when the study was conducted. The Finscope survey is conducted periodically to gain a better understanding of consumer perceptions and the interactions of individuals or small business owners in the financial sector.

The Finscope survey is a multi-stage random sampling at enumerator area, household and individual level. In the Finscope 2010 survey, personal interviews with households were conducted in 650 enumerated areas of which six interviews were held in each of these enumerator areas. The sample of 3 900 households was randomly selected in each enumerated area of which the individual respondents of 16 years and older were also randomly selected using the Kish grid method.

To answer the research question of this study, three research objectives were formulated (see section 1.1.2). The first two research objectives were achieved by performing a literature review (see chapters 2 and 3). In the first part of the literature review, a theoretical framework was developed for the first three phases in the process of selecting credit products to satisfy financial needs (see chapter 2). In the second part of the literature review, a theoretical framework was developed for the last phase in the process of selecting credit products by discussing the characteristics and intended uses of different credit products and the framework was then used to develop a debt classification framework. The debt classification framework was then used to analyse the usage of the financial products groups, thereby addressing the third research objective.

To achieve the third research objective, data were analysed following two approaches, firstly, by identifying the different financial needs fulfilled when using liabilities (see chapter 5), and secondly, by providing an indication of the financial needs satisfied when using each liability (see chapter 6). It was necessary to follow two different approaches as the financial needs fulfilled when using credit products should firstly be identified (first approach) before the analysis of credit products (second approach) would indicate whether or not South Africans use liabilities to address the financial needs it were intended for. In the first approach when identifying the financial needs satisfied when using liabilities, the data analysed were obtained by means of open-ended questions where respondents were required to indicate for which needs liabilities were used. The data coding for this phase involved a process in which numbers were assigned to specific responses. The numbers were then grouped in order to group responses into categories. The findings are presented in chapter 5. In the second approach, to indicate which needs are fulfilled by using different credit products, pre-coded data were obtained by means of a checklist where respondents had to answer a question by selecting one or more items on the checklist. The question relating to the checklist required respondents to indicate which credit products they had used for the different reasons or needs that they had provided. In this phase, the pre-coded questions were used to do the profiling by classifying credit products according to the debt classification framework that was developed in the literature. The findings are discussed in chapter 6.

The results of answering the survey questions were measured using descriptive and statistical analysis. The statistical analysis included performing validity and reliability tests which ensured data stability, validity and reliability (see chapter 4).

Finscope considered and complied with its ethical standards during the collection and processing of the data. This study used secondary data and ethical clearance for use of the data was obtained in accordance with the University of South Africa's (Unisa's) ethical policy.

1.5 CONCLUSION

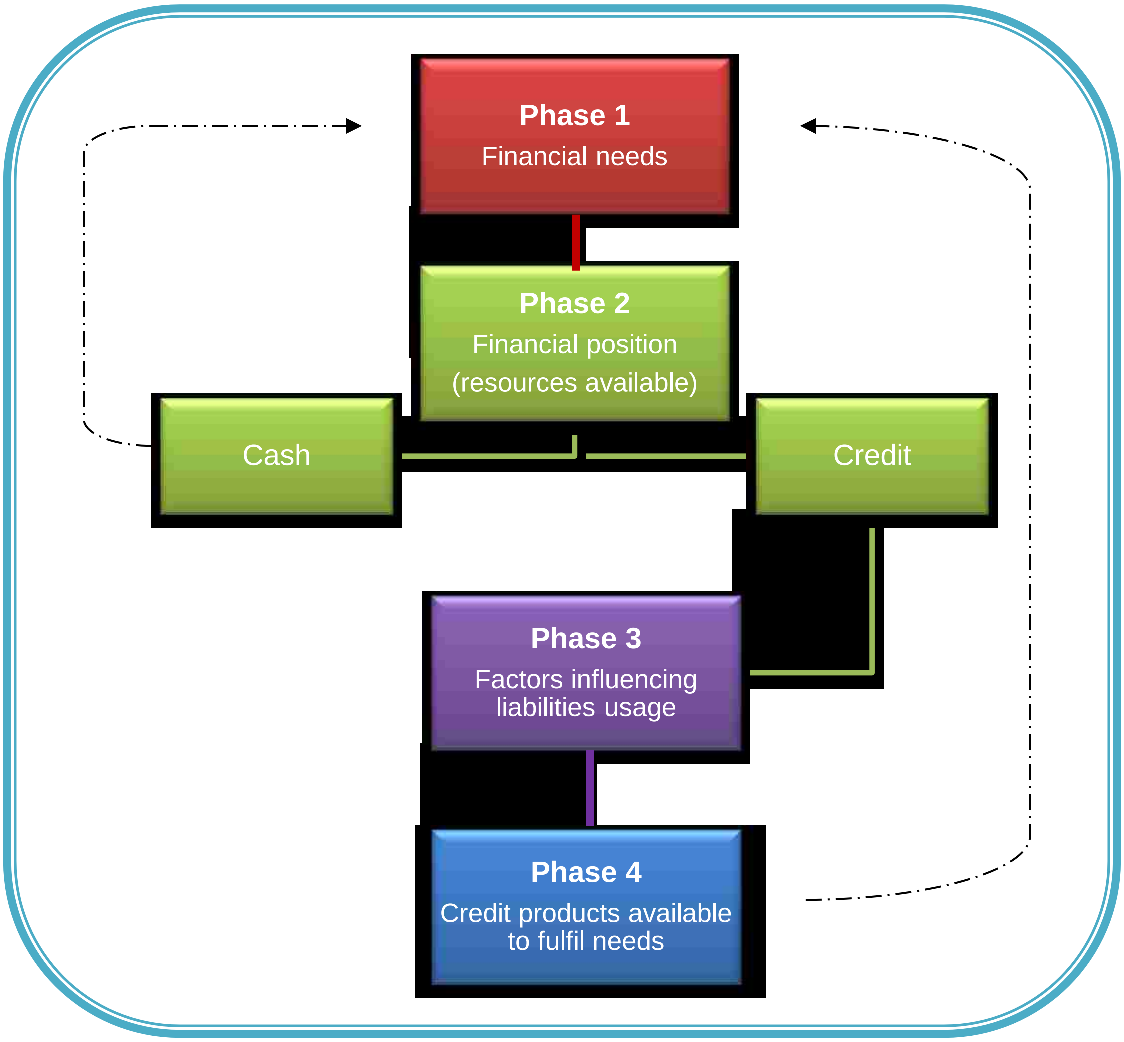
From the discussion in this chapter, it is clear that the debt of members of South African households has increased steadily over the past few years. In order to understand these rising levels of debt it is essential to analyse the liability usages of individuals to indicate why they find it necessary to use liabilities and whether they use their liabilities to satisfy appropriate financial needs. This study therefore formulated the following research question:

“Do South Africans use liabilities to address the financial needs they were intended for?”

To answer this research question three research objectives were formulated (section 1.1.2), which are addressed in the chapters that follow, either by performing a literature review (chapters 2 and 3) or by analysing data (chapters 5 and 6). In order to address the research objectives of this study, this chapter identified that the individual’s decision to use credit is a process which consists of different phases (section 1.3.3). Figure 1.4 presents the four different phases in the process of selecting credit products to satisfy financial needs.

FIGURE 1.4

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



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The process of selecting credit products to satisfy financial needs is important when addressing the research objectives of this study. In the next chapter, the first research objective of this study is addressed by developing a theoretical framework from the literature for the first three phases of the process of selecting credit products to satisfy financial needs (chapter 2). The second research objective pertains to the fourth phase in this process (chapter 3), after which data are analysed based on the findings presented in the literature (chapters 5 and 6).

CHAPTER 2
THEORETICAL FRAMEWORK FOR THE FIRST THREE PHASES IN THE PROCESS OF SELECTING CREDIT PRODUCTS

2.1 INTRODUCTION

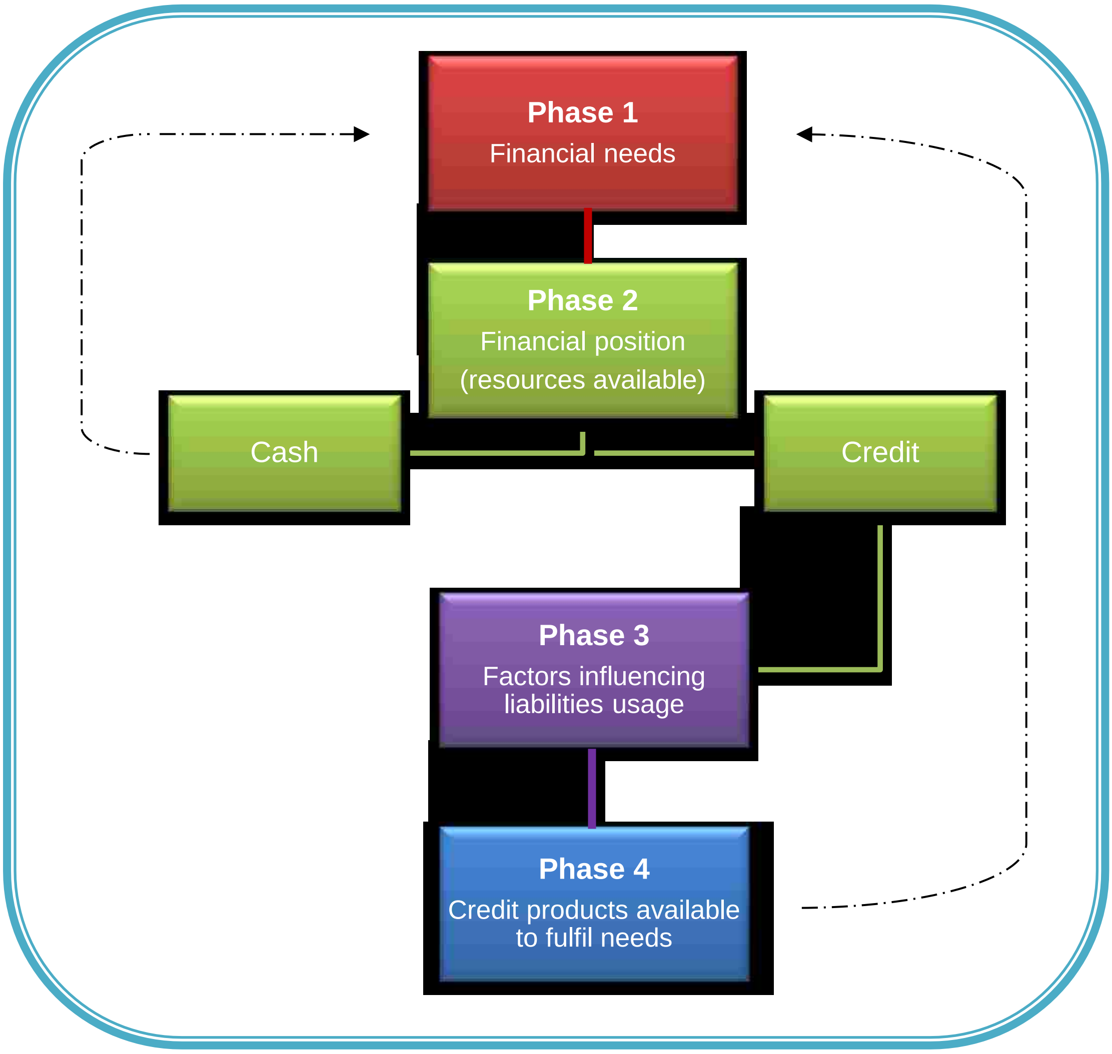
Chapter 1 identified four different phases in the process of selecting credit products to satisfy financial needs (see section 1.3.3). In this chapter the objective is to develop a theoretical framework for the first three phases of the process, namely:

- identifying the individual's financial needs (phase 1)
- analysing the financial position (phase 2) and
- determining the factors that influences the individual's liabilities usage (phase 3) (see figure 2.1)

The last phase, namely determining which credit products can be used to fulfil the individual's financial needs (phase 4), is discussed in chapter 3.

FIGURE 2.1

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



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In the first phase, each individual's unique human needs result in financial needs based on the circumstances that he finds himself in. In the second phase, the individual's financial position is analysed to determine if he has cash or credit resources available to satisfy his needs. After the second phase, the factors that influence the individual's liabilities usage are determined in the third phase. The fourth phase in the process is to determine which credit products are available to fulfil the individual's financial needs as determined in the first phase.

This chapter will address the first research objective of the study (section 1.1.2) namely:

- Develop a theoretical framework for the process of selecting credit products to satisfy financial needs of South Africans by
  - identifying the individual's financial needs (section 2.2)
  - analysing the individual's financial position (section 2.3)
  - determining the factors that influence the individual's liabilities usage (section 2.4)

In order to achieve the first research objective of this study, this chapter analyses the process of selecting credit products to satisfy financial needs (see figure 2.1). A theoretical framework is developed by referring to the first three phases that influence the individual's decision to use credit, firstly, by discussing the individual's human needs which develop into financial needs (see section 2.2) followed by a discussion of the financial position of the individual in terms of the cash or credit resources available to him (see section 2.3). Finally, an overview is provided of the factors that influence the individual's liabilities usage (see section 2.4).

2.2 FINANCIAL NEEDS

2.2.1 Introduction

As described previously, there are four phases in the process of selecting credit products to satisfy the individual's financial needs. The first phase in the process is to identify the individual's financial needs (see figure 2.2). In this section, the financial needs of individuals are identified by describing human needs which develop into financial needs (section 2.2.2). Different theories exist which can be used to describe human needs. The two seminal theories that will be investigated in this study are Maslow's theory of human motivation (section 2.2.3) and Alderfer's existence relatedness growth (ERG) theory (section 2.2.4).

FIGURE 2.2

THE FIRST PHASE IN THE PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS

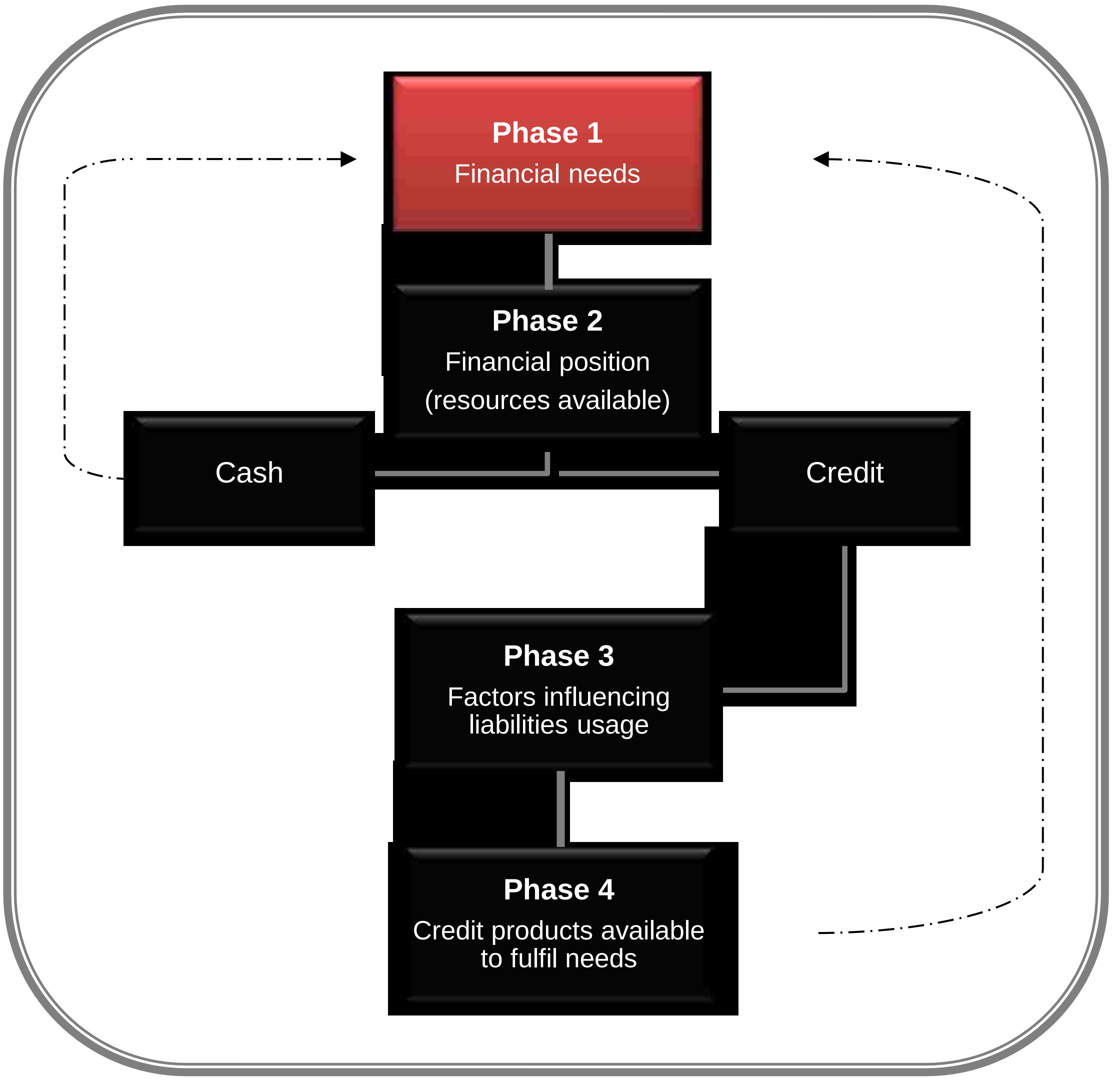

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Figure 2.2 indicates that identifying the individual's financial needs is the first phase in the process of selecting credit products. Financial needs arise from the development of human needs. Different authors agree that the development of the individual's human and financial needs is a continuous process, which has the outcome that as soon as one need has been identified and met, another need arises. Maslow (1943) characterised humans as "wanting animals", always seeking to satisfy some type of unfulfilled human need. These unfulfilled needs can include anything from a basic need such as a desire for food, clothes or shelter to something such as owning a luxury motor vehicle. After gaining a better understanding of how an individual's needs arise, the other three phases in the process are considered.

In the next section, human needs that develop into financial needs are discussed.

2.2.2 Describing financial needs

Each person's needs and wants are unique. Garman and Forgue (1988) describe needs as things that enable one to survive and live, for example, food, shelter, clothing and medical treatment (necessities). Wants, however, mostly depend on one's interests, tastes, lifestyle and financial resources and include things that one would like to have in order to feel more comfortable and satisfied in life (usually unnecessary). Individuals can satisfy some of their needs through consumption, while other needs are satisfied through interactions with physical, cultural and social environments (Seeley 1992).

This consumption and interaction often result in financial needs. If an individual has insufficient funds, he might have to use financial aid or debt to meet these financial needs, for example basic human needs, such as food or water. The human need for shelter can, for example, develop into a financial need when an individual requires financing to purchase a house.

Previous studies found that various factors interact to determine an individual's financial needs (Van der Walt & Prinsloo 1993; Van der Walt & Prinsloo 1995; Botha, Du Preez, Geach, Goodall & Rossini 2009). One of the factors that influence the individual's financial needs is the life stage he finds himself in (Van der Walt & Prinsloo 1993). This can be illustrated by referring to the example of a young married couple who need to purchase a home and furniture for the first time in comparison with a middle-aged couple with children who have already acquired a home and furniture but now need to pay for their children's education (Van der Walt & Prinsloo 1993). This example shows that in order for individuals to meet their financial needs in their different life stages, they need to set financial goals early in their lives (Botha et al. 2009). Setting financial goals according to the income that the individual earns and the amount of financial resources available to him means that emotional and physical needs are prioritised and that the most important needs are met.

In order to gain a better understanding of the different needs of individuals, this study investigates the two most seminal theories of human needs, namely Maslow's theory of human motivation (section 2.2.3) and Alderfer's ERG theory (section 2.2.4).

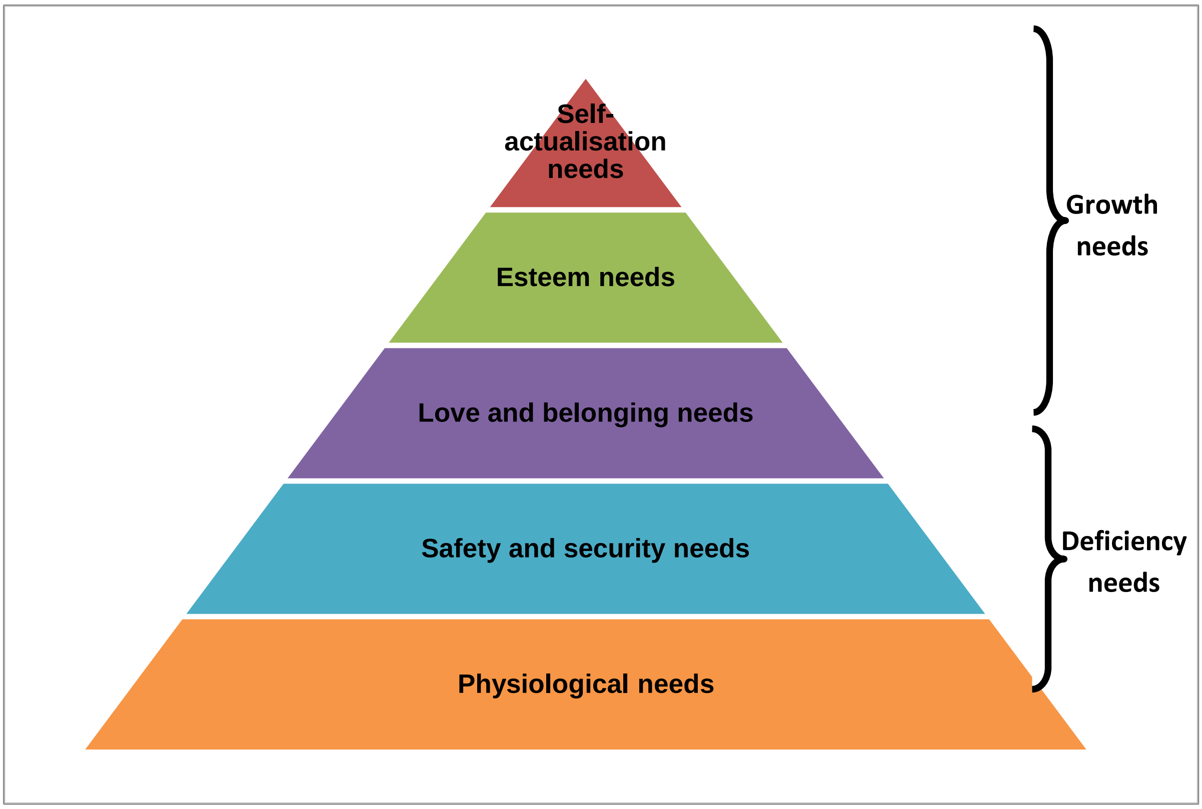
2.2.3 Maslow's theory of human motivation

2.2.3.1 Introduction

Maslow (1943) was the first person to develop a theory of human motivation which focuses on human needs. His theory combined emotional and physical level needs which serve as a motivator for human behaviour. He arranged needs in a hierarchical order, which is often portrayed as a pyramid with the basic needs at the bottom (see figure 2.3).

FIGURE 2.3

MASLOW'S HIERARCHY OF NEEDS



Source: Adapted from Maslow (1943)

Figure 2.3 illustrates that Maslow's hierarchy of needs consists of five levels. Maslow's theory suggests that the basic level of needs must be met before moving on to secondary or higher levels of needs. Maslow's lower-level needs, namely physiological and safety and security needs can be classified as primary needs. Love and belonging needs, esteem needs and self-actualisation needs can all be classified as secondary needs. According to Maslow, secondary needs become important once primary needs have been fulfilled. To gain a better understanding of the different needs in Maslow's hierarchy, each level is described in the next section.

2.2.3.2 Maslow's level descriptive

As described above, Maslow's hierarchy of needs consists of five need levels which can be divided into two categories, namely deficiency needs (physiological and safety and security needs) and growth needs (love and belonging, esteem and self-actualisation needs) (Maslow 1943; 1954).

Each level of needs in Maslow's hierarchy is summarised as follows:

- Physiological needs are needs that are important for human survival (Oleson 2004). These needs include basic necessities such as water, food, clothing and shelter. They can also be referred to as primary needs. Once physiological needs have been satisfied, other levels of needs higher in the hierarchy become important, which motivates human behaviour to also meet these higher levels of needs (Maslow 1943).

- Safety and security needs stem from the desire to feel free of danger (Seeley 1992). For example, these needs refer to personal, financial and health security and include needs for protection against natural disasters and violence, having job security, providing for savings accounts as well as having insurance policies, disability insurance and health insurance in place (Maslow 1954; Ball 2012). Safety and security needs can be classified as primary needs.

- Love and belonging needs are social needs where the individual seeks a sense of belonging and acceptance (Oleson 2004). Relationships with friends and family play an important role when satisfying these needs and they can be achieved by being part of clubs, office culture, religious groups, professional organisations, sports teams or any other social connections (Seeley 1992). Love and belonging needs can also be referred to as secondary needs.

- Esteem needs are the desire to be accepted and valued by others and include activities that give one a sense of contribution (Oleson 2004). Esteem needs entail status, self-respect, self-esteem and respect for others (Maslow 1943). The needs for things that reflect self-esteem, personal worth, recognition and accomplishment all form part of this category. Esteem needs can also be referred to as secondary needs.

- Self-actualisation needs are needs that are satisfied once all the other levels of needs have been fulfilled. Self-actualisation needs entail reaching one's full potential by means of personal growth (Seeley 1992). These needs are also classified as secondary needs.

By using Maslow's hierarchy of needs and the classification of needs as primary or secondary needs, a framework of financial needs according to Maslow's theory of human motivation can be developed, as explained in the next section.

2.2.3.3 Maslow's framework of financial needs

As indicated in studies by Seeley (1992), Xiao and Noring (1994) and Oleson (2004), Maslow's theory of human motivation can be invaluable in gaining a better understanding of how individuals spend their money. For example, in order to satisfy their physiological or primary needs, individuals use money to buy food, clothing and shelter. Safety and security needs can be fulfilled by paying for electricity. Love and belonging needs can be fulfilled by paying a monthly church contribution. Esteem needs can be met by forming part of a prestigious golf club, and lastly, self-actualisation needs can be met by spending money on self-improvement.

Similar to the studies mentioned above, for the purpose of this study, Maslow's theory is also used to form the basis of a framework of financial needs that might have an influence on an individual's credit usage. Different needs are then classified as primary needs or secondary needs (see table 2.1).

TABLE 2.1

A FRAMEWORK OF FINANCIAL NEEDS ACCORDING TO MASLOW'S THEORY

Maslow's levels of needs	Different needs for each category of Maslow's theory	Classification as primary or secondary needs
Physiological needs	Food Utilities (water) Clothes Shelter (house) Transportation (including motor vehicle)	Primary needs
Safety and security needs	Utilities (electricity) Medical insurance Life insurance Disability insurance Education Funeral expenses	Primary needs
Love and belonging needs	Utilities (telephone, television, internet) Personal care (beauty or barbershop, cosmetics) Entertainment (movies, hobbies, sports club) Contributions (gifts, school, church) Accessories (designer jewellery, shoes, handbags) Household furnishings	Secondary needs
Esteem needs	Personal care (beauty or barbershop, cosmetics) Entertainment (movies, hobbies, sports club) Contributions (gifts, school, church) Accessories (designer jewellery, shoes, handbags) Household furnishings	Secondary needs
Self-actualisation needs	Going on vacations	Secondary needs

Source: Compiled by the author

Table 2.1 classifies some of the important needs according to Maslow's five levels of needs from where every need is further classified as a primary or secondary need. The list of different needs was derived from a list of expenses taken from a personal financial budget for individuals (Garman & Forgue 2011).

The physiological needs in table 2.1 include basic needs that are important for human survival. Safety and security needs include personal, financial and health security needs. The love and belonging needs and esteem needs include very similar needs, for example, if an individual decides to form part of a sports club he might feel that he belongs and is accepted by his fellow members at the sports club. However, being a member of a sports club can also contribute towards the individual's esteem needs as people desire status which could be achieved by winning competitions at the sports club and they therefore decide to become members of the sports club. Since most of the love and belonging and esteem needs overlap in a way, they can be grouped together (Alderfer 1969). Lastly, self-actualisation needs are needs to develop personal growth, for example, experiencing different cultures by going on an overseas vacation.

2.2.3.4 Conclusion

Maslow's theory of human motivation is the grounding theory of human needs. He identified five different levels of needs which can be arranged in hierarchical order. Practical application of Maslow's theory leads to some inconsistencies and problems. Using Maslow's theory of human motivation as a basis, Alderfer (1969) developed the ERG theory to address a number of limitations in Maslow's theory. In the next section, the similarities and differences between Maslow's and Alderfer's theories are discussed (see section 2.2.4).

2.2.4 Alderfer’s ERG theory

2.2.4.1 Introduction

Even though Maslow’s theory of human motivation has had a major impact on human needs theory, problems with its practical application led Alderfer (1969) to propose certain modifications as discussed in this section.

Alderfer’s ERG theory (1969) is based on Maslow’s theory of human motivation. However, Alderfer identified needs similar to those of Maslow’s five levels and then proposed a reclassification into three categories, namely existence, relatedness and growth (ERG). Over and above the reduction of Maslow’s need levels, Alderfer also proposed other changes to improve the practical application of the theory.

To better grasp Alderfer’s levels of needs, each of the levels in Alderfer’s ERG theory is described in the next section.

2.2.4.2 Alderfer’s level descriptive

Building on Maslow’s theory, each level of needs in Alderfer’s theory is described as follows:

- Existence needs include material and physiological needs (Alderfer 1969). This includes the need for water, food, clothing, shelter, safety, physical love and affection (Ball 2012; Venter & Botha 2014).

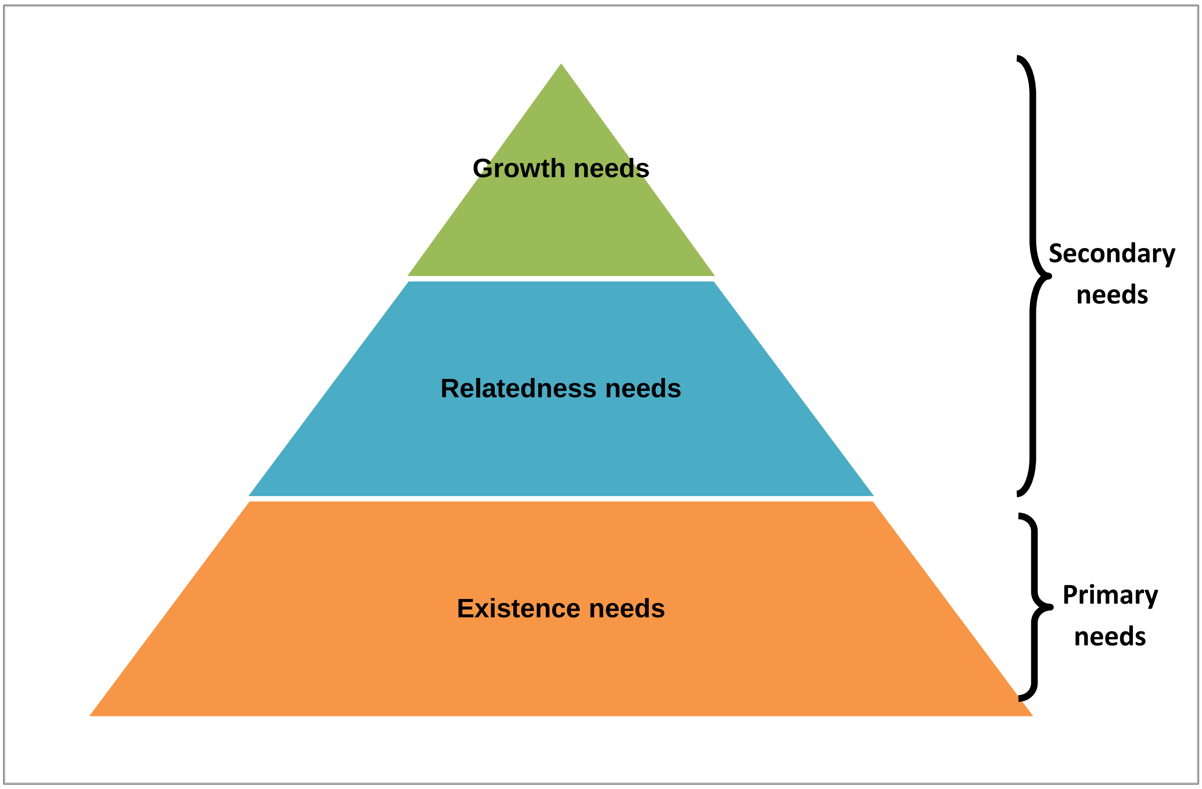
- Relatedness needs are the desire to feel recognised and secure and involve forming part of relationships with significant other people such as family, friends, co-workers and employers (Alderfer 1969; Venter & Botha 2014).

- Growth needs include those needs in which the individual induces creative or productive effects for himself and the environment in order to develop his ideal self (Alderfer 1969; Venter & Botha 2014).

Alderfer's ERG theory can also be depicted in hierarchical order (see figure 2.4).

FIGURE 2.4

ALDERFER'S ERG THEORY AS A HIERARCHY



Source: Adapted from Alderfer (1969)

Alderfer's ERG theory consists of three levels (figure 2.4). His first level of needs, namely existence needs, mainly consists of Maslow's first two levels (physiological and safety and security needs) and can also be referred to as primary needs. Alderfer's second level of needs, namely relatedness needs is a combination of Maslow's third and fourth levels (love and belonging and external esteem needs). The last level in Alderfer's ERG theory, namely growth needs, consists of Maslow's fourth and fifth levels (internal esteem needs and self-actualisation needs). Alderfer's second and third levels of needs can also be referred to as secondary needs.

The main differences between Maslow and Alderfer's theories can be summarised as follow:

- Firstly, according to the two theories lower-level needs have priority over upper level needs. As mentioned in the previous section (see section 2.2.3) Maslow's theory is that lower level needs should be satisfied before satisfying higher level needs. The ERG theory is not strictly ordered as it recognises that the order in the hierarchy of needs may be different for different people. This difference can be explained by way of an example. According to Maslow, satisfying upper level needs is unimportant for a hungry man, but according to Alderfer, a hungry man should be able to engage in higher-level needs, such as group activities, where he can satisfy upper level needs regardless of whether or not he has satisfied his hunger needs. The ERG theory therefore states that lower level-need satisfaction is not a requirement for upper-level need satisfaction. The ERG theory therefore provides for people's individual preferences.

- Secondly, according to Maslow a need stops existing after it has been fulfilled. Alderfer suggests that if an upper-level need cannot be fulfilled and a lower-level need seems easier to satisfy, a person may regress to an already satisfied lower-level need in the hierarchy for increased fulfilment of that need.

In the next section, Alderfer's ERG theory will be used to analyse the different financial needs. By using Alderfer's ERG theory and the classification of needs as primary or secondary needs, a framework of financial needs on which this study will focus can be developed (section 2.2.4.3).

2.2.4.3 Alderfer's framework of financial needs

Alderfer's theory can be extremely useful when analysing liabilities usage by individuals. For example, in order to satisfy existence needs, individuals use money to buy food, clothing, shelter and pay for medical insurance. Secondary needs such as relatedness needs can be fulfilled by forming part of group activities, for example, spending money to be part of a social group. Growth needs can be met by spending money towards self-improvement, namely paying for one's own education.

For the purposes of this study, Alderfer's ERG theory can also be used to form the basis of a framework of financial needs that might have an influence on an individual's credit usage. The list of different needs applied to Maslow's framework of needs was used to develop Alderfer's framework of needs (see table 2.1). The different needs according to Alderfer's ERG theory are then classified as primary needs or secondary needs (see table 2.2).

TABLE 2.2

A FRAMEWORK OF FINANCIAL NEEDS ACCORDING TO ALDERFER'S THEORY

Alderfer's levels of needs	Different needs for each category of Alderfer's theory	Classification as primary or secondary needs
Existence needs	Food Utilities (water) Clothes Shelter (house) Transportation (including motor vehicle) Utilities (electricity) Medical insurance Life insurance Disability insurance Funeral expenses Emergencies Personal care (beauty or barbershop, cosmetics) Household furnishings	Primary needs
Relatedness needs	Utilities (telephone, television, internet) Entertainment (movies, hobbies, sports club) Family and friends Contributions (gifts, school, church) Accessories (designer jewellery, shoes, handbags)	Secondary needs
Growth needs	Education Going on vacation	Secondary needs

Source: Compiled by the author

Table 2.2 classifies some of the important needs according to Alderfer's three levels of needs, following which, every need is further classified as a primary or secondary need.

2.2.4.4 Conclusion

This section investigates human needs. Maslow's ground-breaking theory of human needs is first described. Practical application of this theory revealed some limitations. Alderfer addressed some of these limitations by developing the ERG theory. In order to gain a better understanding of the liability usage of South Africans, this study analysed the needs satisfied when using credit products, according to Maslow's five levels of needs and Alderfer's three levels of needs. Hence both theories of human needs are tested later in this study to determine which of the two theories best describes South Africa's environment (see section 5.2).

2.2.5 Conclusion

In chapter 1, the four phases in the process of selecting credit products to satisfy financial needs were identified. This section discussed the first phase of this process by describing the development of financial needs (section 2.2.2), differentiating between two important human need theories namely Maslow's theory of human motivation (section 2.2.3) and Alderfer's ERG theory (section 2.2.4) and providing a framework of financial needs for each human need theory on which this study will focus. After identifying the individual's financial needs in phase 1, phase 2, namely analysing the individual's financial position, can be discussed (section 2.3).

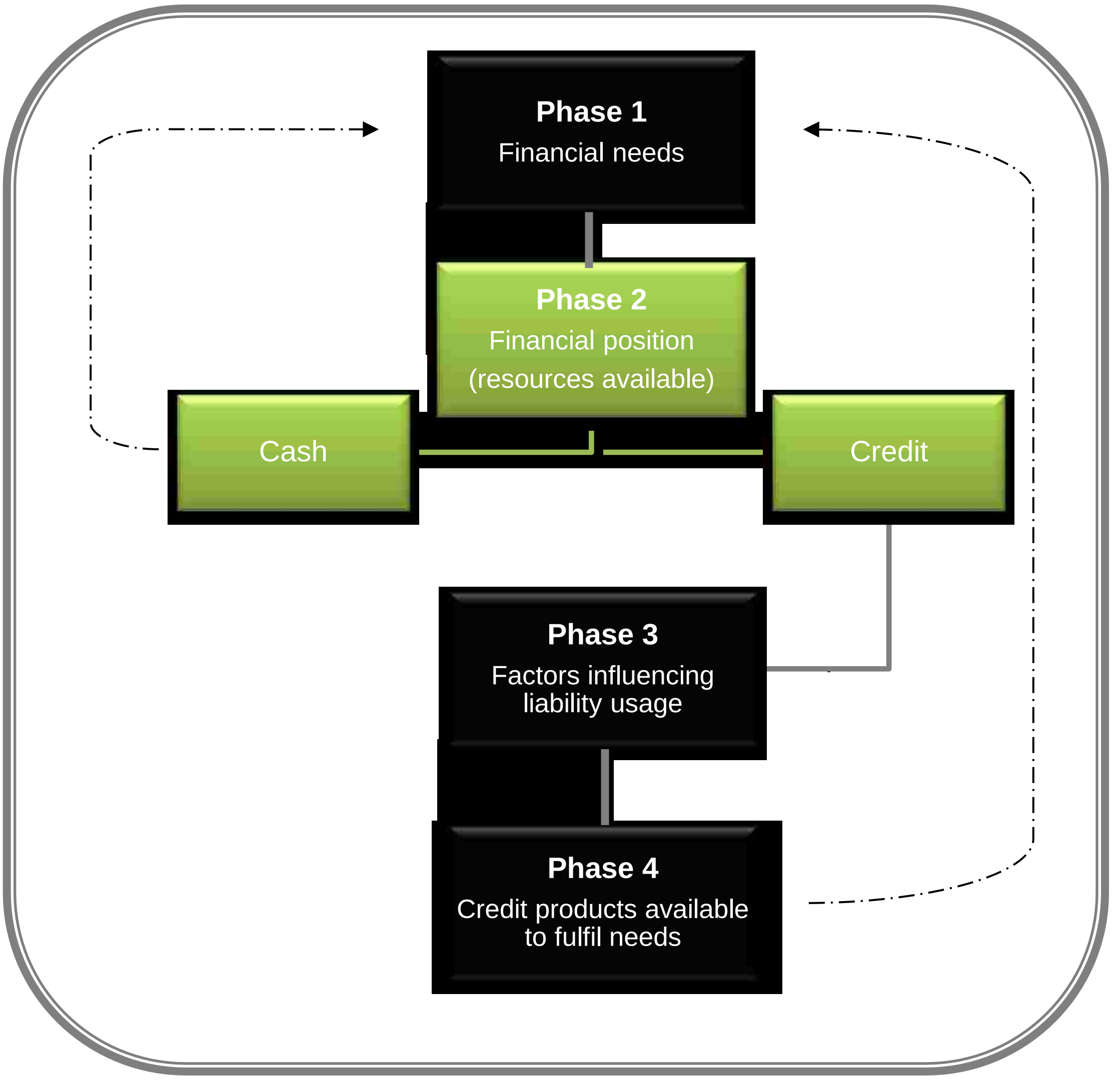
2.3 FINANCIAL POSITION

2.3.1 Introduction

There are four phases in the process of selecting credit products to satisfy the individual's financial needs (see section 2.1). The first phase, namely identifying the individual's financial needs was discussed in the previous section. In this section, the second phase of the process, namely analysing the individual's financial position is discussed, in order to determine the options that are available to fulfil the individual's financial needs. There are two options available to fulfil the individual's financial needs. The first option is to satisfy needs with available cash from existing assets. The second option is to use credit products by incurring liabilities to fulfil the individual's financial needs (see figure 2.5). After gaining a better understanding of the individual's financial position, the last two phases in the process are considered.

FIGURE 2.5

THE SECOND PHASE IN THE PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

Figure 2.5 illustrates that after the individual has identified a financial need (phase 1) he has to analyse his financial position (phase 2) to determine how the need will be satisfied financially. The individual's financial position therefore plays a significant role in the process of fulfilling financial needs because he has to consider whether he has sufficient cash or credit available to satisfy his needs. By applying the fundamental accounting equation (E (equity) = A (assets) – L (liabilities)), the individual has to decide whether he has existing assets from which he can withdraw cash (section 2.3.2) or whether he should incur liabilities (section 2.3.3) to satisfy financial needs. If the individual determines that he does not have sufficient assets or that he does not have access to liabilities, the financial need will remain unsatisfied (section 2.3.4).

2.3.2 Assets

The first option for an individual to satisfy financial needs is to use existing assets such as cash or liquid assets. Liquid assets are assets that are quickly accessible and can easily be converted into cash (Botha et al. 2009). The most common examples of liquid assets are unit trusts, shares and cash from call accounts (Botha et al. 2009).

If an individual has available cash or liquid assets it implies that he can withdraw the cash from his existing assets to fulfil the necessary financial needs. However, if he does not possess the necessary assets, he may consider an alternative, namely to incur liabilities, to fulfil his financial needs.

2.3.3 Liabilities

If the individual determines that cash from existing assets is not sufficient to fulfil his financial needs, he needs to consider the alternative option, namely to incur a liability. This implies that he could obtain credit by using formal or informal credit products (Finmark Trust 2010).

- Formal credit products are those provided by bank and non-bank financial institutions. These financial institutions are governed by the National Credit Act 34 of 2005 and regulated by the National Credit Regulator (Republic of South Africa 2006a). Since its implementation, the National Credit Act 34 of 2005 requires that an affordability assessment be done on all individuals applying for credit before granting it. The implementation of the affordability assessment has led to an increase in the rejection rates of credit applications (National Credit Regulator 2009), which indicates that access to credit is becoming increasingly difficult.

- Informal credit products are credit provided by non-regulated financial institutions. These credit products are not governed by a formal institution and include credit obtained, for example from friends, family or colleagues, societies or spaza shops (Finmark Trust 2010). According to Mashigo (2006), the problem with use of informal products by individuals who are unable to obtain formal credit products, is that they turn to abusive moneylenders to provide them with credit. These moneylenders are usually not registered and charge exorbitant interest rates which could result in over-indebted individuals (Mashigo 2006).

When an individual decides to use formal credit products, he should consider fulfilling a short-term financial need, such as the need for food, with a short-term credit product such as a credit card (Goodall, Rossini, Botha & Geach 2011). However, if he wants to fulfil a long-term financial need, such as the need to purchase a house, he should consider financing the purchase with a long-term credit product such as a mortgage loan (Goodall et al. 2011).

If an individual determines that he does not possess the necessary cash from his existing assets or that he does not have access to formal or informal credit to incur a liability, he will not be able to satisfy his financial needs (see section 2.3.4).

2.3.4 Unsatisfied financial needs

If an individual identifies a financial need and determines that he does not have sufficient assets or access to liabilities to satisfy the financial need, his financial need will remain unsatisfied. If the individual is unable to satisfy his own financial needs, such as those relating to basic human needs, he will probably become dependent on someone else, say, relying on government grants. The individual's inability to satisfy his own financial needs might be one of the reasons why 52% of South Africans are dependent on others for income (Finmark Trust 2010).

2.3.5 Conclusion

In chapter 1 the four phases in the process of selecting credit products to satisfy the individual's financial needs were identified. The previous section discussed the first phase of the process, namely identifying financial needs (section 2.2.). This section discussed the second phase in the process, namely analysing the individual's financial position by considering whether he has available cash from existing assets (section 2.3.2) or whether he should obtain credit by means of liabilities (section 2.3.3) to satisfy financial needs. Lastly, if the individual has insufficient access to cash or credit, his financial needs will remain unsatisfied (section 2.3.4) or he might become dependent on others to satisfy his financial needs.

After identifying the individual's financial needs in phase 1 (section 2.2) and analysing his financial position in phase 2 (section 2.3), the third phase of the process, namely determining the factors that influence liabilities usage can be discussed (section 2.4).

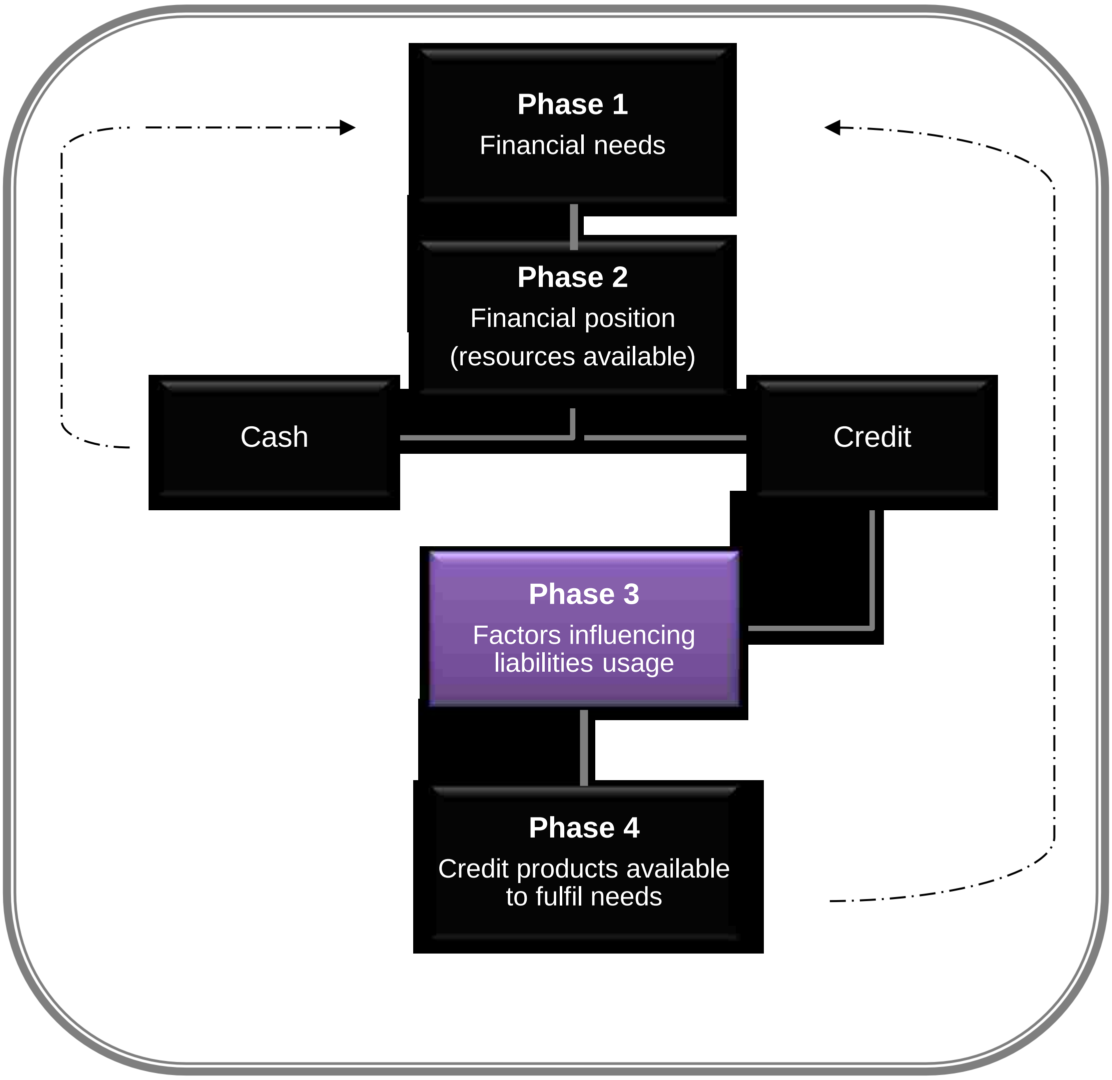
2.4 FACTORS INFLUENCING LIABILITIES USAGE

2.4.1 Introduction

The process of selecting credit products to satisfy the individual's financial needs can be divided into four different phases (see section 2.1). The first phase, namely identifying the individual's financial needs (see section 2.2) and the second phase, namely analysing the individual's financial position (see section 2.3) were discussed in previous sections. In this section the third phase in the process, namely determining the factors that influence the individual's liabilities usage are discussed (see figure 2.6). Finally, after gaining a better understanding of the factors that influence the individual's liabilities usage, the last phase of the process, namely determining which credit products can be used to fulfil the individual's financial needs are discussed (chapter 3).

FIGURE 2.6

THE THIRD PHASE IN THE PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS

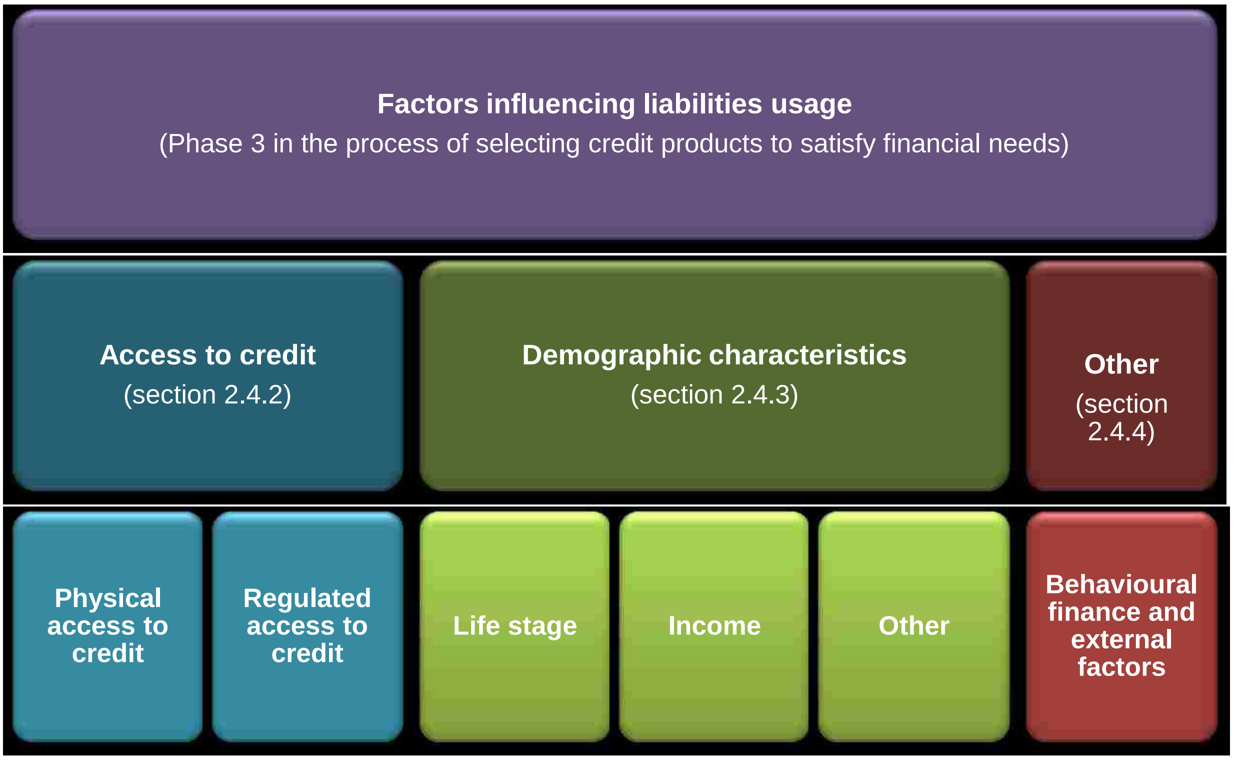


Source: Compiled by the author

The third phase in the process of selecting credit products to satisfy financial needs is to determine which factors influence the individual's liability usage (figure 2.6). Numerous studies have indicated that factors such as access to credit, demographic characteristics and certain other factors have an influence on the individual's liabilities usage (Tippet 2010; National Credit Regulator 2011; Botha et al. 2009). An analysis of the literature identified three groups of factors that influence the individual's liabilities usage (see figure 2.7).

FIGURE 2.7

FACTORS INFLUENCING THE INDIVIDUAL'S LIABILITIES USAGE



Source: Compiled by the author

Three main groups of factors that have an influence on the individual's liabilities usage are identified namely, access to credit (section 2.4.2), demographic characteristics (section 2.4.3) and certain other factors (section 2.4.4) (see figure

2.7). The three main groups can be subdivided into smaller segments which are discussed in the next sections.

2.4.2 Access to credit

2.4.2.1 Introduction

Regarding the process of selecting credit products to satisfy financial needs (section 2.1), access to credit is one of the factors that influences the individual's liabilities usage. Access to credit plays a vital role when individuals want to satisfy their financial needs (Finmark Trust 2010). For example, if an individual determines that his financial need is to buy food for his family, but according to his financial position he does not possess sufficient cash, the individual has to access credit or he might become dependent on others to satisfy this financial need. The importance of access to credit when satisfying financial needs can be seen in the growth of the gross debtors' book and the increase in the number of accounts (National Credit Regulator 2009). The number of accounts grew by about 12 million between 2002 and the end of June 2008, while the gross debtors' book grew from R360 billion to just over R1 trillion for the same period (National Credit Regulator 2009). Although there has been growth in the debtors' book over the past few years, it would seem that unemployed individuals and individuals in the lower income group still have limited access to credit (Finmark Trust 2010). The National Credit Act 34 of 2005 was implemented to improve accessibility to the credit market for all individuals.

Access to credit can be divided into two components, namely physical access to credit (section 2.4.2.2) and regulated access to credit (section 2.4.2.3).

2.4.2.2 Physical access to credit

Physical access to credit refers to the individual's physical ability to access financial facilities and infrastructure in his community (Finmark Trust 2010), for example, physical access to a bank branch where he can apply for credit. Some individuals face challenges in gaining physical access to financial facilities. Finmark Trust

(2010) reported that physical access limitations include challenges relating to transport, such as extensive travelling distances to reach financial facilities and limited access to electricity which restricts individuals from using electronic banking facilities. In urban communities where infrastructure is more developed, physical access is not problematic for most individuals because financial facilities are available around every corner (Micro Finance South Africa 2012). However, in rural and tribal communities where infrastructure is not as developed as in urban areas, physical access to financial institutions might cause problems. This is one of the reasons why more individuals in rural communities are financially excluded than in urban communities (Finmark Trust 2010).

The province in which an individual lives might also influence his physical access to credit. In South Africa, the Gauteng, KwaZulu-Natal and the Western Cape provinces have the largest economies and economic hubs in the provinces and are the main contributors to South Africa's economy (Statistics South Africa 2011). The National Credit Regulator (2010) reported at the end of December 2010 that the most credit granted was in the provinces with the biggest economies. Of the total credit granted for the quarter ended 31 December 2010, 43.99% of the credit granted was in Gauteng, followed by 14.84% in the Western Cape and 13.72% in KwaZulu-Natal. In the other provinces with smaller economies, credit granted varied between 1.72% in the Northern Cape and 6.54% in the Eastern Cape (National Credit Regulator 2010).

The area (e.g. rural or urban areas) and the province in which individuals live often have an influence on their decisions whether or not to make use of credit. Physical access to credit is therefore one of the factors that influences the individual's liabilities usage. Another factor that affects liabilities usage is regulatory access to credit (section 2.4.2.3).

2.4.2.3 Regulated access to credit

Regulated access to credit refers to access to financial services as determined by regulations stipulated in legislation. Various Acts, for example, the Bank Act 94 of

1990, Financial Advisory and Intermediary Services Act 37 of 2002 and National Credit Act 34 of 2005 influence the individual's financial product usage. The National Credit Act 34 of 2005, however, has the main influence on the individual's credit usage – hence the focus of this study is mainly on the regulations as stipulated in the National Credit Act 34 of 2005.

The following provisions of the National Credit Act 34 of 2005 affect access to credit:

- Firstly, access to credit is influenced by the affordability assessment requirement of the National Credit Act. Since its implementation, the National Credit Act requires that an affordability assessment must be done on all individuals applying for credit before credit providers may grant credit (Republic of South Africa 2006a: s 81(2)). The National Credit Act also stipulates that if credit providers do not meet the requirements of conducting affordability assessments, there are certain consequences that might have a financial impact on the credit provider (Republic of South Africa 2006a: s 84(1)).

  In terms of the affordability assessment, credit is granted to individuals on the basis that they can afford it instead of basing the individual's creditworthiness on the amount of income he earns. For example, before the implementation of the National Credit Act, an individual who earned R60 000 a month would almost automatically have access to any type of credit, but might not be able to afford it. However, the focus of the National Credit Act on affordability implies that an individual earning R6 000 per month might be more creditworthy than an individual earning R60 000 per month. The implementation of the affordability assessment led to an increase in rejection rates and contributed to a lower rate of new account acquisition (National Credit Regulator 2009). If individuals are found to be creditworthy in terms of the affordability assessment they should be able to access some form of credit (National Credit Regulator 2011).

- Secondly, access to and the demand for credit are often influenced by the cost of credit (Van der Walt & Prinsloo 1993; 1995). Before the National Credit Act came into effect, some credit providers inflated the pricing of their credit products. Since the implementation of the National Credit Act, the Act has had a specific influence on the pricing of credit because credit providers are required to charge interest and fees to a maximum, as stipulated in the Act. This has led to price reductions in some of the credit categories. For example, the maximum prescribed interest rate in 2008 for mortgages was 31.4% in comparison with the maximum prescribed interest rate of 17.1% in 2011 (National Credit Regulator 2011). These price reductions are an attempt to make it more affordable for certain individuals to obtain mortgages.

2.4.2.4 Conclusion

In the process of selecting credit products, access to credit plays a significant role when an individual wants to satisfy financial needs (see section 2.1). Access to credit is influenced by physical access (section 2.4.2.2) to financial facilities and regulated access (section 2.4.2.3) as determined by the National Credit Act 34 of 2005. However, even though access to credit plays an important role in the individual's liabilities usage when satisfying financial needs, it is not the only factor that determines who uses credit. Demographic characteristics (section 2.4.3) such as life stage, income and other factors could also indicate who the users of credit products are.

2.4.3 Demographic characteristics

2.4.3.1 Introduction

Although individuals qualify and have access to credit, some individuals might elect not to use credit. Previous studies identified the fact that demographic characteristics indicate who the users of credit are. In this section, demographic characteristics such as the life stages of individuals (section 2.4.3.2), the income of individuals (section 2.4.3.3) and other demographic characteristics (section 2.4.3.4) are discussed.

2.4.3.2 Life stages

Ando and Modigliani (1963) developed the life-cycle hypothesis which provides an understanding of the behaviour of households when it comes to saving and consumption over a lifetime. The life-cycle hypothesis proposes that households save during their earlier younger working years in order to fund consumption in retirement years, assuming that individuals consume at a constant present value of their life income.

International studies investigating the patterns of liabilities usage across the different life stages have reported that their results are consistent with the life-cycle hypothesis and show that as individuals become older, the likelihood of holding debt and the amount of each type of debt compared to total assets decreases (Yilmazer & DeVaney 2005; Tippett 2010; Gourinchas & Parker 2002; Schooley & Worden 2010; Thums, Newman & Xiao 2008; Kempson & Collard 2004; Weinberg 2006; Girouard, Kennedy & André 2007; Brown, Garino & Taylor 2008). In contrast with these findings, Lee et al. (2007) and the Employee Benefit Research Institute (2009) found that debt levels of older individuals were rising, especially in lower-income elderly families.

The life-stage model is widely used to classify individuals based on their personal circumstances as it combines age and family status of individuals. Life stages are defined differently by different authors (Botha et al. 2009; South African Advertising Research Foundation 2011; Finmark Trust 2010; Venter & Stedall 2010). South African reports, which use a life-stage definition, tend to use the one of the South African Advertising Research Foundation's All Media and Products Survey (2011). This study also uses these eight life stages (see table 2.3).

TABLE 2.3

LIFE STAGES OF INDIVIDUALS

Life stage	Characteristics
At-home singles (AHS)	• Up to 34 years old • Live with parents • Not married/not living together • Do not have any dependent children in the household (own or other children [up to the age of 21]) that the respondent is responsible for
Young independent singles (YIS)	• Up to 34 years old • Not living with parents • Not married/not living together • Do not have any dependent children in the household that the respondent is responsible for
Mature singles (MS)	• 35+ years old • Not married/not living together • Do not have any dependent children in the household that the respondent is responsible for
Young couples (YC)	• Up to 49 years old • Married/living together • No dependent children in the household that they are responsible for
Young families (YF)	• Married/living together • With at least one dependent child under 13 years in the household that they are responsible for
Single-parent families (SPF)	• Not married/not living together • With dependent children in the household that they are responsible for
Mature families (MF)	• Married/living together • With no dependent children under 13 years in the household that they are responsible for, but with

Life stage	Characteristics
	dependent children over the age of 13 years in the household
Mature couples (MC)	• 50+ years old • Married/living together • No dependent children in the household that they are responsible for

Source: South African Advertising Research Foundation (2011)

The first life stage involves the at-home single years and culminates in the mature life stages (table 2.3). Although different authors have different descriptions of life stages, the majority of studies agree that the financial needs of individuals differ from the financial needs of individuals in a different life stage (Tippett 2010; Schooley & Worden 2010; Weinberg 2006; Van der Walt & Prinsloo 1993).

With reference to the life-cycle hypothesis of Ando and Modigliani (1963), some financial needs remain constant and others vary as individuals move through their life stages (Swart 2002). Examples of financial needs that will always remain constant include financial needs relating to consumption of food, clothes and accommodation as individuals need to eat, be clothed and have a place to live throughout their lives. Other financial needs may vary for individuals in their different life stages (Botha et al. 2009). For example, young families, single-parent families and mature families might have the financial need to pay for their children's education, while young independent singles do not have this financial need, but have other financial needs such as purchasing furniture for homes. Financial needs that vary can therefore be of a permanent or temporary nature (Swart 2002). As discussed previously, in some cases, individuals might not have sufficient assets to pay for these financial needs and in order to smooth out their consumption over their lifetimes, they incur liabilities which they can repay when their income increases later in their life cycle (Barba & Pivetti 2009; Weinberg 2006).

Life stages are thus an important indicator of how the individual uses credit to fulfil his financial needs. Apart from life stages, there are also other demographic characteristics that need to be considered in the process of selecting credit products. Girouard et al. (2007), Castellani and DeVaney (2001) and Weinberg (2006) indicate that apart from life stages, income also has an influence on the individual's liabilities usage (section 2.4.3.3).

2.4.3.3 Income

According to Weinberg (2006), income can be seen as one of the main drivers that influences the financial decisions individuals make. However, income does not stay consistent and may vary over an individual's lifetime. Weinberg (2006) explains that there are two types of variations of income, namely predictable and unpredictable income variation. Predictable income variation is the typical life stage income fluctuation where an individual's income changes according to life stage. This is explained by the rise in income from young adulthood into middle age, after which income decreases as the individual moves into the retirement phase. Unpredictable income variation involves a household experiencing shocks which, in turn, affect the income that they receive. Some shocks might be temporary and more specific to a household - for example, an illness where an individual might not earn income for the period of the illness. Other shocks might be more permanent and not only affect the household, but also larger groups of people. A decline in income on account of a change in employment level in a certain industry (such as the mining industry) and where ups and downs of the business cycle are experienced, would be examples of more permanent shocks. As a result of these shocks and the disruption of income, the individual starts using financial products to smooth out consumption over his lifetime. This means that individuals obtain credit to satisfy their current financial needs which is repaid at a later stage when their income increases (Van der Walt & Prinsloo 1993). However, for individuals to be in a position to obtain credit, one of the requirements in terms of the National Credit Act 34 of 2005 is that they be able to afford credit in order to repay their loans at a later stage (see section 2.4.2.3). Income is one of the factors that influences the individual's affordability of credit. Individuals who earn more income will usually have more available disposable income. This implies that they should then be in a position to afford more credit than individuals earning lower disposable incomes.

Studies in the United States, United Kingdom and in South Africa reported that liability usage is often influenced by the income group that individuals fall in. In the United States, borrowing by households of different income groups has grown on average, but the highest level of growth has been in the medium- and lower-level household income groups (Weinberg 2006). Dickerson (2008) explains that Americans, especially lower- and middle income individuals, satisfy their financial needs by borrowing money, but have no idea how they will repay their debts in the future. In the United Kingdom and United States, studies (Kempson & Collard 2004; Barba & Pivetti 2009) agree that individuals receiving lower incomes or individuals experiencing disruptions or changes in their income tend to have higher debt levels. According to Tippett (2010), labour market instability and growing wage inequality in the United States are seen as some of the disruptions or changes to income which can lead to higher debt levels.

According to Finmark Trust (2010), when granting credit, financial institutions in South Africa tend to focus on individuals who are employed and earn salaries or wages. Mashigo (2006) reported in her research among the poor households in South Africa, that individuals often do not possess payslips as proof of employment or do not have any collateral when they want to apply for loans, which makes it even more difficult to obtain loans from the formal banking sector. These poor households often depend on abusive non-regulated moneylenders to provide them with credit. Similar to South Africa, poor households in the United States are also more credit constrained than households that are better off in terms of access to credit (Tippett 2010).

In South Africa, the National Credit Regulator reports data regarding debt held by different income groups. The data clearly illustrates that levels of debt differ across individuals in different income groups and that individuals in different income groups make use of different types of credit (National Credit Regulator 2010). See table 2.4 for the number of agreements for each type of credit held by the different income groups.

TABLE 2.4

NUMBER OF CREDIT AGREEMENTS PER TYPE – DECEMBER 2010

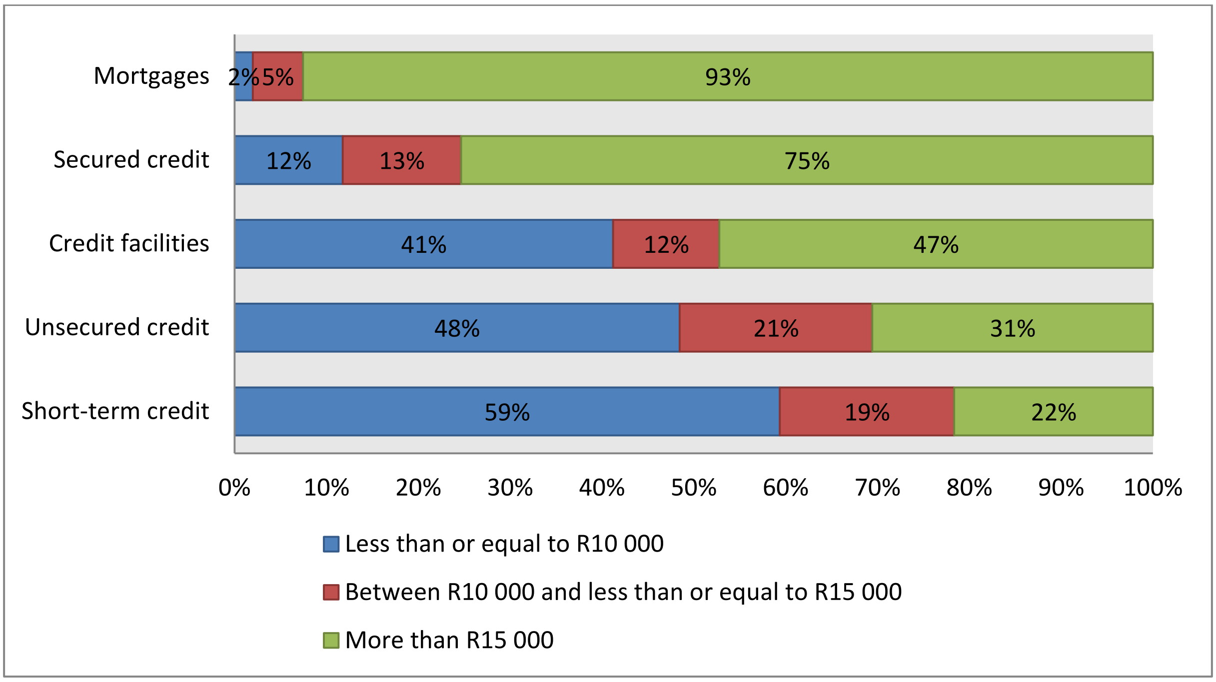
Type of credit	Number of agreements per income group			
	Less than or equal to R10 000	**Between R10 000 and less than or equal to R15 000**	**More than R15 000**	**Total number of agreements**
Mortgages	2 530	5 288	34 620	42 438
Secured credit	274 035	47 744	116 792	438 571
Credit facilities	1 609 793	228 165	406 656	2 244 614
Unsecured credit	788 285	172 896	195 336	1 156 517
Short-term credit	937 048	250 105	226 946	1 414 099

Source: National Credit Regulator (2010)

Table 2.4 illustrates that for the quarter ended December 2010, the greatest number of agreements were concluded for most types of credit for individuals falling in the gross monthly income group of earning less than or equal to R10 000 per month, with the exception of mortgages. The number of mortgage agreements concluded for the December 2010 quarter was in favour of individuals receiving a gross monthly income of R15 000 and more, while agreements concluded with individuals in the lower-income groups remained extremely low (National Credit Regulator 2010). Figure 2.8 indicates the proportion of credit held by the different income groups for each credit type.

FIGURE 2.8

CREDIT GRANTED PER TYPE



Source: National Credit Regulator (2010)

Figure 2.8 illustrates that individuals in the higher-income group, earning a gross monthly income of R15 000 or more, held more than 90% of the total rand value of mortgage loans for the quarter ended December 2010. The reason for this could be the fact that mortgage loans are not affordable to the lower- and middle-income groups and therefore these individuals do not qualify for mortgage loan credit in terms of the National Credit Act. Overall, unsecured credit and short-term credit appear to be the most popular types of credit held by individuals earning a gross monthly income of R15 000 or less.

The income that an individual earns is thus a crucial factor that influences his liabilities usage. Whether or not an individual earns income can determine whether he will have access to credit. Not only does the amount of income determine how much credit the individual can afford, but it can also determine what type of credit products he can obtain to satisfy his financial needs. Except for life stage and income, other demographic factors might also influence liabilities usage of individuals (see section 2.4.3.4).

2.4.3.4 Other

Various aspects of household demographic characteristics have been examined in previous studies (Tippett 2010; Lee et al. 2007; Mashigo 2006). Although the focus of the studies, sources of data and methods differ slightly, the findings suggest that specific demographic characteristics are frequently related to the liabilities usage of individuals. The findings for different demographic characteristics are as follows:

- ***Race***

  Lee et al. (2007) found that race is one of the demographic characteristics that has an influence on the probability of holding debt and reported that African Americans are more likely to hold debt. Tippett (2010), however, reported contradictory results and reported that African Americans are less likely to hold debt. Regarding credit products, Yilmazer and DeVaney (2005) found that the different races hold different types of credit products.

- ***Gender***

  According to Tippett (2010), females in the United States do not have as many financial resources resulting in them incurring more debt to cover daily expenses more often. In their study, Yilmazer and DeVaney (2005) reported that females and males are likely to hold different kinds of debt. Lyons and Fisher (2006) found that divorced women often smooth out consumption by borrowing more. These divorced women then also often struggle more to repay debt than divorced men.

- ***Marital status***

  Different studies found different results when considering marital status. In the United States, it was reported that single individuals are less likely to hold debt than married or divorced couples (Tippett 2010). However, contradicting these findings, other studies in the United States and United Kingdom (Lee et al. 2007; Brown et al. 2008) found that married individuals are more likely to incur debt. Yilmazer and DeVaney (2005) also propose that married couples are more likely to hold any type of debt in comparison with single individuals.

- ***Family size***

  The family size of a household is also a useful indicator of debt usage. Various studies found that larger households are usually more likely to hold debt (Lee et al. 2007; Tippett 2010; Kempson & Collard 2004). Yilmazer and DeVaney (2005) also reported that larger households hold different types of debt than smaller households.

- ***Employment status***

  In addition to income (section 2.4.3.3) employment status also plays a role in the individual's liabilities usage. Studies (Lee et al. 2007; Mashigo 2006; Kempson & Collard 2004; Yilmazer & DeVaney 2005) reported that employment status influences the levels of debt and the type of debt that individuals incur.

- ***Educational status***

  Studies evaluating the impact of education on liabilities usage of individuals found that individuals with higher levels of education are more likely to hold debt (Lee et al. 2007; Tippett 2010; Brown et al. 2008). Yilmazer and DeVaney (2005) reported a difference in the type of credit used by individuals depending on their education status. For example, individuals with a college education are more likely to hold mortgage loans but less likely to hold credit card and instalment debt.

  In contrast, Mashigo (2006) reported that the lack of education was sometimes the cause of expensive credit transactions because individuals often do not understand or comprehend the legislation or documents placed before them when entering into a credit transaction.

- ***Health status***

  Individuals who have health problems themselves or individuals caring for someone else who has health problems could also influence liabilities usage. In some cases, problems with health can affect the individual's ability to work and therefore result in lower income or no income at all (Kempson & Collard 2004). According to Tippett (2010), individuals with health problems have increased medical costs and are therefore more likely to have more debt than healthy individuals. Yilmazer and DeVaney (2005) also reported that individuals with poor health status are less likely to hold credit card debt and instalment credit and hold other types of debt such as loans on insurance policies, loans for other residential and non-residential properties, loans for businesses, loans against pension funds and other lines of credit.

2.4.3.5 Conclusion

With reference to the literature reviewed in this section it is evident that demographic characteristics influence the individual's liabilities usage. As reported by the studies discussed, demographic characteristics, namely life stages (section 2.4.3.2), income (section 2.4.3.3) and other demographic characteristics (section 2.4.3.4) such as race, gender, marital status, family size, employment status, educational status and health status indicate which individuals make use of credit products to satisfy their financial needs.

2.4.4 Other factors

2.4.4.1 Introduction

Apart from access to credit (section 2.4.2) and demographic characteristics (section 2.4.3), studies into debt usage also identified other factors, namely behavioural finance (section 2.4.4.2) and external factors (section 2.4.4.3) that influence the individual's use of credit.

2.4.4.2 Behavioural finance

When an individual decides to make use of credit, it is imperative to understand his psychology and emotions on which he bases his financial decisions (Goodall et al. 2011). According to them (2011), behavioural finance, which describes the cognition, emotions and social environment of an individual, plays a role when financial decisions are made. Cognition refers to the way the individual perceives and organises information. The emotion of the individual and how he feels when registering information also has an effect on his financial decisions. The individual's social environment, which includes his personality type, social norms or cultural group, gender, education, thinking preference, peer group pressure or casual investment conversations, all have an influence on his decision whether or not to make use of credit.

2.4.4.3 External factors

External factors include factors which arise from the political, legislative, social, economic and physical environments. Some of these factors are at times predictable, while others are unpredictable, once-off occurrences. For example, Christmas is a predictable external factor, because it is a regular event which is celebrated every December. During this time it is expected that shopping expenditure is much higher than during the rest of the year. An unpredictable event is when an individual becomes disabled after an accident which will have a major impact on his life and financial position. External factors can be explained in table 2.5.

TABLE 2.5

EXTERNAL FACTORS

External factors	Explanation of each external factor
Political	Political factors are those which will affect the individual and include changes to policies or changes to government which can also have an impact on the investment potential of a country.
Legislation	The legislation environment and the political environment are mostly intervened as the government determines legislation. Legislation factors include any changes to legislation that have an impact on the individual, for example changes to the Income Tax Act.
Social	The social environment is determined by how individuals live and consume goods. Recent changes in the social environment in South Africa have been the change in the role of women in the last two decades. Nowadays, most women have a working career as opposed to previous years where they remained at home.

External factors	Explanation of each external factor
Economic	From an economic environment perspective, changes to the interest rate, inflation rate, equity prices, consumer spending and housing prices can also influence the liabilities usage of individuals.
Physical	Factors such as injury or illness of an individual or the loss of income form part of the physical environment factors that have an influence on the individual's liabilities usage.

Source: Adapted from Botha et al. (2009)

2.4.4.4 Conclusion

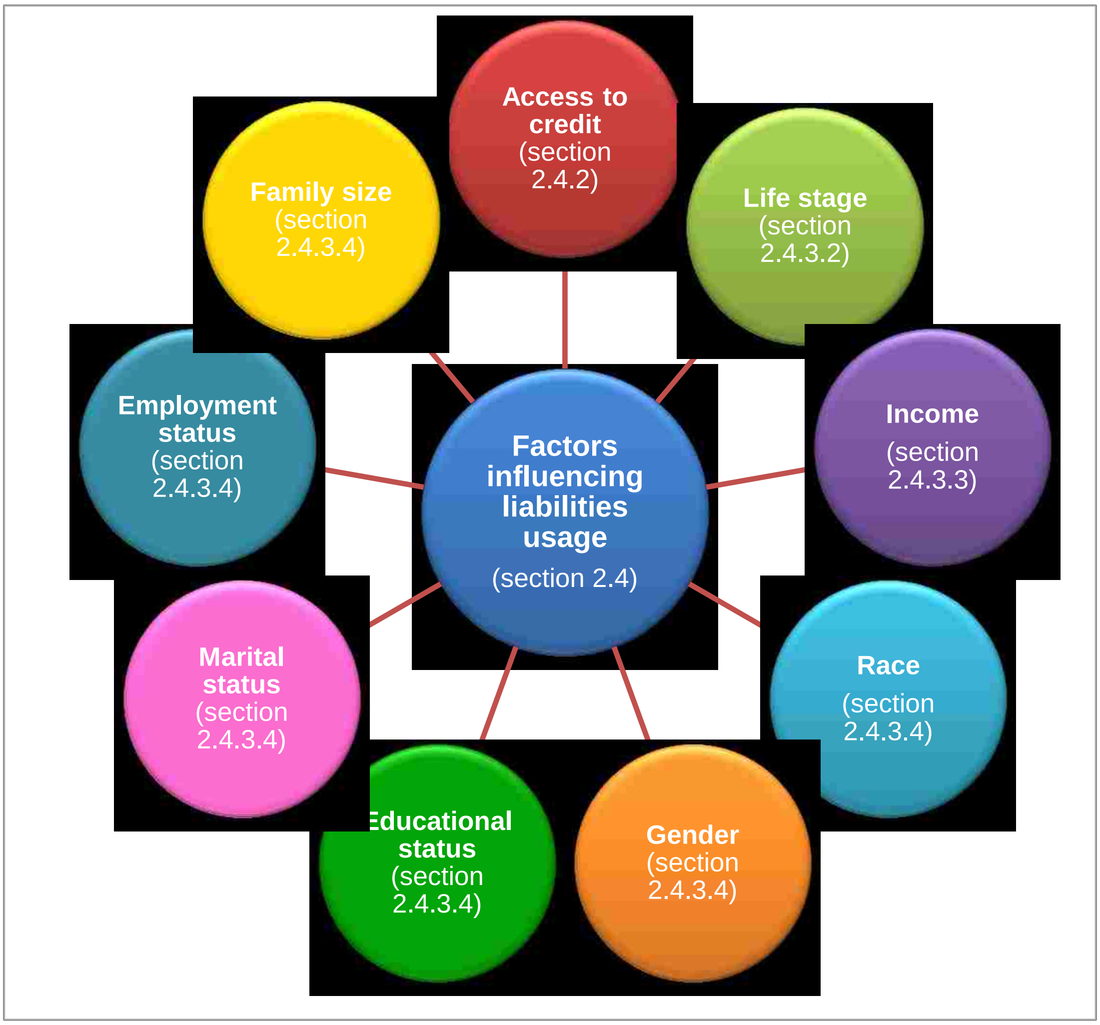
Behavioural finance (section 2.4.4.2) and external factors (section 2.4.4.3) are some of the other factors that have an influence on the individual's liabilities usage. For the purposes of this study, these factors should be borne in mind, even though this study will mainly focus on the factors discussed in earlier sections, namely access to credit (section 2.4.2) and demographic characteristics (section 2.4.3).

2.4.5 Conclusion

In chapter 1, the four phases in the process of selecting credit products to satisfy the individual's financial needs were identified. In the previous sections, the first phase, namely identifying the individual's financial needs (section 2.2) and the second phase, namely analysing the individual's financial position (section 2.3), were discussed. This section discussed the third phase in the process, namely determining the factors that influence the individual's liability usage. The factors that affect the individual's liabilities usage that were considered were divided into three main groups, namely access to credit (section 2.4.2), demographic characteristics (section 2.4.3) and other factors (section 2.4.4). After considering all of the factors in the previous sections, this study will only focus on certain factors for which sufficient information is available (see figure 2.9).

FIGURE 2.9

FACTORS INFLUENCING LIABILITIES USAGE OF INDIVIDUALS



Source: Compiled by the author

In phase 3 of the process of selecting credit products to satisfy financial needs, the factors that influence the individual's use of credit were considered. After considering all the factors in the literature review and the availability of secondary data for analysis purposes, this study will only focus on the factors indicated in figure 2.9.

Having gained a better understanding of the factors that influence the individual's liabilities usage (phase 3), the last phase of the process, namely determining which credit products can be used to fulfil the individual's financial needs (phase 4) is discussed. Owing to the comprehensive overview of the variety of products available in South Africa, phase 4 of the process of selecting credit products to satisfy financial needs is discussed separately in chapter 3.

2.5 CONCLUSION

Chapter 1 identified four different phases in the process of selecting credit products to satisfy financial needs (section 1.3.3). In this chapter, the first three phases of the process were discussed.

In the first phase, namely identifying financial needs (section 2.2), the individual's unique human needs which result in financial needs (section 2.2.2) were described and the two main theories namely Maslow's theory of human motivation (section 2.2.3) and Alderfer's ERG theory (section 2.2.4) were discussed.

After identifying the financial needs in the first phase, the second phase in the process, namely analysing the financial position (section 2.3) was discussed. The individual's financial position is analysed by applying the fundamental accounting equation (E = A – L), where the individual has to decide whether he has sufficient cash available from existing assets (section 2.3.2) or whether he should obtain credit by means of liabilities (section 2.3.3) to satisfy financial needs. If the individual does not have access to cash or credit, his financial needs will remain unsatisfied (section 2.3.4). However, if the individual does have access to credit, the third phase in the process of selecting credit products should be considered.

In the third phase of the process of selecting credit products, the factors that influence liabilities usage (section 2.4) were considered. The factors that were considered are divided into three main groups, namely access to credit (section 2.4.2), demographic characteristics (section 2.4.3) and other factors (section 2.4.4). As part of the conclusion in the third phase, the factors that will be analysed in this study were determined (see section 2.4.5).

In summary, this chapter discussed the first three phases in the process of selecting credit products and therefore addressed the first research objective of the study (section 1.1.2), namely:

- Develop a theoretical framework for the process of selecting credit products to satisfy financial needs of South Africans by
  - identifying the individual's financial needs (section 2.2)
  - analysing the individual's financial position (section 2.3)
  - determining the factors that influences the individual's liabilities usage (section 2.4)

In order to achieve the second research objective of the study (see section 1.1.2), the fourth phase in the process, namely determining which credit products can be used to fulfil the individual's financial needs, is discussed in chapter 3.

CHAPTER 3
THEORETICAL FRAMEWORK FOR THE LAST PHASE IN THE PROCESS OF SELECTING CREDIT PRODUCTS

3.1 INTRODUCTION

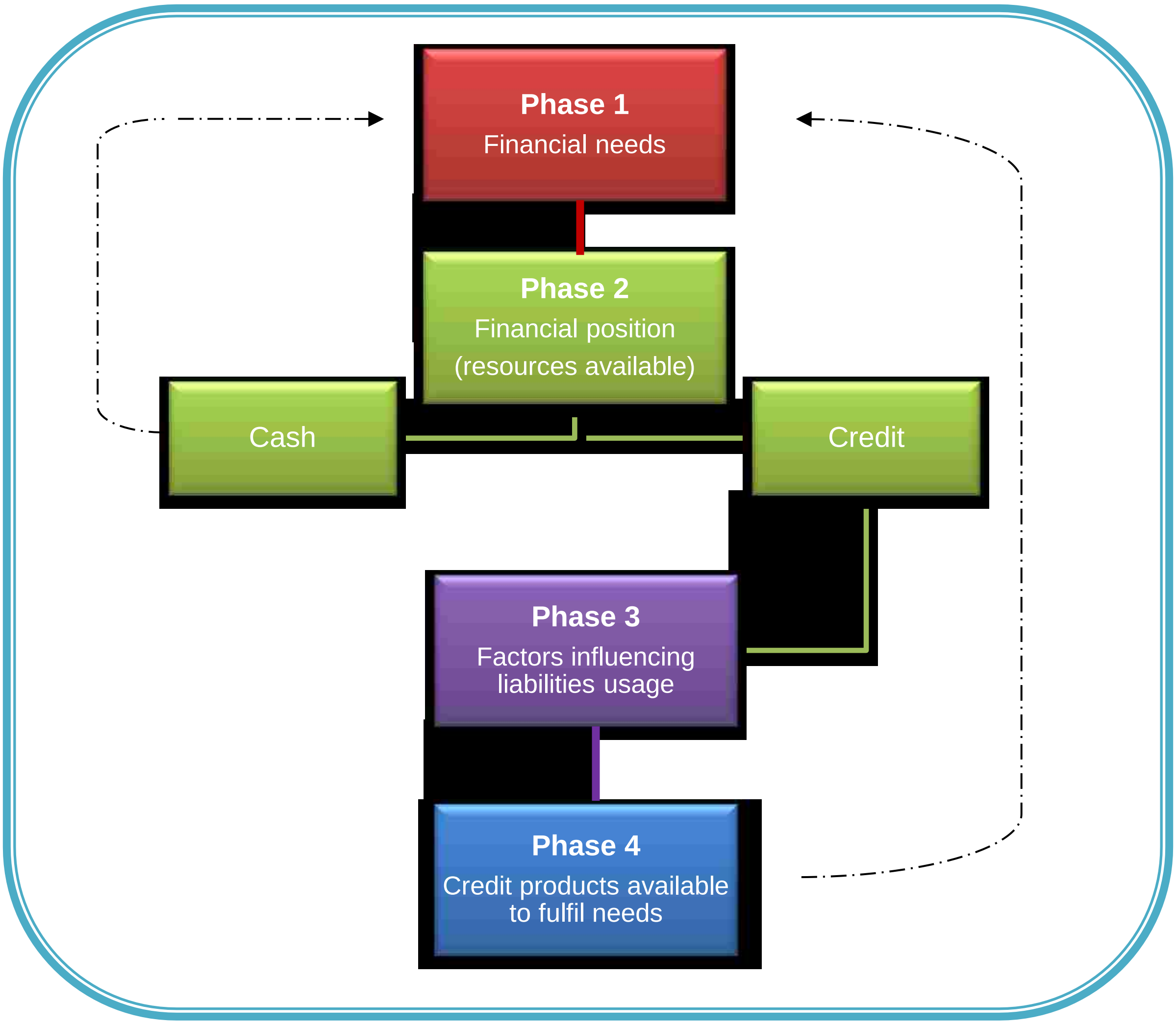
Chapter 1 identified four different phases in the process of selecting credit products to satisfy financial needs. In chapter 2, a theoretical framework for the first three phases of the process was developed, namely:

- identifying a financial need (phase 1)
- analysing the individual's financial position (phase 2) and
- determining the factors that influence the individual's liabilities usage (phase 3)

In this chapter, the last phase, namely determining which credit products can be used to fulfil the individual's financial needs (phase 4), is discussed (see figure 3.1) and used to develop a debt classification framework.

FIGURE 3.1

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

Figure 3.1 indicates that the last phase in the process of selecting credit products to satisfy financial needs entails determining which credit products are available to fulfil financial needs as identified in the first phase.

This chapter will address the second research objective of the study (section 1.1.2) namely:

- Analyse the different credit products available to develop a debt classification framework which can be used to indicate which credit products were developed to satisfy different types of needs.

In order to determine which credit products are available to fulfil the financial needs of individuals in South African households, this chapter will first gain a better understanding of who the users of credit products are in terms of the financial inclusion terminology in South Africa (section 3.2), followed by a discussion of the different types of credit products and the purpose for which they are used (section 3.3). Thereafter the different debt classifications will be discussed in order to provide a framework of credit products on which this study will focus (section 3.4).

3.2 FINANCIAL INCLUSION IN SOUTH AFRICA

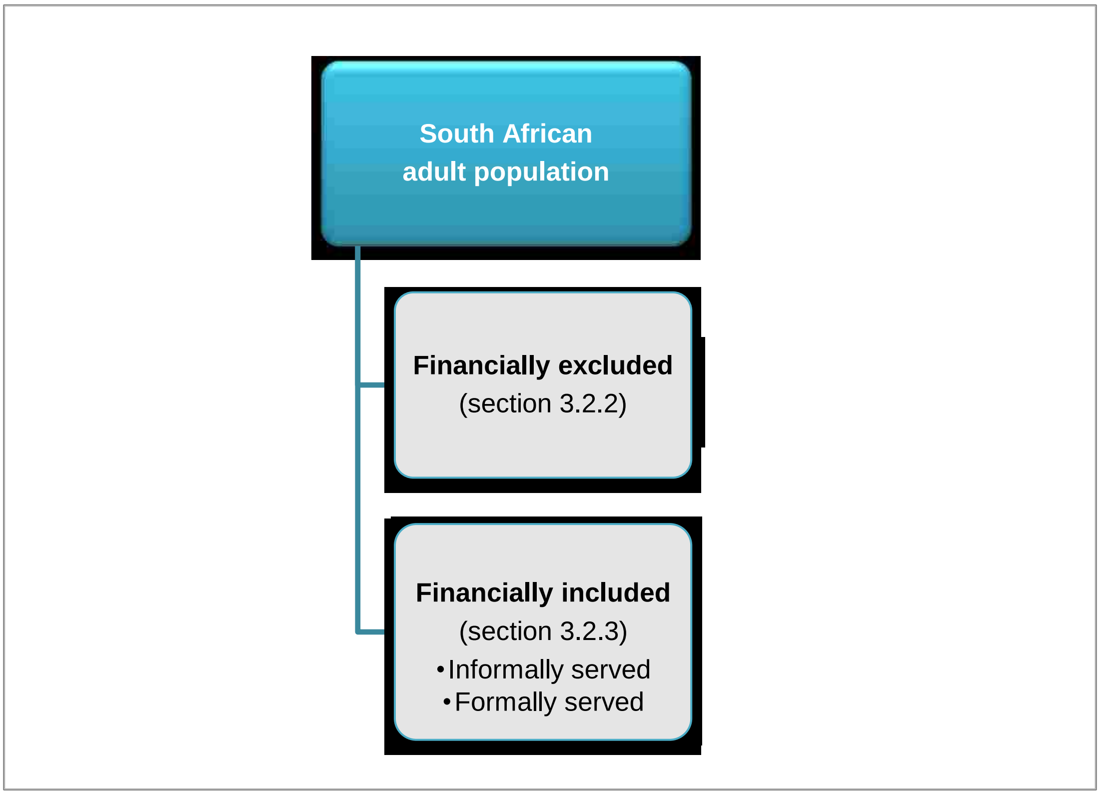
3.2.1 Introduction

As discussed previously, there are four phases in the process of selecting credit products to satisfy the individual's financial needs (see section 3.1). The first three phases of this process were discussed in chapter 2. This chapter deals with the fourth phase which is to determine which credit products are available to individuals when they decide to use credit in order to satisfy their financial needs. Before discussing the different types of credit products and the purposes for which they are used, it is essential to gain an understanding of who the users of these credit products are in terms of the financial inclusion terminology of South Africa.

According to the financial inclusion terminology, individuals of the South African population can either be financially excluded or financially included (Finmark Trust 2010). Individuals who are financially excluded usually do not have access to informal and formal financial institutions and often turn to friends, family or colleagues if they wish to obtain credit. Financially included individuals usually do have access to informal and/or formal financial institutions and are therefore classified as informally and/or formally served individuals (see figure 3.2).

FIGURE 3.2

SOUTH AFRICAN POPULATION FINANCIAL INCLUSION OUTLINED



Source: Adapted from Finmark Trust (2010)

As indicated in figure 3.2, South African individuals can either be financially excluded (section 3.2.2) or financially included (section 3.2.3). Individuals who are financially included are further classified as informally and/or formally served individuals.

3.2.2 Financially excluded individuals

Financially excluded individuals borrow from friends, family or colleagues and do not have or use financial products and/or services from any formal or informal financial institution (Finmark Trust 2010). However, in some cases individuals choose not to use formal or informal financial products and/or services because it is much easier to obtain money from their friends, family or colleagues.

3.2.3 Financially included individuals

Financially included individuals do make use of financial products and/or services from financial institutions. These individuals can be informally served individuals and/or formally served individuals (Finmark Trust 2010).

- ***Informally served individuals.*** These are individuals who use informal financial products and/or services and borrow from non-regulated informal financial institutions such as societies, employers, pawnshops, private moneylenders (mashonisas) or local spaza shops (Finmark Trust 2010). The different informal credit products are discussed in more detail in section 3.3.2.

- ***Formally served individuals.*** These are individuals who use formal financial products and/or services provided by bank or non-bank financial institutions (Finmark Trust 2010). The South African Reserve Bank mainly regulates the financial products and/or services provided by banks. Some financial products and/or services provided by bank and non-bank financial institutions are regulated by other statutory regulators (e.g. the Financial Services Board) or industry regulators (e.g. Micro Finance South Africa). Apart from these regulatory institutions, the National Credit Regulator regulates the different credit products which formal financial institutions provide. The different formal credit products are discussed in more detail in section 3.3.3.

3.2.4 Conclusion

In order to gain a better understanding of who the users of credit products are, it is necessary to refer to the financial inclusion terminology of South Africa. Individuals are either financially excluded (section 3.2.2) or financially included (section 3.2.3). Financially excluded individuals only have the option of obtaining credit informally from friends, family or colleagues. Financially included individuals can obtain credit informally and/or formally. Informally served individuals usually make use of informal credit products and/or services (section 3.3.2). However, formally served individuals usually make use of formal credit products and/or services when they decide to obtain credit (section 3.3.3).

3.3 TYPES OF CREDIT PRODUCTS

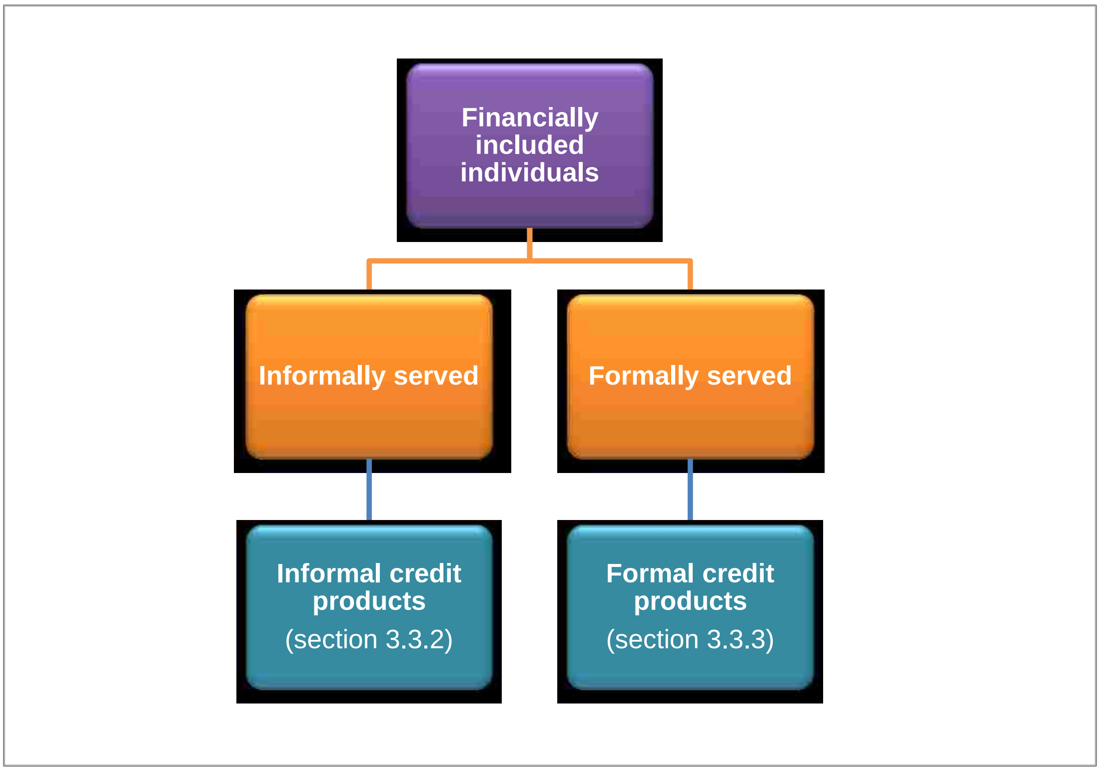
3.3.1 Introduction

This chapter deals with the fourth phase of the process of selecting credit products, namely to determine which credit products are available to individuals when they decide to use credit to satisfy their financial needs.

In order to determine which credit products are available to satisfy financial needs, one needs to understand the different credit products and their intended purposes. Financially excluded individuals only have the option of obtaining credit from friends, family or colleagues (section 3.3.2.1). However financially included individuals can either be informally served by using informal credit products (section 3.3.2) or formally served by using formal credit products (section 3.3.3) to satisfy their financial needs (see figure 3.3).

FIGURE 3.3

CREDIT PRODUCTS USED BY FINANCIALLY INCLUDED INDIVIDUALS



Source: Compiled by the author

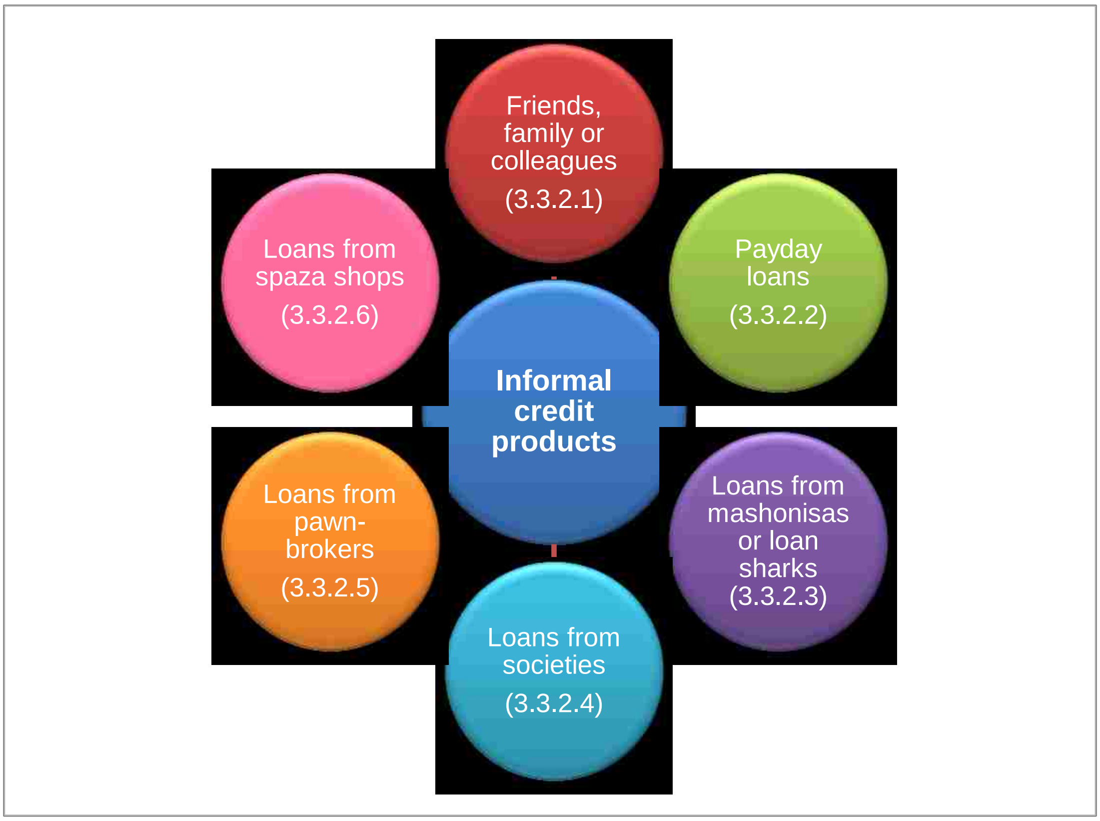
Over the years, financial institutions have developed different credit products to meet specific financial needs of individuals. An understanding of the types of credit products available and the purpose for which each of these products was developed will help to classify credit products used to satisfy specific financial needs. Although it is not possible to discuss each type of credit product available in South Africa, credit products can be divided into main groups of products with similar characteristics. The different credit products can be classified as either informal credit products (section 3.3.2) or formal credit products (section 3.3.3).

3.3.2 Informal credit products

Informal credit products are products provided by non-regulated financial institutions to the South African population (Finmark Trust 2010). Although several different informal credit products exist, this study only focuses on the main groups of informal credit products as indicated in figure 3.4.

FIGURE 3.4

INFORMAL CREDIT PRODUCTS



Source: Compiled by the author

This section will discuss the six main groups of informal credit products (figure 3.4). In order to obtain an understanding of each of the groups of informal credit products and the purposes for which they are used, each section will first briefly describe the group of informal credit products. Thereafter, each section will also discuss the purpose for which each credit product is used by referring to the two theories of human needs, namely Maslow's theory of human motivation (see section 2.2.3) and Alderfer's ERG theory (see section 2.2.4).

3.3.2.1 Friends, family or colleagues

Friends, family or colleagues often provide individuals with credit to satisfy their financial needs. This is sometimes a cheaper form of credit and is also easier to obtain because there is no formal application process involved (Swart 2003).

Loans from family, friends or colleagues are unsecured loans, normally of a short-term nature. Individuals usually obtain this type of loan to satisfy primary needs. Loans from family, friends or colleagues can be used to pay for food, transport, electricity or medical expenses (Finmark Trust 2010). According to Maslow's theory of human motivation, these needs can be classified as physiological or safety and security needs. Alderfer classifies these needs as existence needs.

3.3.2.2 Payday loans

A payday loan is a short-term loan that is repaid in full by the individual when he receives his next salary (Stegman 2007). The terms and conditions are determined by the payday lender and vary from one lender to another.

Payday loans are secured by the individual's next salary. These loans are similar to loans from friends, family or colleagues but involve an independent third party. Payday loans are traditionally classified as informal credit products, although some formal registered credit providers may also offer payday loans. Payday loans are short-term loans which are usually used to satisfy primary needs (Maslow 1943; Alderfer 1969).

3.3.2.3 Loans from mashonisas or loan sharks

A mashonisa is a township moneylender who makes a profit by lending out his own money according to his terms and conditions (Finmark Trust 2010).

A loan shark is a person or a group of people who make a profit by lending money to individuals at exorbitant interest rates. These lenders are not registered with the Micro Finance Regulatory Council (Mashigo 2006).

Loans from mashonisas or loans sharks are unsecured loans. Most loans provided by these institutions are short-term loans which are used to satisfy primary needs but can also be of a long-term nature which deals with Maslow's and Alderfer's higher levels of needs. Cash received from these loans is predominantly used for emergencies, luxuries, home improvement, family rituals (labola), education, business opportunities, debt clearance or top-up of income (Micro Finance South Africa 2012).

3.3.2.4 Loans from societies

A society may be described as a group of voluntary, organised individuals who are related to each other through persistent relations, social or geographical groupings with the same political authority and cultural expectations. Societies are collaborative because they can enable their members to benefit at an individual and social level, which would not have been possible otherwise. There are many kinds of societies, but for the purpose of this study, examples of societies include stokvels, burial societies or umgalelos (Finmark Trust 2010).

In South Africa, Finmark Trust (2010) identified the following three types of societies:

- Stokvels are clubs or syndicates which serve as rotating credit unions. Members of stokvels are required to contribute a fixed amount of money on a regular basis and, in turn, a different member of a stokvel may collect the money at the end of the month or at any other period as determined by the stokvel. Members of a stokvel may then use the money to fulfil their personal needs.

- Burial societies insure their members by paying out funeral expenses in the case of death of the member or a close relative of the member such as a husband, wife or child. The terms and conditions of being a member differ from one burial society to the next, but in order to become a member of a burial society, the member is usually required to pay a joining fee and monthly fees and agree to certain regulations for the burial of members and their relatives.

- Umgalelos are rural rotating credit schemes where money is collected by means of monthly contributions from a social network. At the end of each month, a different member receives money from this savings club and the money may be used as each member deems fit.

Loans from societies are unsecured loans. As can be seen from the description above, loans from societies are mostly short-term loans. However, depending on the individual's needs, these loans can also be of a long-term nature.

These loans are used to satisfy primary needs (physiological or safety and security needs according to Maslow's theory of needs). Physiological needs include, for example, the need for food and water (see section 2.2). Safety and security needs include, for example, paying for medical and funeral expenses or paying for a child's education (see section 2.2). Alderfer classifies these needs as existence needs.

3.3.2.5 Loans from pawnbrokers

A pawnbroker is an individual or a business that offers individuals credit by holding personal property as security which is then used as collateral. Personal property items may either be sold to the pawnbroker for an amount of cash or they can be pawned for a loan. If an individual pawns an item to a pawnbroker, the pawnbroker may keep the item and provides the individual with an amount of cash repayable over an agreed period including the agreed interest. If the individual fails to repay the loan and its interest within the agreed period, the pawnbroker may sell the item and use the money to repay the loan owed by the individual (Republic of South Africa 2006a: s 1).

Items that are usually pawned include jewellery, electronics, musical instruments and furniture (Cash Converters 2012). In order to determine the amount of the loan and the resale value of the item, the pawnbroker assesses the item to be pawned for its condition and marketability.

Loans from pawnbrokers are short-term loans which can be classified as secured loans because the pawnbroker holds the individual's valuables until the loan is repaid. If the individual does not repay the loan, the pawnbroker may sell the individual's valuables to settle the loan. These loans are often used in emergency circumstances.

Depending on the nature of the emergency and the value of the personal property, loans from pawnbrokers can be used for needs on different levels. However, in the majority of cases, these loans are used to satisfy lower-level needs.

3.3.2.6 Loans from spaza shops

> Spaza shops are informal convenience shops which originated in South Africa as a result of sprawling townships which made travel to formal shopping places extremely difficult (Finmark Trust 2010). A spaza shop is usually run from home and its main purpose is to supplement the household income of owners and sell small household items at a price much lower than at a formal shopping place. The terms and conditions of these loans are usually informally determined by the spaza shop owner.

Loans from spaza shops are unsecured short-term loans. These loans are usually used to obtain small household items (e.g. beverages, cigarettes, maize meal, paraffin or candles) (Spaza News 2012) from spaza shops to satisfy primary needs. Loans from spaza shops are mainly used to satisfy physiological needs or existence needs according to the two human needs theories (Maslow 1943; Alderfer 1969).

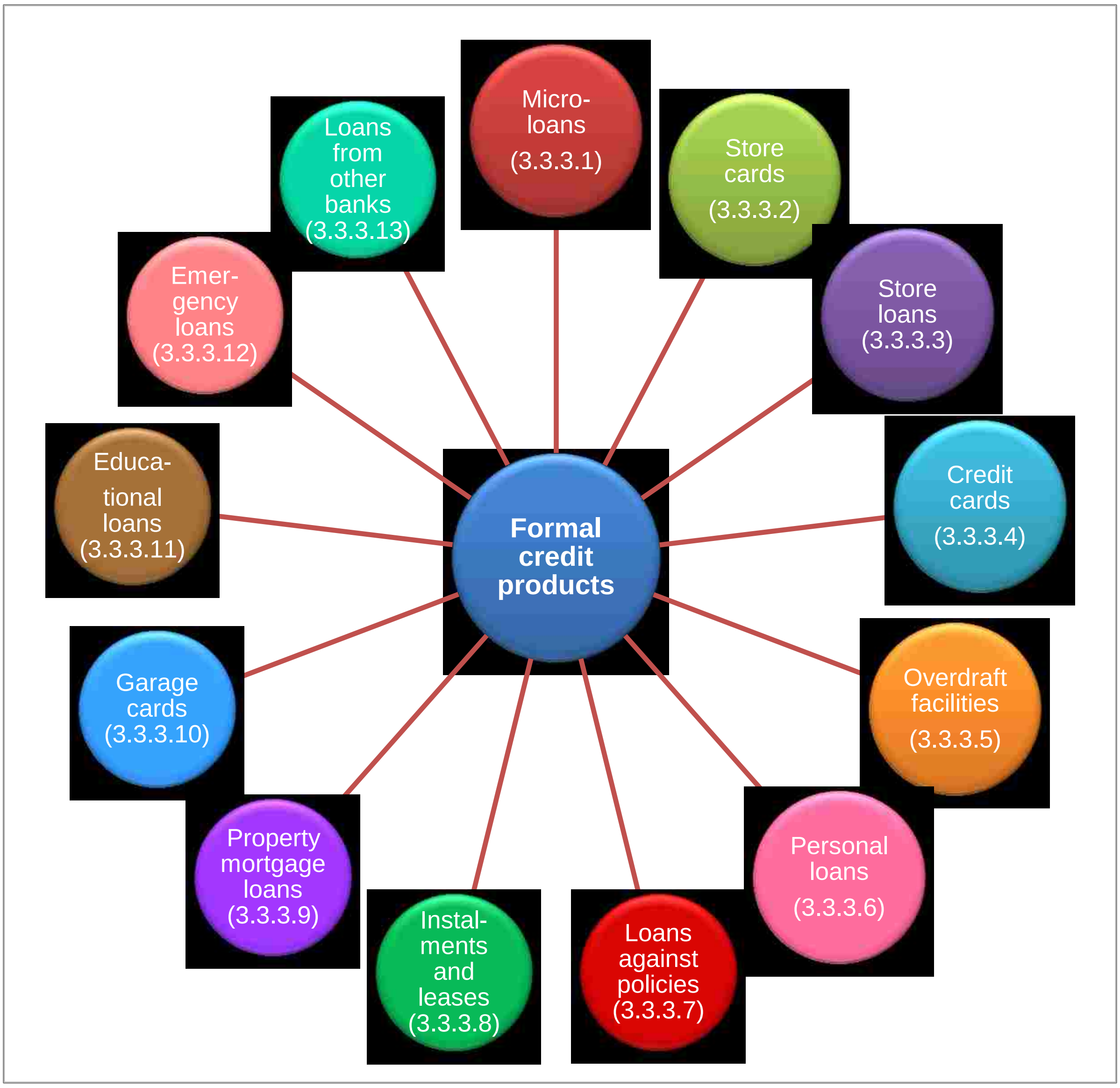
3.3.3 Formal credit products

Formal credit products are products provided by regulated bank and non-bank financial institutions to the formally served South African population (Finmark Trust 2010). These credit products usually have specific characteristics which are formally determined in the terms and conditions of the loans. Different bank and non-bank financial institutions may have the same credit products with similar terms and conditions. All formal credit agreements are governed by the National Credit Act and regulated by the National Credit Regulator.

An analysis of the different types of credit products provides a sound understanding of the intended use of formal credit products. Different financial institutions have different formal credit products. This study only focuses on the main groups of formal credit products, as indicated in figure 3.5.

FIGURE 3.5

FORMAL CREDIT PRODUCTS



Source: Compiled by the author

This section will discuss the main groups of formal credit products (figure 3.5). Each of the next sections will provide a brief description of the group of formal credit products and discuss the purpose for which each product is used, according to the different levels of Maslow's and Alderfer's human needs theories (see section 2.2).

3.3.3.1 Micro-loans

Micro-loans are small-scale loans granted to consumers (Micro Finance Regulatory Council 2012). These loans are usually obtained by individuals who do not earn large salaries (Swart 2003). The Micro Finance Regulatory Council regulates the micro-lending industry in South Africa and all money-lenders should be registered with this institution.

Micro-loans are short-term unsecured loans which can be obtained to start a small business, pay for education or burial expenses or purchase building supplies, furniture or clothing (Micro Finance Regulatory Council 2012; Swart 2003). According to Maslow's (1943) theory of needs, these needs are classified as physiological or safety and security needs. Alderfer (1969) classifies these needs as existence or growth needs.

3.3.3.2 Store cards

Store credit is provided by a large number of stores to individuals, giving them the option to obtain credit facilities by opening a store card. By obtaining a store card, individuals may then purchase goods and pay for them at a later date (Goodall et al. 2011).

Store cards are easy to open and very convenient to use. When applying for a store card, an individual is required to complete the store's account application form. The information on the application form is then used to assess the credit rating of the individual, and if the store is satisfied with the individual's credit rating, a credit limit on the account is determined and an account is opened.

Purchases taken on a store card are normally repaid between periods of three to 12 months. However, for the longer repayment periods, such as 12 months, interest is usually charged at a higher interest rate.

Credit obtained by using store cards is short-term unsecured credit. An individual usually purchase items such as clothing, food, cosmetics, toiletries, linen and gifts or any other available items at stores using a store card (Goodall et al. 2011). Depending on the needs satisfied, store cards can be used to satisfy needs at all levels in Maslow's and Alderfer's needs theories.

3.3.3.3 Store loans

Store loans are offered by some of the major chain stores and are usually used for unexpected or once-off expenses (Goodall et al. 2011).

Store loans are unsecured long-term loans. The repayment period for these loans varies from one store to the next, but is mostly a period of 24 to 36 months (Coricraft 2012). Interest rates charged on store loans depend on the individual's credit profile but can sometimes be extremely costly.

Store loans are usually used to satisfy primary (Alderfer 1969) or upper-level secondary needs (Maslow 1943). These loans can be used to pay for expenses such as replacing a refrigerator or buying furniture.

3.3.3.4 Credit cards

Credit cards are offered by most banks and financial institutions. A credit facility by means of a credit card is granted based on the outcome of the assessment of an individual's credit rating. Once the credit facility has been granted, a credit limit is determined based on how much an individual can afford to repay on a monthly basis. The repayment period and the interest rate charges depend on the type of credit card an individual has and its particular terms and conditions. Credit cards can be used at most retailers as a method of payment (Standard Bank 2012a).

Credit cards are unsecured short-term loans. Credit cards are usually used to pay for the individual's primary needs such as paying for monthly groceries, but can also be used to satisfy secondary needs in Maslow's and Alderfer's levels of needs, for example, paying for entertainment expenses (Goodall et al. 2011). Needs are sometimes also satisfied by using the credit card's budget account facility. Expenses which can be repaid using the budget account facility of a credit card include expenses such as paying for an expensive motor vehicle service, purchasing expensive kitchen appliances or purchasing electronic equipment such as a new television set.

3.3.3.5 Overdraft facilities

An overdraft involves an agreement with the bank where an individual can draw more money than what he has in his current account up to an agreed limit. An overdraft facility is usually provided by the bank on the account into which the individual's salary is paid. Depending on the terms and conditions of an overdraft, the interest rate is linked to the prime rate and therefore varies as the prime rate changes. The repayment period of an overdraft is open ended, which means that there is no formal repayment period. However, the quicker repayments are made into the individual's overdraft, the less interest he has to repay (Nedbank 2012a).

An overdraft facility is an unsecured short-term loan which is usually used to pay for unforeseen expenses (Nedbank 2012a). According to Maslow's and Alderfer's needs theories, unforeseen expenses can be classified as needs at all of the different levels of the hierarchies.

3.3.3.6 Personal loans

A personal loan is a loan with a fixed loan amount repayable over a fixed repayment period. The loan amount can be accessed immediately and the individual usually negotiates repayment terms to suit personal financial needs. The interest rate of a personal loan can be fixed or can be linked to the prime rate and is usually determined by the individual's risk profile (Amalgamated Banks of South Africa (Absa 2012)).

An individual with good credit references can easily obtain a personal loan and is sometimes offered personal loans from as little as R1 000 to as much as R150 000. The repayment period of a personal loan is normally between 12 and 60 months, but some banks might even offer 84 months (First National Bank 2012; Absa 2012).

A personal loan is an unsecured long-term loan which can be used for various purposes such as paying for daily living expenses (primary needs) or for purchasing more expensive items (secondary needs). According to the two need theories, a personal loan can be used to satisfy all levels of needs. In some cases, a personal loan is also used to repay short-term debt and consolidate the total amounts into one longer-term debt such as a personal loan (Goodall et al. 2011).

3.3.3.7 Loans against policies

Depending on the terms and conditions of insurance or investment policies, in some cases, after a few years of contributions, individuals are allowed to borrow against policies. The specific details of a loan against these policies differ and should be considered carefully before taking out the loan. However, borrowing against insurance and investment policies is not recommended because the costs of borrowing are extremely high (Goodall et al. 2011).

Loans against policies are classified as secured loans (National Credit Regulator 2010). Depending on the terms and conditions of loans against policies, these loans can be of a short- or long-term nature. In most cases, a loan against a policy is used by an individual as a last resort to save him from a financial crisis (Goodall et al. 2011). Depending on the reason why loans against policies are obtained, they can be used to satisfy primary or secondary needs.

3.3.3.8 Instalment and lease agreements

Instalment and lease agreements are agreements provided by a bank or a financial institution for the purpose of buying a specific item. The financing is agreed upon in a finance agreement with the bank or financial institution, providing the financier remains the titleholder of the item financed for the period of the finance agreement. If the individual is unable to repay the monthly instalments, the item can be repossessed by the titleholder and be sold in order to recoup the amount outstanding. The individual may then be sued if there is still an amount owing in the case where an item is sold for an amount less than the amount outstanding.

The financing amount depends on the purchase price of the required item as well as on what an individual can afford to repay. When financing an item, an individual can either choose to finance the item at a variable or fixed interest rate. A variable interest rate changes as the prime rate changes and can be anything from 2% below the prime rate or 7% above the prime rate. A fixed interest rate does not change when the prime rate changes and remains the same over the period of the agreement (Standard Bank 2012b; Goodall et al. 2011).

According to the description above, instalment and lease agreements are secured loans. These loans are classified as long-term loans because the finance period is usually between one and five years.

When purchasing a motor vehicle by obtaining finance using instalment and lease agreements, individuals can satisfy their primary needs (physiological needs or existence needs according to the two needs theories). Items such as furniture, appliances and electrical household goods can also be purchased by means of an instalment and lease agreement to satisfy the individual's primary (Alderfer 1969) or secondary needs (Maslow 1943).

3.3.3.9 Property mortgage loans

One of the most important reasons to obtain property mortgage loans is to purchase a residential home.

The amount of the loan granted is usually limited to the individual's gross income where the monthly repayments of the required loan may not exceed a certain percentage of such gross income. Depending on the financial institution providing the mortgage loan finance, the individual's gross income may be combined with the gross income of a spouse or a partner. Other factors determining whether or not the loan will be granted by the financial institution are the credit rating, affordability and the history of the individual with the bank.

The individual has a choice between a variable, fixed and capped interest rate (Goodall et al. 2011).

A property mortgage loan is usually secured by the residential property for which the finance was obtained. These are long-term loans which are granted for a period of up to a maximum of 30 years (Investec 2012).

Once the property mortgage loan has been granted, the individual can use the credit to pay for property renovations, to invest in other properties or to access additional funds (Investec 2012). Property mortgage loans are mostly used to satisfy primary needs (Maslow 1943; Alderfer 1969). However, when individuals access additional funds on the property mortgage bond, they can also satisfy certain secondary needs, such as paying for a child's education.

3.3.3.10 Garage cards

A garage card is a type of credit card which is used specifically for petrol, oil and maintenance of a motor vehicle (Standard Bank 2012c). Depending on the financial institution providing the garage card, it can either be linked to an existing credit card and its existing credit limit or it can be a stand-alone card with its own credit limit.

Garage cards are unsecured short-term loans. Individuals obtain garage cards to satisfy primary needs (physiological or existence needs, according to Maslow's and Alderfer's needs theories).

3.3.3.11 Educational loans

The National Credit Act 34 of 2005 defines an educational loan as a student loan, school loan or another credit agreement entered into by a consumer for purposes relating to the consumer's adult education, training or skills development.

The interest on an educational loan is usually lower than that on other credit products and repayment is sometimes deferred to a later stage while the individual is still being educated. If a student does not make progress with his studies, he will not receive money for the next year's studies and will have to start repaying the student loan. If the student cannot repay the loan, the person who signed surety has to repay the student loan (Swart 2003).

An educational loan is a secured loan because another person usually has to sign surety. This loan usually has flexible repayment terms where individuals can repay the loan during and after completion of their studies (Nedbank 2012b). According to Maslow's theory of needs, an educational loan can be used to satisfy safety and security needs by paying for tuition fees, accommodation, books or study-related equipment (Nedbank 2012b). According to Alderfer's ERG theory, an educational loan is used to satisfy growth needs.

3.3.3.12 Emergency loans

The National Credit Act 34 of 2005 defines an emergency loan as a loan that may arise because of death, illness or a medical condition of an individual, unexpected loss or interruption of income or loss of or damage to the individual's property due to fire, theft or a natural disaster.

Emergency loans are unsecured short-term loans. Depending on the nature of the emergency, this type of loan can be used to satisfy needs at different levels. However, this type of loan is usually obtained to satisfy primary or lower-level secondary needs (Maslow 1943; Alderfer 1969).

3.3.3.13 Loans from other banks

Loans from other banks are those obtained from banks such as village banks or co-operative banks, development banks, non-governmental organisations or the government.

Each of the institutions mentioned above is described as follows:

- A village bank is a semi-formal financial institution owned, financed and managed by the community which owns shares in the bank (Nigrini 2001). Its purpose is to provide financial services to its members by providing access to deposits, credit, banking and other financial services. In South Africa village banks are registered as Financial Service Co-operatives (FSCs) and their main target is both poor and better-off segments in the community. The precise utilisation and terms and conditions of its loan facilities are determined by the village bank.

- The Development Bank of Southern Africa (DBSA) is a development finance institution which provides funding to large-scale infrastructure projects in the public and private sector. The DBSA offers numerous lending products and structures its lending products and services to fit the needs of the client (Development Bank of Southern Africa 2012).

- A non-governmental organisation (NGO) is a non-profit, legally constituted organisation which operates independently from any government (Non-Governmental Organisation 2012). Some NGOs receive funding from the government but exclude government representatives from the membership of the organisation in order to maintain their non-governmental status. There are different types of NGOs, for example charitable or service NGOs.

- The government may also decide to grant loans, for example, granting loans to lower-income households in order to purchase homes. The Land and Agricultural Development Bank of South Africa is an example of an institution that was established by the government to grant loans to borrowers for specific reasons, for example, for agriculture development (Land and Agricultural Development Bank of South Africa 2014).

The terms and conditions of loans from other banks usually determine whether the loan is unsecured or secured and whether it is of a short- or long-term nature. Loans from other banks are usually used to satisfy secondary needs according to the two human needs theories.

3.3.4 Conclusion

Chapter 1 identified that there are four phases in the process of selecting credit products to satisfy the individual's financial needs (see section 1.3.3). The first three phases were discussed in the previous chapter. In this chapter, the last phase in the process, namely determining which credit products are available to individuals when they decide to use credit in order to satisfy their financial needs (phase 4) was discussed. In order to determine which credit products are available to individuals, the previous section first provided a description of who the users of credit products are in terms of the financial inclusion terminology of South Africa (section 3.2). In this section the different types of credit products and the purpose for which each credit product is used were discussed. The different credit products were either classified as informal credit products (section 3.3.2) or formal credit products (section 3.3.3).

The next step in determining which credit products are available to credit users is to discuss the different debt classifications. By discussing the different debt classifications, this study will be able to provide a debt classification framework (section 3.4) on which this study will focus.

3.4 DEBT CLASSIFICATION FRAMEWORK

3.4.1 Introduction

As previously discussed, there are four phases in the process of selecting credit products to satisfy financial needs. The first three phases were discussed in the previous chapter. In this chapter, the last phase of the process, namely determining which credit products are available to satisfy financial needs, is discussed. In order to determine what the different credit products are, this chapter firstly provided a description of the users of credit products in terms of the financial inclusion terminology (section 3.2). Thereafter an overview of the different types of credit products was provided (section 3.3). Using the information in the previous sections as a basis, this section aims to provide a debt classification framework by discussing the different debt classifications of credit products (section 3.4.2) after which a debt classification framework is developed (section 3.4.3), which is further classified according to Alderfer's ERG theory (section 3.4.4) to indicate which needs are fulfilled when using each credit product.

3.4.2 The different debt classifications

In South Africa, a formal debt classification framework that classifies the different types of credit products does not exist. Different role players, such as the South African Reserve Bank, International Accounting Standards Board and the National Credit Regulator classify debt differently. In order to provide a debt classification framework in which each type of credit product is classified according to certain debt classifications, some of the debt classifications of the different role players are first discussed, as set out in the next sections.

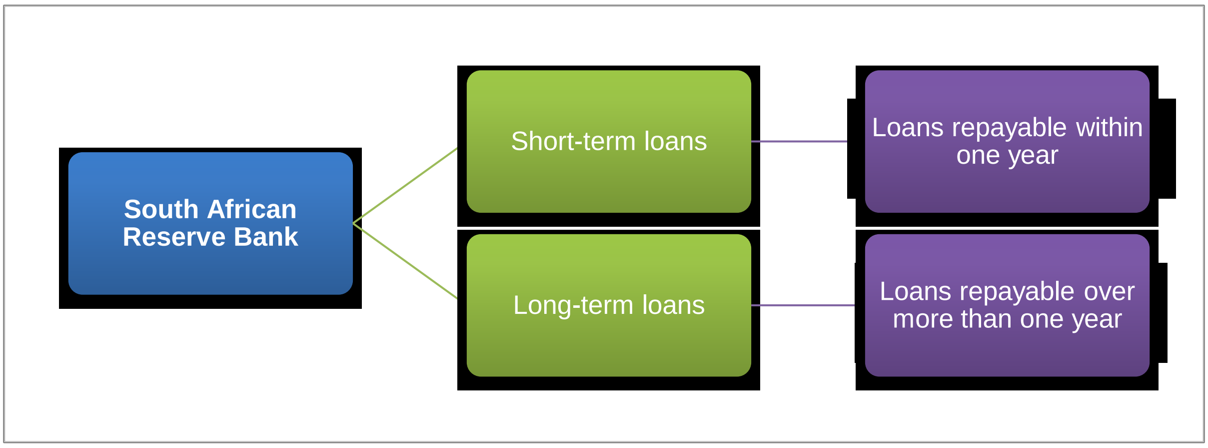
3.4.2.1 The South African Reserve Bank

The South African Reserve Bank uses the System of National Accounts to prepare household balance sheets. The System of National Accounts is a statistical framework consisting of a set of macro-economic accounts which are used for policy making, decision taking, analysis and research. The framework is based on internationally agreed concepts, definitions, classifications and accounting rules thereby providing accounts that are comprehensive, consistent and integrated (European Commission, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations & World Bank 2009; Kuhn 2011).

The System of National Accounts does refer to the International Accounting Standards norms but also explicitly insists on flexibility when classifying financial assets and liabilities.

FIGURE 3.6

SOUTH AFRICAN RESERVE BANK DEBT CLASSIFICATION



Source: European Commission et al. (2009)

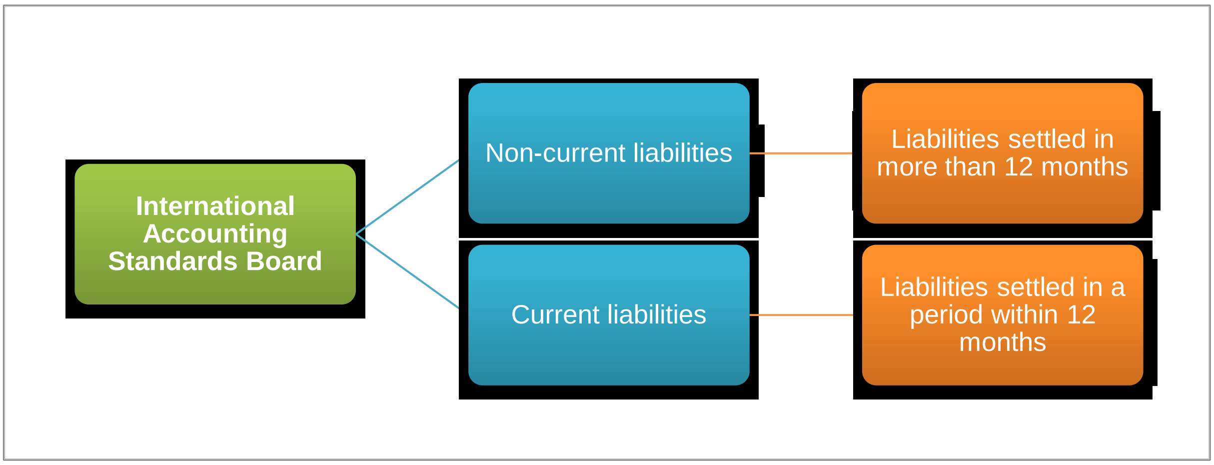
In terms of the System of National Accounts, loans are either short- or long-term loans (figure 3.6). Short-term loans are repayable within one year or less, whereas long-term loans have a repayment period of more than one year.

3.4.2.2 The International Accounting Standards Board

According to the International Accounting Standards issued by the International Accounting Standards Board, debt can be classified as either non-current liabilities or current liabilities (International Accounting Standards Board 2010b).

FIGURE 3.7

INTERNATIONAL ACCOUNTING STANDARDS BOARD DEBT CLASSIFICATION



Source: International Accounting Standards Board (2010b)

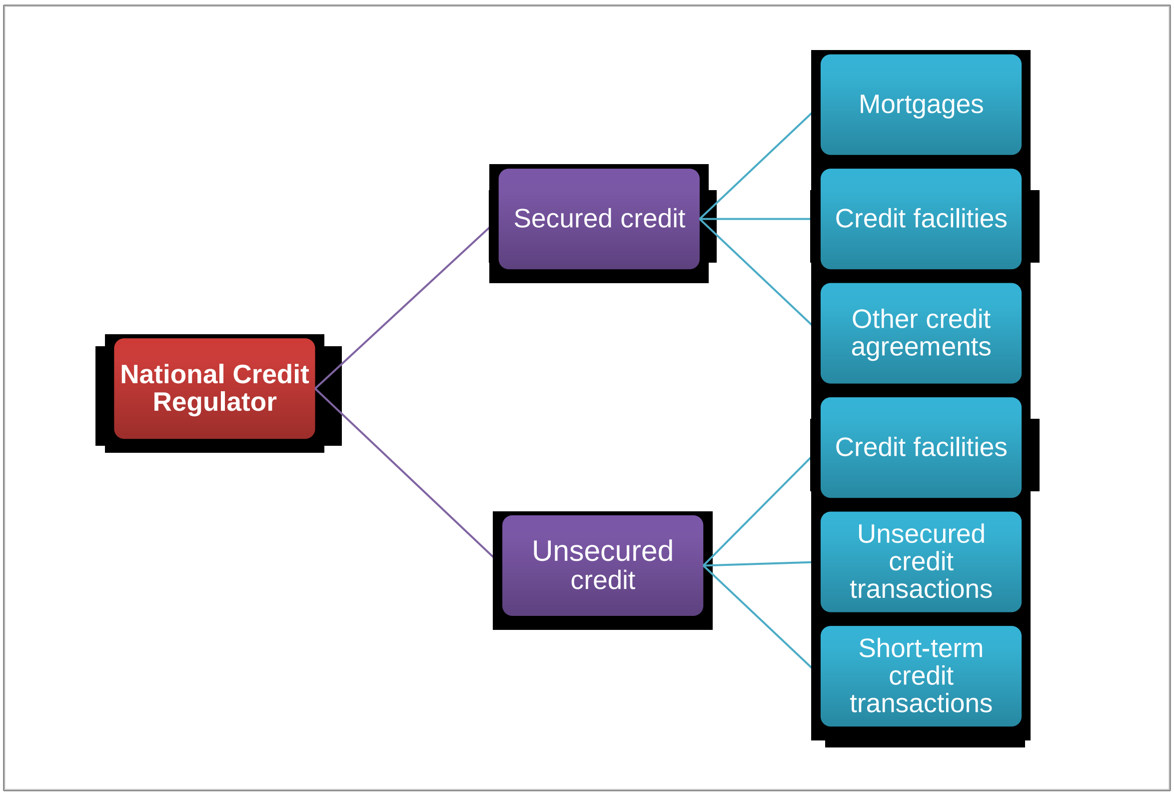
The International Accounting Standards Board classifies debt as either non-current liabilities or current liabilities (figure 3.7). Non-current liabilities are long-term liabilities that will be settled in a period of more than 12 months and include credit such as mortgages. Current liabilities are short-term liabilities that will be settled within a 12-month period and include credit such as bank overdraft facilities (International Accounting Standards Board 2010b).

3.4.2.3 The National Credit Regulator

The National Credit Regulator classifies debt either as unsecured credit or secured credit. As per Regulation 39(3) of the National Credit Regulations, unsecured credit comprises credit transactions of which the loan is not secured by any pledge or personal security (Republic of South Africa 2006b).

FIGURE 3.8

NATIONAL CREDIT REGULATOR DEBT CLASSIFICATION



Source: National Credit Regulator (2010)

The National Credit Regulator divides credit products between secured credit and unsecured credit (figure 3.8). Secured credit comprises mortgages, certain credit facilities and other credit agreements. Unsecured credit comprises certain credit facilities, unsecured credit transactions and short-term credit transactions.

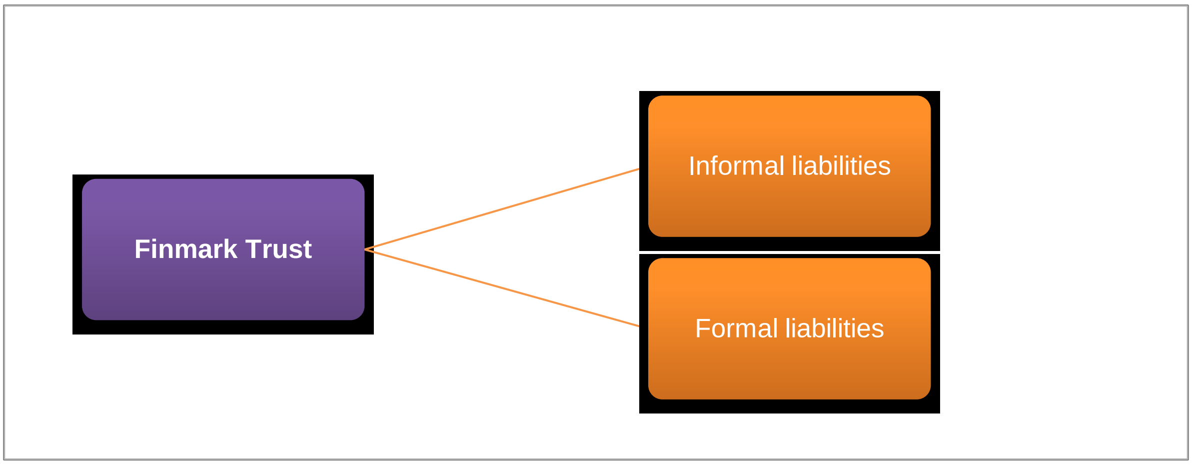
Credit facilities comprise credit products such as credit cards, garage cards, bank overdrafts, services agreements, store cards and other facilities. Depending on the terms and conditions of these products, credit facilities can be secured or unsecured. Other credit agreements comprise all other credit that is secured, excluding mortgages and certain credit facilities, such as motor vehicle finance, retail furniture finance, pension-backed loans and insurance-backed loans (National Credit Regulator 2008). Unsecured credit transactions (other than certain credit facilities and short-term credit) are credit transactions or loans that are not secured by pledges or personal security (Republic of South Africa 2006b: s 39(3)). Short-term credit transactions are credit transactions, including pawn transactions, directly payable to the lender where the money may be utilised at the individual's own discretion. Short-term credit transactions should not exceed R8 000 and are repayable within six months by the lender (Republic of South Africa 2006b: s 39(2)).

3.4.2.4 Other classifications used

Other organisations such as Finmark Trust (2010) classify debt between informal liabilities and formal liabilities (figure 3.9).

FIGURE 3.9

FINMARK TRUST DEBT CLASSIFICATION



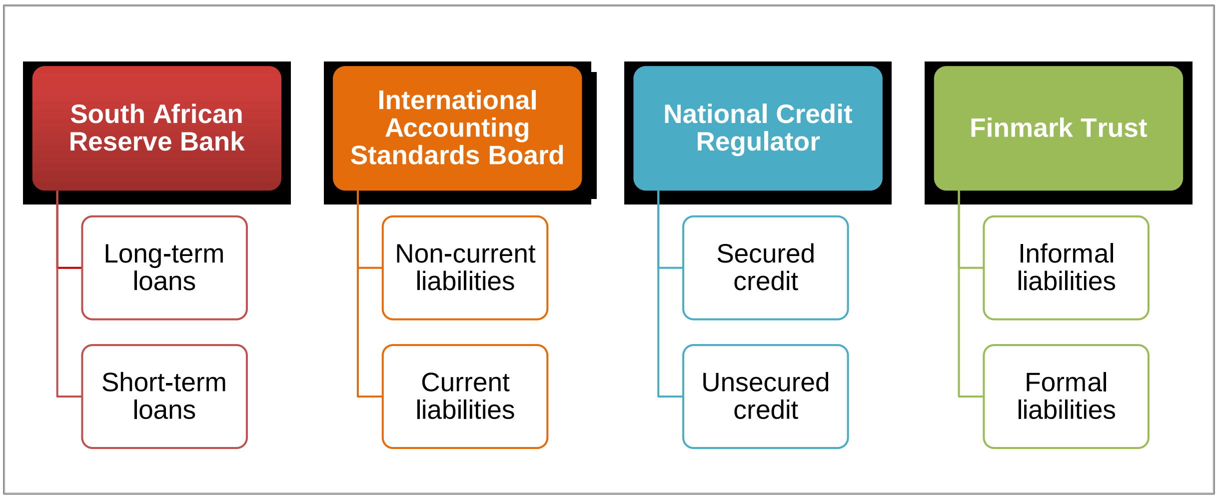
Source: Finmark Trust (2010)

Finmark Trust classifies debt into two main groups, namely informal liabilities or formal liabilities (figure 3.9). Informal liabilities can be described as the use of financial products and/or services which are not regulated by a financial institution, for example, borrowing from friends, family, stokvels, burial societies, savings clubs, private money lenders such as mashonisas or loan sharks, spaza shops and so forth. Formal liabilities can be described as the use of financial products and/or services that are regulated by a financial institution such as banks, registered insurance companies, micro-finance institutions and non-banking financial institutions such as foreign exchange bureaus and money transfer services. Examples of credit products at these institutions include personal loans, mortgages, vehicle loans, garage or credit cards, overdraft facilities, store cards and student loans (Finmark Trust 2010).

In terms of the debt classifications used by the different role players, it is clear that debt has different classifications for each of the different role players. Figure 3.10 depicts the different debt classifications described.

FIGURE 3.10

DEBT CLASSIFICATIONS OF THE DIFFERENT ROLE PLAYERS



Source: Compiled by the author

The different role players have different debt classifications (figure 3.10). Debt can be classified as long- or short-term debt (European Commission et al. 2009), as non-current liabilities or current liabilities (International Accounting Standards Board 2010b), as secured or unsecured credit (National Credit Regulator 2008) or as informal or formal liabilities (Finmark Trust 2010). Because the South African Reserve Bank and the International Accounting Standards Board have similar debt classifications, the debt classifications of these two role players can be combined.

With reference to the different classifications discussed in this section, a debt classification framework can be developed for the different types of credit products discussed in this study (section 3.3). Each credit product can then be classified as an informal or formal credit product, secured or unsecured credit product and as a long-term (non-current liabilities) or short-term (current liabilities) credit product (section 3.4.3).

3.4.3 Debt classification framework per credit product type

In the previous section, the different debt classifications of the different role players were discussed. By using these different debt classifications, a debt classification framework was developed on which this study would focus.

Based on the discussion in section 3.3, each credit product is classified according to its characteristics as an informal or formal credit product, secured or unsecured credit product and long- or short-term credit product in table 3.1.

TABLE 3.1

DEBT CLASSIFICATION FRAMEWORK

Type of credit product	Informal or formal credit	Secured or unsecured credit	Long- or short-term credit
Friends, family or colleagues	Informal	Unsecured	Short term
Payday loans	Informal	Secured	Short term
Loans from mashonisas	Informal	Unsecured	Long or short term
Loans from societies	Informal	Unsecured	Long or short term
Loans from pawnbrokers	Informal	Secured	Short term
Loans from spaza shops	Informal	Unsecured	Short term
Micro-loans	Formal	Unsecured	Short term
Store cards	Formal	Unsecured	Short term
Store loans	Formal	Unsecured	Long term
Credit cards	Formal	Unsecured	Short term
Overdraft facilities	Formal	Unsecured	Short term
Personal loans	Formal	Unsecured	Long term
Loans against policies	Formal	Secured	Long term
Instalment or lease agreements	Formal	Secured	Long term
Property mortgage loans	Formal	Secured	Long term
Garage cards	Formal	Unsecured	Short term
Educational loans	Formal	Unsecured	Long term
Emergency loans	Formal	Unsecured	Short term
Loans from other banks	Formal	Secured or unsecured	Long or short term

Source: Compiled by the author

Table 3.1 indicates the debt classification framework that was used for the purposes of this study. The framework was designed with the assumption of expected "normal" terms and conditions of these credit products. Credit products are classified as formal and informal credit products by using the debt classification of Finmark Trust. The classification of the National Credit Regulator is used to classify credit products as secured credit or unsecured credit. All of the credit products which are informal debt are classified as unsecured credit except for payday loans (section 3.3.2.2) or loans from pawnbrokers (section 3.3.2.5). Formal credit products are mostly classified as unsecured credit except for loans against policies (section 3.3.3.7), instalment and lease agreements (section 3.3.3.8) and property mortgage loans (section 3.3.3.9). The classifications of the South African Reserve Bank and the International Accounting Standards Board are used to classify the credit products as long- or short-term credit. Credit products with an expected repayment period of less than a year are classified as short-term credit. Credit products with an expected repayment period of more than a year are classified as long-term credit.

Credit products can also be classified further using Alderfer's ERG theory to indicate which needs are satisfied when using each product (section 3.4.4).

3.4.4 Applying Alderfer's ERG theory to the debt classification framework

Alderfer (1969) used Maslow's (1943) human motivation theory as the basis for developing the ERG theory (see section 2.2.4.). According to Alderfer's ERG theory, human needs can be divided into three levels, namely existence, relatedness and growth needs. Existence needs include material and basic needs such as the need for water, food, clothing, shelter and safety. Relatedness needs include the desire to feel recognised and secure and to form part of social groups. Growth needs relate to the need for self-development. With reference to the characteristics of each credit product, each product in the debt classification framework can be classified according to Alderfer's three levels of needs (see table 3.2).

TABLE 3.2

DEBT CLASSIFICATION FRAMEWORK ACCORDING TO NEEDS

Type of credit product	Debt classifications			Type of needs
	Informal or formal credit	Secured or unsecured credit	Long- or short-term credit	
Friends, family or colleagues	Informal	Unsecured	Short term	Existence
Payday loans	Informal	Secured	Short term	Existence
Loans from mashonisas	Informal	Unsecured	Long or short term	Existence Relatedness Growth
Loans from societies	Informal	Unsecured	Long or short term	Existence Relatedness Growth
Loans from pawnbrokers	Informal	Secured	Short term	Existence
Loans from spaza shops	Informal	Unsecured	Short term	Existence
Micro-loans	Formal	Unsecured	Short term	Existence Growth
Store cards	Formal	Unsecured	Short term	Existence
Store loans	Formal	Unsecured	Long term	Existence Relatedness Growth
Credit cards	Formal	Unsecured	Short term	Existence
Overdraft facilities	Formal	Unsecured	Short term	Existence Relatedness Growth
Personal loans	Formal	Unsecured	Long term	Existence Relatedness Growth
Loans against policies	Formal	Secured	Long term	Existence Relatedness Growth
Instalment or lease agreements	Formal	Secured	Long term	Existence
Property mortgage loans	Formal	Secured	Long term	Existence
Garage cards	Formal	Unsecured	Short term	Existence
Educational loans	Formal	Unsecured	Long term	Growth
Emergency loans	Formal	Unsecured	Short term	Existence Relatedness Growth
Loans from other banks	Formal	Secured or unsecured	Long or short term	Existence Relatedness Growth

Source: Compiled by the author

Table 3.2 indicates each credit product in the debt classification framework also indicating which needs in Alderfer's three levels of needs are satisfied when using each product. Some products are used to satisfy only one type of need whereas others are used to satisfy multiple needs. The debt classification framework in table 3.2 will be used to analyse data in order to indicate which actual needs are satisfied by South Africans when using credit products (chapter 6).

3.4.5 Conclusion

In this chapter, the last phase of the process, namely determining which credit products are available to satisfy financial needs was discussed. In order to determine what the different credit products are, this chapter first provided a description of the users of credit products in terms of the financial inclusion terminology (section 3.2). Secondly, an overview of the different types of credit products was provided (section 3.3). Finally, this section developed a debt classification framework.

The debt classification framework is developed by referring to the different debt classifications of the different role players (section 3.4.2). The different debt classifications and the different types of credit products were then used to develop a debt classification framework (section 3.4.3) which was further classified according to needs in Alderfer's ERG theory (section 3.4.4). The debt classification framework was used for analysis purposes on which this study would focus.

3.5 CONCLUSION

In chapter 1, four different phases in the process of selecting credit products to satisfy financial needs were identified (section 1.3.3). In chapter 2, the first three phases of the process were discussed. The last phase, namely determining which credit products can be used to fulfil the individual's financial needs (phase 4), was discussed in this chapter.

In order to determine which credit products are available to satisfy financial needs, this chapter addressed the second research objective of the study (section 1.1.2), namely:

- Analyse the different credit products available to develop a debt classification framework which can be used to indicate which credit products were developed to satisfy different types of needs.

In summary, in order to determine which credit products are available to fulfil the individual's financial needs, this chapter first explained who the users of credit products are in terms of the financial inclusion terminology in South Africa (section 3.2). Individuals are either financially excluded (section 3.2.2), which means that they do not have access to any financial products and services from formal or informal institutions or they are financially included (section 3.2.3), which means that they have access to informal or formal financial products and/or services from financial institutions. After explaining the financial inclusion terminology the next section, in this chapter focused on the different types of credit products and the purpose for which each credit product is used (section 3.3). The different credit products that are available to individuals were divided into two main groups, namely informal credit products (section 3.3.2) and formal credit products (section 3.3.3). Lastly, a debt classification framework (section 3.4) was developed on which this study would focus. The debt classification framework was developed by referring to the different debt classifications of different role players (section 3.4.2), following which these classifications were used to classify each of the types of credit products (section 3.4.3). The debt classification framework per credit product type was then used to indicate which needs in Alderfer's ERG theory are satisfied when using each credit product (section 3.4.4). The debt classification framework according to Alderfer's needs (see section 3.4.4) that was developed will be used to indicate the actual needs satisfied when using each credit product, thereby indicating whether South Africans use credit products for the purpose they were intended.

This chapter concluded the literature review which addressed the first (see chapter 2) and second (this chapter) research objectives. Before addressing the third research objective through analysis of data (chapters 5 and 6), the next chapter focuses on the methodology utilised in this study.

CHAPTER 4
RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

This study set out to establish the importance of understanding and analysing liability usage of South Africans. To this end, the following research question was formulated (see section 1.1.2):

"Do South Africans use liabilities to address the financial needs they were intended for?"

The following three research objectives were formulated to help answer the research question:

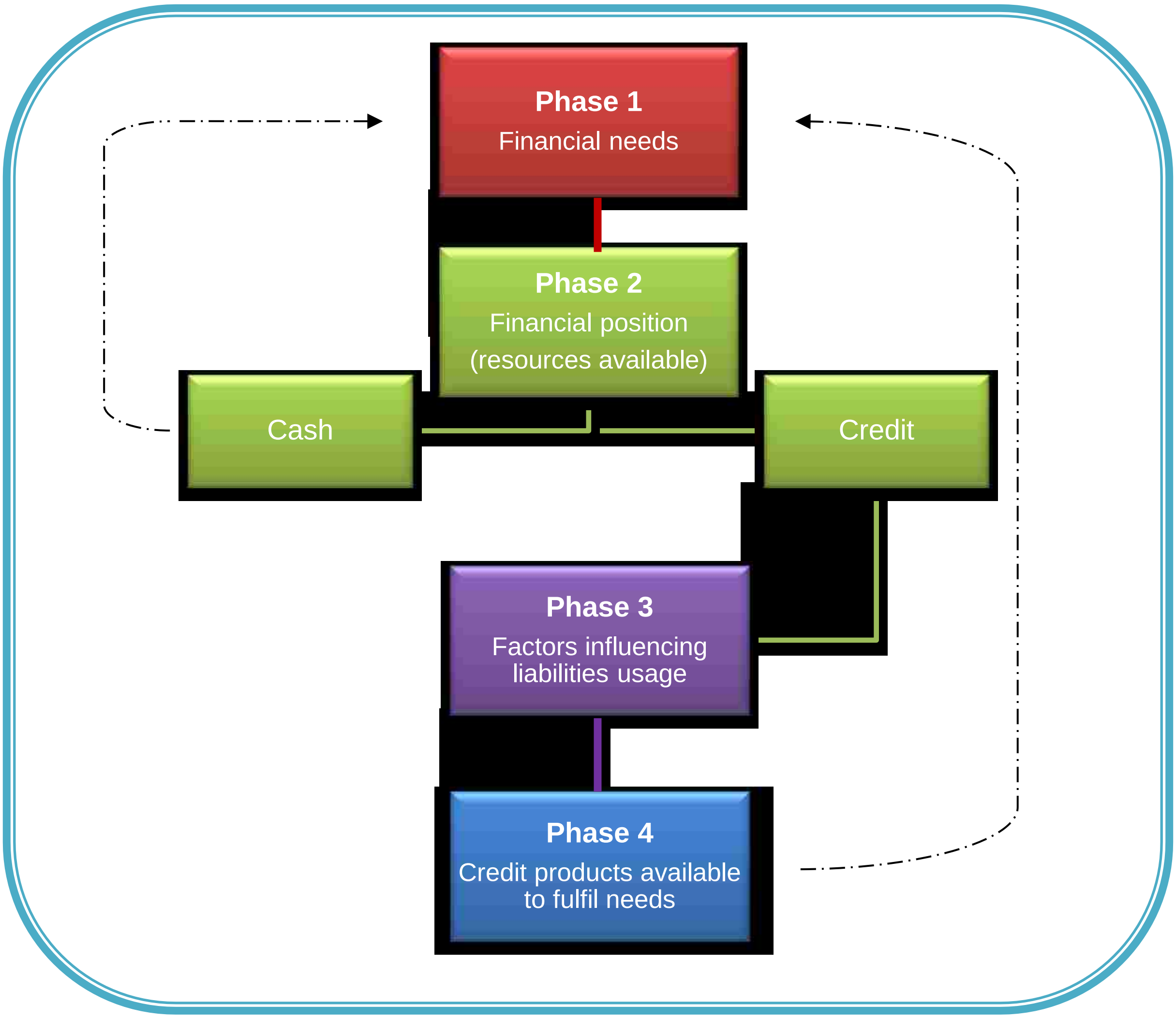
- Develop a theoretical framework for the process of selecting credit products to satisfy financial needs of South Africans by
  - identifying the individual's financial needs
  - analysing the individual's financial position
  - determining the factors that influence the individual's liability usage
- Analyse the different credit products available to develop a debt classification framework which can be used to indicate which credit products were developed to satisfy different types of needs.
- Analyse the actual needs satisfied by individuals when using different liabilities.

To answer the research question and to address the research objectives of this study, it was conducted in two phases, firstly, by conducting a literature review (chapters 2 and 3), and secondly, by analysing empirical data based on the theoretical framework developed in the literature (chapters 5 and 6).

In the first phase of the study, namely the literature review (see section 4.2), the first two research objectives were addressed, firstly by developing a theoretical model for the process of selecting credit products to satisfy financial needs which was identified in chapter 1, and secondly, by developing a debt classification framework to provide a list of credit products available to South Africans. See figure 4.1 for the four phases in the process of selecting credit products to satisfy financial needs.

FIGURE 4.1

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

The process in which the individual selects credit products to satisfy financial needs can be divided into four basic phases (figure 4.1). Firstly, the individual identifies the human needs which result in financial needs (phase one). Secondly, the individual analyses his financial position to determine if financial needs can be satisfied by using cash from existing assets or by using credit by incurring liabilities (phase 2). If the individual determines that he has sufficient cash, he can withdraw the cash from his assets to fulfil his financial needs. However, if he determines that he has to obtain credit by incurring a liability, he should also consider the other factors that have an influence on liability usage (phase 3). Lastly, the individual should determine which credit products are available to fulfil his financial needs (phase 4) as determined in the first phase. The theoretical framework of the first three phases in the process was developed in chapter 2 and will be used to perform data analysis later in this study (see chapter 5). The theoretical framework of the last phase in the process was developed in chapter 3 and was used to provide a list of credit products available in South Africa by developing a debt classification framework. See table 4.1 for the debt classification framework which was developed in this study.

TABLE 4.1

DEBT CLASSIFICATION FRAMEWORK

Type of credit product	**Informal or formal credit**	**Secured or unsecured credit**	**Long- or short-term credit**
Friends, family or colleagues	Informal	Unsecured	Short term
Payday loans	Informal	Secured	Short term
Loans from mashonisas	Informal	Unsecured	Long or short term
Loans from societies	Informal	Unsecured	Long or short term
Loans from pawnbrokers	Informal	Secured	Short term
Loans from spaza shops	Informal	Unsecured	Short term
Micro-loans	Formal	Unsecured	Short term
Store cards	Formal	Unsecured	Short-term
Store loans	Formal	Unsecured	Long term
Credit cards	Formal	Unsecured	Short term
Overdraft facilities	Formal	Unsecured	Short term
Personal loans	Formal	Unsecured	Long term
Loans against policies	Formal	Secured	Long term
Instalment or lease agreements	Formal	Secured	Long term

Type of credit product	Informal or formal credit	Secured or unsecured credit	Long- or short-term credit
Property mortgage loans	Formal	Secured	Long term
Garage cards	Formal	Unsecured	Short term
Educational loans	Formal	Unsecured	Long term
Emergency loans	Formal	Unsecured	Short term
Loans from other banks	Formal	Secured or unsecured	Long or short term

Source: Compiled by the author

The debt classification framework indicated in table 4.1 was prepared using debt classifications of different role players in South Africa (see section 3.4). The debt classification framework was used when performing data analysis later in this study (chapter 6).

In the second phase of this study, the third research objective was addressed by analysing empirical data (see section 4.3). The data were obtained from the Finscope 2010 survey and analysed according to the theoretical model developed in the literature to indicate which needs are satisfied when using different credit products. The Finscope survey is conducted annually to provide financial sector policy makers and financial service providers with insights about the financial attitudes, financial needs and usage of financial products of South African individuals (Finmark Trust 2010).

This chapter briefly indicates how the literature review was performed (section 4.2), discusses the empirical design and the process used to select samples for the Finscope survey (section 4.3) and also provides the demographic profile of the respondents in the survey (section 4.4).

4.2 LITERATURE REVIEW

In the first phase of this study, a literature review was conducted in order to develop a heuristic model to be used to evaluate data collected. A thorough review of relevant literature entails consulting and evaluating the most recent, credible and relevant scholarship in the field of interest (Cronje 2007; Venter 2008). The review of the relevant scholarship is important for the following reasons:

- to prevent the duplication of previous studies
- to discover the most recent and authoritative theorising in the field of study
- to identify the most widely accepted empirical findings in the field of study
- to identify valid and reliable instruments
- to ascertain that the most widely accepted definitions of key concepts in the field of study were used

As part of the literature review, relevant books, national and international subject journal articles and accredited journal articles, theses and dissertations were consulted and evaluated (Cronje 2007; Venter 2008). Authoritative references were mostly obtained through searches on the Oasis electronic library of Unisa.

Chapters 2 and 3 contain the results of the literature review of this study. To achieve the research objectives, the literature review developed and analysed a heuristic model. The heuristic model identified the four different phases in the process of selecting credit products to satisfy financial needs (see section 4.1). In order to achieve the research objectives of this study, the heuristic model was also applied to the empirical data collected (section 4.3).

4.3 EMPIRICAL STUDY

4.3.1 Introduction

The Finmark Trust South Africa conducts periodical surveys to determine how South Africans manage their personal finances with reference to both informal and formal financial services, needs and the use of credit (Finmark Trust 2010). The data obtained in the 2010 survey were used in this study (this was the latest data available).

The survey was conducted by Ask Africa in close cooperation with Finmark Trust and a statistical consultant. The phases of the research, namely the questionnaire design and testing (section 4.3.2), the sampling design (section 4.3.3), data collection and capturing (section 4.3.4), the validity and reliability of the data collection (section 4.3.5) and the data analysis (section 4.3.6) are described in the next sections.

4.3.2 Questionnaire design and testing

The Finscope survey was conducted using a structured questionnaire. An expert panel provided input to ensure that the questions were relevant and meaningful during the construction phase. The panel consisted of economists and social and financial researchers and advisors.

Fieldworkers (interviewers) and supervisors who were responsible for interviewing and completing the questionnaires were comprehensively briefed and trained. The training included all aspects of data collection. Before commencing the fieldwork, supervised pilot studies were performed in the field and, if necessary, supervisors received further training to ensure that fieldworkers were sufficiently skilled. Extensive piloting was also done to test the length, understanding and flow of the survey.

Following the training sessions, interviewers used the questionnaire to administer face-to-face interviews with selected respondents aged 16 years and older. The interviews were conducted with a total sample size of 3 900 respondents distributed across all provinces, rural and urban areas and metropolitan and non-metropolitan areas (see section 4.3.3).

4.3.3 Sampling design

The sample was drawn using a multi-stage stratified random probability sample approach. The sample was drawn in three different stages.

Stage 1: enumerator area

The first stage in the sampling process was to determine the enumerator areas (EAs). EAs are the smallest geographical units into which a country is divided (Statistics South Africa 2003). EAs are different units, such as farms, hostels, small holdings or settlements. The Finscope 2010 survey excluded all recreational and industrial areas or institutions as EAs. This left approximately 87 000 EAs from which the EA sample was drawn. From the 87 000 EAs, a total of 650 were drawn by using the following variables:

- Metropolitan versus non-metropolitan: A predetermined distribution of 35%:65% was used to determine the split between metropolitan and non-metropolitan areas. This resulted in a sample of 422 EAs in non-metropolitan areas and 228 EAs in metropolitan areas.
- Province and population group: To determine the number of EAs per stratum, disproportional allocation was used to ensure that the EA allocation was increased in smaller provinces and in minority population groups. The sample was therefore representative and properly spread over provinces and the different population groups.
- Geographical type: The geographical type (urban or rural) and EA type were used to improve the representative coverage of the population.

After determining the sample of EAs, households were selected from each EA.

Stage 2: Households

The second stage in the sampling process entailed selecting households. A systematic sampling process was implemented to select households. Six households were selected per EA, resulting in 3 900 sample elements. The detailed specifications of the location of the households were supplied by Geo Terra Image (GTI).

Stage 3: Individuals

In the last stage of the sampling process, the individuals (respondents) were selected. The Kish grid method was used to select South African residents aged 16 years or older from each household in the sample.

4.3.4 Data collection and capturing

The fieldwork for the Finscope 2010 survey was conducted between 10 September and 5 November 2010. A total of 278 trained interviewers conducted the interviews with respondents. The interviewers were familiar with and known in the areas in which they conducted the fieldwork.

After the interviews, each completed questionnaire was checked by the regional supervisor before it was sent for scanning. ReadSoft software was used to scan the documents which allowed the data to be exported into an electronic format using the Statistical Package for Social Sciences (SPSS).

After the scanning of questionnaires and exporting of data into electronic format, data were coded using a panel of experts.

4.3.5 Validity and reliability of the data collection

Throughout the data collection process, quality control procedures were conducted on a continuous basis to ensure the validity and reliability of the data. The quality control procedures performed involved the following steps:

Step 1

- A total of 278 regional field interviewers conducted face-to-face interviews using a structured questionnaire.

Step 2

- From a base of 52 supervisors, 29 regional field supervisors managed the interviewers in the field. After completion of the interviews, regional supervisors quality checked each completed questionnaire before sending it for scanning at head office.

Step 3

- At head office, 20 quality assessors quality assured the questionnaires under supervision of the quality manager and data scanning manager. The 20 quality assessors consisted of 16 quality assessors who verified the quality of the scanned documents and four who performed all of the back checks. In total, 23% of data was back checked, which is well beyond the industry norm of 10%.

Step 4

- A statistical team performed another round of checking for logic and any omissions in the data after the questionnaires had been scanned and verified by quality assessors.

Step 5

- The quality assessors provided field teams with constant feedback on quality issues.

On completion of the fieldwork and conducting quality control procedures, scanned datasets were exported to SPSS where the data were cleaned and validated. From the sample size of 3 900 respondents, the maximum margin of error was 1.57% at a 95% level of confidence.

In conclusion on the validity of the study, the statistician on the project, a leading expert in the field of complex sampling, verified that he was satisfied with the sample and the weights obtained for the Finscope 2010 survey. The statistician confirmed that there were “no abnormal or unusual skewness or deviations found and that adjusted factors of the weights in the benchmarking of the sample were within acceptable limits”.

4.3.6 Data analysis

From the data collected and captured in the Finscope 2010 survey, specific data were selected for analysis in this study. In order to achieve the research objectives of this study (see section 4.1), data were analysed, firstly, to indicate which financial needs were satisfied when using liabilities (chapter 5), and secondly, to indicate which credit products were used when satisfying financial needs (chapter 6). The selected data related to questions on borrowing (credit/loans) in the CL-question range. These questions specifically dealt with the needs satisfied when using credit and the credit products used for each of the needs identified. Other data from questions relating to demographic aspects in the D-question range were also used.

The data results were evaluated and analysed using descriptive analysis. The statistical analysis included performing validity and reliability tests to ensure that the data are both valid and reliable.

4.3.7 Conclusion

To be able to answer the research question and to achieve the research objectives of this study, secondary data obtained from the Finscope 2010 survey were analysed. To understand how the survey was conducted, this section discussed the questionnaire design and testing (section 4.3.2), the sampling design (section 4.3.3), data collection and capturing (section 4.3.4), the validity and reliability of data collection (section 4.3.5) and data analysis (section 4.3.6). The survey was conducted by means of questionnaires used to interview 3 900 respondents aged 16 years and older. The demographic profile of the respondents in the survey is dealt with in the next section.

4.4 DEMOGRAPHIC PROFILE OF RESPONDENTS

During the survey, 3 900 respondents, aged 16 years and older, were interviewed. The demographic profile of the respondents who participated in the survey, as well as the profile of those who indicated that they were currently or had in the past made use of credit products, is indicated in table 4.2.

TABLE 4.2

DEMOGRAPHIC PROFILE OF RESPONDENTS

Demographic variable*	Total sample N	Credit users N	Credit user distribution**
Sample	3 900	1 729	100.00%
Race			
Black	2 462	969	56.04%
White	556	307	17.76%
Coloured	636	327	18.91%
Indian or Asian	246	126	7.29%
Gender			
Male	1 495	662	38.29%
Female	2 405	1 067	61.71%
Age			
16 – 17	135	20	1.16%
18 – 29	1 195	444	25.81%
30 – 44	1 270	632	36.75%
45 – 59	776	402	23.37%
60+	511	222	12.91%
Life stage			
At-home singles	105	18	1.04%
Young independent singles	270	134	7.75%
Mature singles	279	166	9.60%
Young couples	415	180	10.41%
Young families	1028	440	25.45%
Single-parent families	207	97	5.61%
Mature families	840	464	26.84%
Mature couples	756	230	13.30%
Province			
Eastern Cape	499	217	12.55%
Free State	372	132	7.63%
Gauteng	636	354	20.48%
KwaZulu-Natal	624	295	17.06%
Limpopo	292	92	5.32%
Mpumalanga	336	95	5.50%

Demographic variable*	Total sample N	Credit users N	Credit user distribution**
Northern Cape	259	123	7.11%
North West	327	114	6.59%
Western Cape	555	307	17.76%
Geographical area			
Urban formal	2688	1304	75.42%
Urban informal	282	117	6.77%
Tribal land	684	198	11.45%
Rural formal	246	110	6.36%
Monthly personal income			
No income	561	155	11.19%
Irregular monthly income	426	148	10.69%
R1 – R999	531	204	14.73%
R1 000 – R1 999	684	269	19.42%
R2 000 – R3 999	314	161	11.62%
R4 000 – R6 999	283	157	11.34%
R7 000 – R9 999	187	117	8.45%
R10 000 – R14 499	123	88	6.35%
R14 500 – R19 499	57	32	2.31%
R19 500+	67	54	3.90%
Education			
No formal education	139	49	2.84%
Some primary school	263	105	6.07%
Primary school completed	199	86	4.98%
Some high school	787	293	16.95%
Grade 10 leavers	541	212	12.27%
Matriculated/Grade 12 completed	1 168	498	28.82%
Some university	191	92	5.32%
University completed	285	190	10.99%
Any post-graduate	128	81	4.69%
Any other post-matric	104	68	3.94%
Some technical training	49	23	1.33%
Credits from university of technology	30	20	1.16%
Completed apprenticeship	14	11	0.64%
Marital status			
Married civil/religious	1 026	578	33.45%
Married traditional/customary	308	158	9.14%
Living together	262	125	7.23%
Single/never married	1 727	614	35.53%
Widower/widow	380	158	9.15%
Separated	92	42	2.43%
Divorced	104	53	3.07%
Employment status			
Unemployed, looking for work	951	338	19.46%

Demographic variable*	Total sample N	Credit users N	Credit user distribution**
Formal full time	1073	628	36.15%
Student/learner	384	66	3.80%
Pensioner/retired	510	208	11.97%
Formal part time	111	59	3.40%
Informal full time	202	110	6.33%
Informal part time	124	56	3.22%
Informal self-employed	139	70	4.03%
Housewife/husband	238	103	5.93%
Formal self-employed	111	67	3.86%
Seasonal worker currently employed	22	10	0.58%
Seasonal worker currently unemployed	22	12	0.69%
Other	29	10	0.58%

* Excluding refusals/uncertainties.
** Percentage calculated based on the number of credit users.

Of the 3 900 respondents, 1 729 indicated that they had used credit in the past or that they were currently using credit. Further analysis in this study was based on the respondents who indicated that they had previously or currently made use of credit. The 1 729 credit users indicated that 3 428 financial needs were fulfilled when using credit. Table 4.3 indicates that some respondents used more than one credit product and therefore provided more than one financial need.

TABLE 4.3

CREDIT USERS AND NUMBER OF FINANCIAL NEEDS FULFILLED

Credit products used	Respondents using credit	Number of financial needs fulfilled	
N	N	N[1]	%
1	915	915	26.69
2	386	772	22.52
3	184	552	16.10
4	114	456	13.30
5	75	375	10.94
6	37	222	6.48
7	11	77	2.25
8	5	40	1.17
9	1	9	0.26
10	1	10	0.29
	1 729	**3 428**	**100.00**

[1]Number of credit products used multiplied by the number of respondents using credit.

Some of the respondents who indicated that they had used credit in the past and now used more than one credit product therefore provided more than one financial need fulfilled when using credit (see table 4.3). Most respondents had used only one credit product and therefore provided one financial need. The second largest group of respondents indicated that they had used two credit products and therefore provided two financial needs. Table 4.4 indicates the different financial needs fulfilled when using credit as provided by respondents in the survey.

TABLE 4.4

FINANCIAL NEEDS FULFILLED WHEN USING CREDIT

Financial needs	Number of times the need was satisfied
For personal use	761
For food	369
To buy a car	344
Miscellaneous	251
To buy a house	167
No detailed response	153
Home renovations/improvement	147
For transport	119
Petrol	109
For studies/to pay school fees	107
Shortage of money	85
Pay account	84
Daily living/basic needs	83
To buy goods	83
To pay debt	67
To buy clothes	51
For family matters	39
For groceries	39
To pay electricity bill	36
For emergency	32
Medical expenses	31
For a funeral	28
To buy furniture	27
For loan	25
To pay bills	25
For business	23
For entertainment	21
Bond	20
Was struded	18
Don’t know	12

Financial needs	Number of times the need was satisfied
To buy airtime	11
Bus fare	10
For travelling	9
To buy on credit	9
For taxi fare	8
To fix car	8
For friend	5
Received from bank	5
For pocket money	3
To buy toiletries	2
To buy tyres	2

Respondents provided numerous financial needs satisfied when using credit products (see table 4.4). Most respondents indicated that they had use credit products to fulfil their personal needs, the need for food and the need for transportation. In chapter 5, further analysis is provided on these actual needs provided by respondents when using credit.

The survey also required respondents to indicate which credit products they had used when making use of credit. The credit products used by respondents when fulfilling their needs are indicated in table 4.5.

TABLE 4.5

CREDIT PRODUCTS USED WHEN FULFILLING NEEDS

Credit products used to fulfil needs	Number of times the credit product was used
Friends, family or colleagues	1 081
Personal loans	477
Credit cards	397
Instalment or lease agreements	375
Property mortgage loans	368
Garage cards	158
Loans from spaza shops	134
Payday loans	130
Loans from mashonisas	125
Loans from societies	120
Store loans	52
Loans from pawnbrokers	11

Respondents mainly indicated that they had used credit provided by friends, family or colleagues when satisfying their needs. In chapter 6, further analysis is conducted to indicate which credit products were used when satisfying the identified needs.

4.5 CONCLUSION

In order to answer the research question and address the research objectives of this study, it was conducted in two phases: firstly by performing a literature review; and secondly by analysing empirical data obtained in the Finscope 2010 survey. This chapter briefly discussed how the literature review was performed (section 4.2) and provided more details of the empirical design of the study (section 4.3) by discussing the questionnaire design and its testing (section 4.3.2), the sampling design (section 4.3.3), data collection and capturing (section 4.3.4), the validity and reliability of the data collected (section 4.3.5) and the data analysis (section 4.3.6). Finally, the demographic profile of the respondents interviewed in the survey was provided (section 4.4).

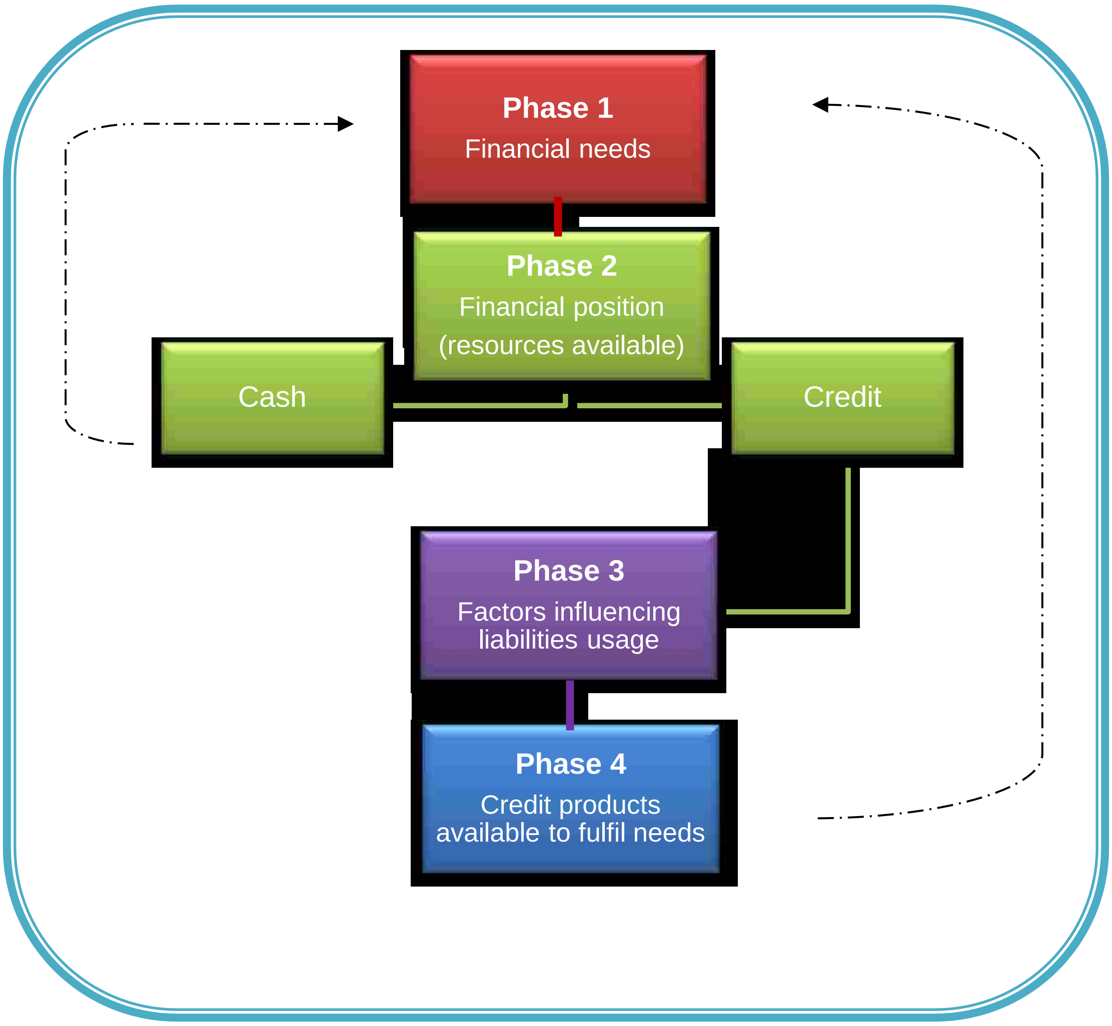
The first phase of this study, namely the literature review was discussed in chapters 2 and 3, thereby addressing its first two research objectives. The findings of the second phase, namely analysis of the empirical data, are presented in the next two chapters, thereby addressing the third research objective. Two different approaches were followed in the analysis of data. Firstly, financial needs when using credit products were analysed (chapter 5), and secondly, the use of different credit products was analysed (chapter 6) to indicate which needs are satisfied by South Africans when using each credit product.

CHAPTER 5
ANALYSING FINANCIAL NEEDS WHEN USING CREDIT PRODUCTS

5.1 INTRODUCTION

Chapter 1 identified the four phases in the process of selecting credit products to fulfil financial needs (section 1.3.3). See figure 5.1.

FIGURE 5.1
PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

The process of selecting credit products to satisfy financial needs consists of four phases (figure 5.1). In the first phase, the individual identifies human needs which develop into financial needs. In the second phase, the individual's financial position is analysed to determine whether financial needs should be satisfied using cash or credit. If the individual decides to make use of credit, the factors that have an influence on his liability usage should be identified in the third phase. Lastly, in the fourth phase the individual determines which credit products are available to fulfil the financial needs as identified in the first phase.

The four phases in the process of selecting credit products to satisfy financial needs were identified to help answer the research question and achieve the research objectives of this study. This chapter addresses the third research objective (section 1.1.2) namely:

- Analyse the actual needs satisfied by individuals when using different liabilities.

To achieve the third research objective of the study, two different approaches were followed. In the first approach, the different financial needs satisfied when using credit products were identified and analysed according to Alderfer's ERG theory and the factors that influence liability usage were examined. In the second approach, analysis of the use of different credit products was performed to determine which needs are satisfied when using each credit product. This chapter deals with the first approach, whereby needs were analysed according to the theoretical framework developed in the literature (see chapter 2). The next chapter deals with the second approach and will present the analysis and findings which addressed the second part of the third research objective.

To assist in achieving the third research objective, namely analysing actual needs when using liabilities, the financial needs satisfied when using credit were identified and classified into main groups (section 5.2). Thereafter the main groups were analysed according to the factors influencing liability usage as determined in the literature (section 5.3).

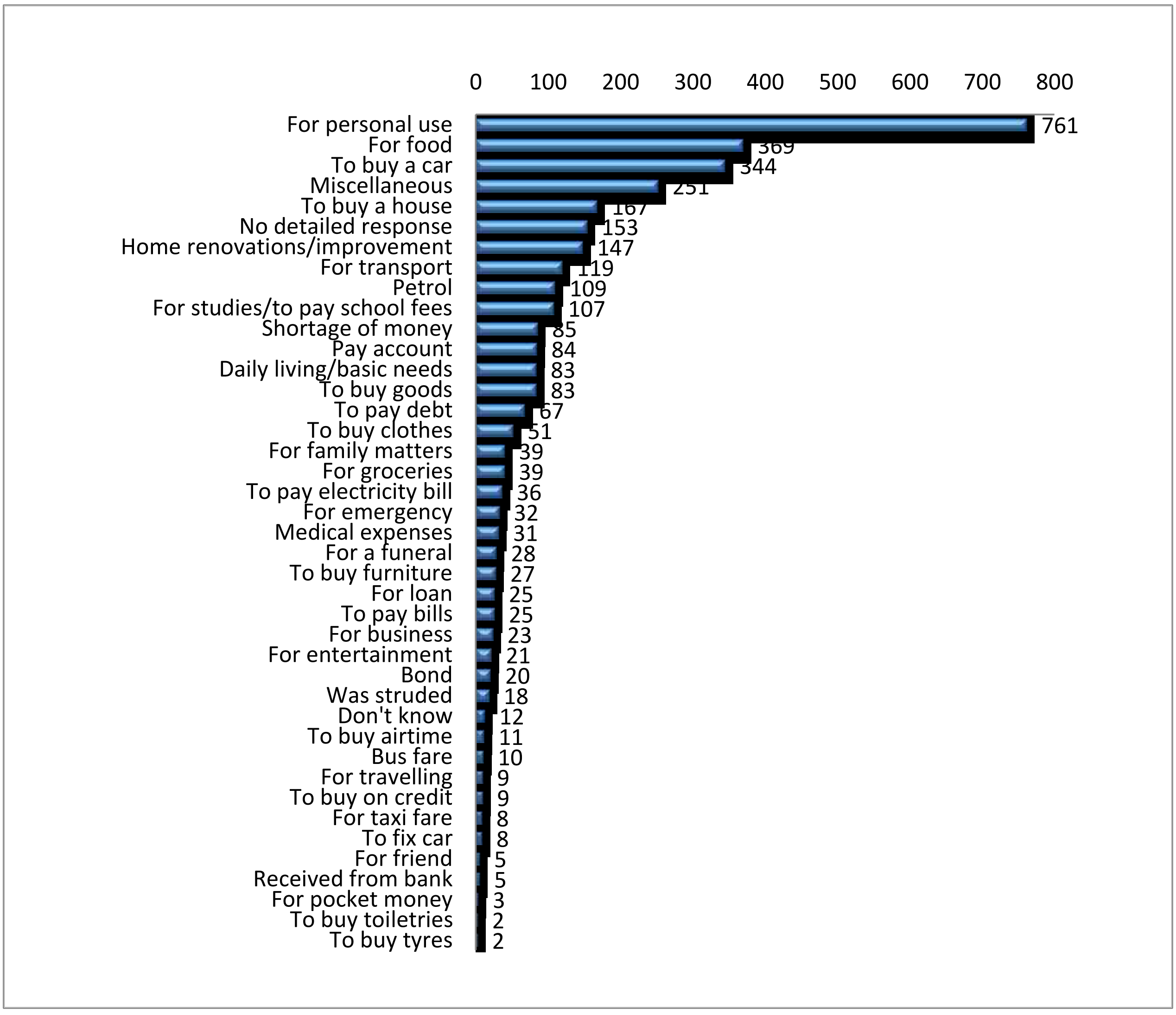
5.2 IDENTIFICATION AND CLASSIFICATION OF FINANCIAL NEEDS

5.2.1 Introduction

Chapter 4 identified that 1 729 individuals indicated that they had used credit in the past or that they were using credit at the time of the survey. These individuals indicated that 3 428 financial needs were satisfied when using credit (see chapter 4, table 4.4). The financial needs fulfilled when using credit are shown in figure 5.2.

FIGURE 5.2

FINANCIAL NEEDS SATISFIED WHEN USING CREDIT



Individuals use credit to satisfy their needs differently (figure 5.2). Most respondents indicated that they had used credit to satisfy their personal needs followed by buying food and buying a car. The other needs fulfilled were relatively small in comparison with the three larger groups. In order to present the results in a meaningful way, the 3 428 financial needs mentioned by respondents can be grouped into main groups owing to similarity of some of the needs (section 5.2.2). Thereafter the main groups of financial needs are classified according to the two seminal human need theories discussed in the literature, namely Maslow's theory of human motivation (section 2.2.3) and Alderfer's ERG theory (section 2.2.4). Classifications based on both human needs theories will then be compared to determine which is more suitable for further analysis. Finally, the classification of financial needs is used to perform analysis according to the factors that influence liability usage as determined in chapter 2 (section 5.3).

5.2.2 Main groups of financial needs

Some of the financial needs provided by respondents were markedly similar in nature and could therefore be grouped together. Table 5.1 indicates that 16 main groups were identified when analysing the financial needs provided. Each of the financial needs provided could be grouped into the main groups – for example, some respondents indicated that they use credit to pay for taxi fare and other respondents indicated that they use credit to pay for transport. Both of these financial needs could be grouped into the transport group because they are interrelated (see table 5.1).

TABLE 5.1

MAIN GROUPS OF FINANCIAL NEEDS

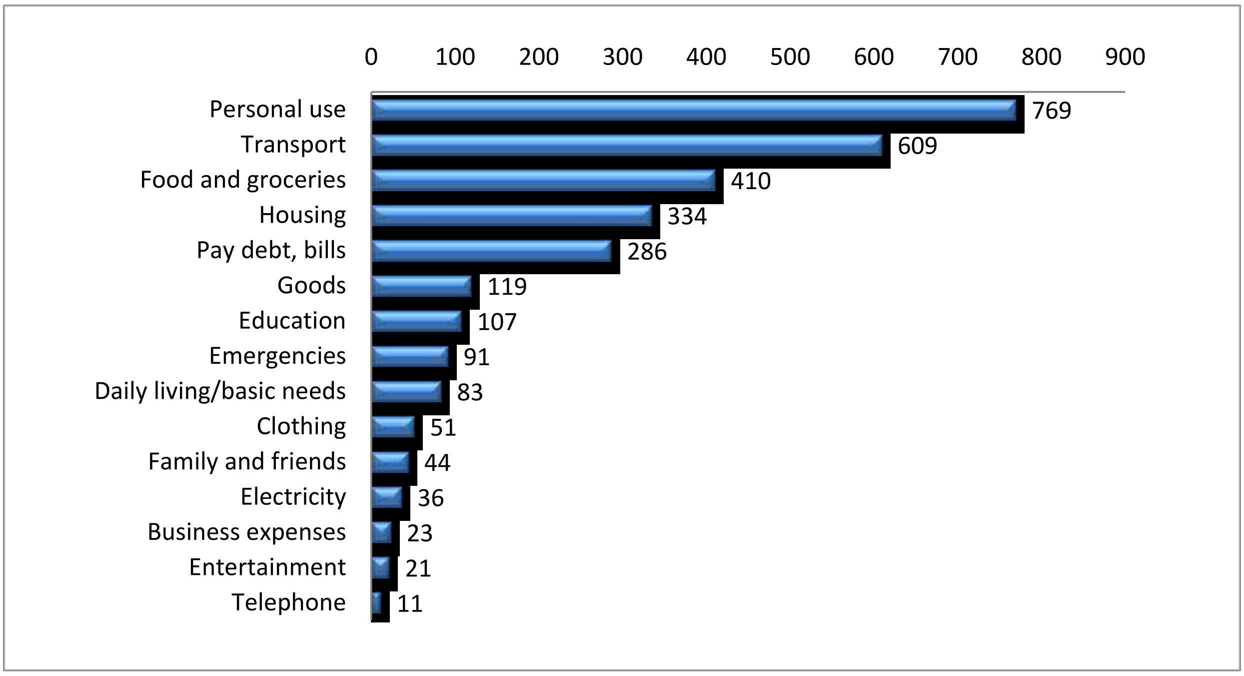
Main groups of financial needs	Needs as per Finscope 2010 survey	Number of needs
Housing	Bond To buy a house Home renovations/improvement	20 167 147 **Total 334**
Transport	Bus fare Petrol For taxi fare For transport For travelling To buy a car To fix car To buy tyres	10 109 8 119 9 344 8 2 **Total 609**
Daily living/basic needs	Daily living/basic needs	83 **Total 83**
Emergencies	For a funeral For emergency Medical expenses	28 32 31 **Total 91**
Entertainment	For entertainment	21 **Total 21**
Family and friends	For friend For family matters	5 39 **Total 44**
Food and groceries	For food For groceries To buy toiletries	369 39 2 **Total 410**
Goods	To buy on credit To buy furniture To buy goods	9 27 83 **Total 119**
Personal use	For personal use For pocket money Received from bank	761 3 5 **Total 769**
Telephone	To buy airtime	11 **Total 11**
Education	For studies/to pay school fees	107 **Total 107**
Clothing	To buy clothes	51 **Total 51**
Pay debt, bills	Pay account To pay bills To pay debt For loan Shortage of money	84 25 67 25 85 **Total 286**

Main groups of financial needs	Needs as per Finscope 2010 survey	Number of needs
Electricity	To pay electricity bill	36 **Total 36**
Business expenses	For business	23 **Total 23**
Miscellaneous and no response	Was struded Miscellaneous Don't know No detailed response	18 251 12 153 **Total 434**

For the purpose of this study, the miscellaneous and no response group was not further analysed. Figure 5.3 provides a summary of the remaining 15 groups representing 2 994 financial needs as provided by respondents.

FIGURE 5.3

MAIN GROUPS OF FINANCIAL NEEDS SATISFIED WHEN USING CREDIT



There were 15 main groups of financial needs satisfied when using credit, totalling 2 994 financial needs (see figure 5.3). After the reclassification of financial needs into the main groups, the three largest groups were to fulfil personal needs, to pay for transport and to buy food and groceries. The 15 main groups of financial needs can be categorised further using the two human need theories, namely Maslow's theory of human motivation (see section 2.2.3) and Alderfer's ERG theory (see section 2.2.4). Maslow (1943) developed the grounding theory of human needs. However, owing to some limitations of Maslow's theory Alderfer used it as the basis to develop the ERG theory. Both theories are tested in the next sections to provide a comprehensive analysis, after which one theory will be proposed for further detailed analysis.

5.2.3 Financial needs according to Maslow's theory

Maslow's theory of human motivation (1943) describes human needs using five different levels. To provide an analysis of credit usage according to Maslow's theory, the 15 main groups of financial needs can be categorised according to his five levels of needs. Certain of the main groups of financial needs are classified under one level in Maslow's theory, for example, housing which can be classified as a physiological need, where other main groups can be allocated to more than one level in the theory, for example, entertainment which can be classified under love and belonging needs or esteem needs. Where the main group was allocated to more than one level in Maslow's theory, the number of financial needs mentioned by the respondents were divided equally between the levels (see table 5.2).

TABLE 5.2

THE MAIN GROUPS OF FINANCIAL NEEDS ACCORDING TO MASLOW'S THEORY

Main groups of financial needs	Maslow's levels in his theory of human motivation[1]	Number of financial needs[2]
Housing	Physiological needs	334
Transport	Physiological needs	609
Daily living/basic needs	Physiological needs	83
Emergencies	Safety and security needs *Note*: Safety and security needs include needs that refer to personal, financial and health security and therefore emergencies	91

Main groups of financial needs	Maslow's levels in his theory of human motivation[1]	Number of financial needs[2]
	fall in this level.	
Entertainment	Love and belonging needs Esteem needs *Note*: Entertainment falls under two levels as it includes social needs that seek a sense of belonging and acceptance (love and belonging needs) but also give a sense of contribution and acceptance and appreciation by others (esteem needs). Entertainment is therefore divided between the two levels.	11 11
Family and friends	Love and belonging needs Esteem needs *Note*: Family and friends fall under two levels as they include social needs that seek a sense of belonging and acceptance (love and belonging needs) but also give a sense of contribution and acceptance and appreciation by others (esteem needs). Family and friends were therefore divided between the two levels.	22 22
Food and groceries	Physiological needs Love and belonging needs Esteem needs *Note*: Food and groceries fall under three levels as they include basic necessities (physiological needs), social needs that seek a sense of belonging and acceptance (love and belonging needs, for example paying for personal care items) but also give a sense of contribution and acceptance and appreciation by others (esteem needs, for example, paying for personal care items). Food and groceries were therefore divided between the three levels.	137 137 137
Goods	Love and belonging needs Esteem needs *Note*: Goods fall under two levels as they	60 60

Main groups of financial needs	Maslow's levels in his theory of human motivation[1]	Number of financial needs[2]
	include social needs that seek a sense of belonging and acceptance (love and belonging needs, for example, having designer jewellery, shoes, handbags, etc.) but also give a sense of contribution and acceptance and appreciation by others (esteem needs, for example having designer jewellery, shoes, handbags, etc.). Goods were therefore divided between the two levels.	
Personal use	Physiological needs Safety and security needs Love and belonging needs Esteem needs Self-actualisation needs *Note*: Personal use falls under all five levels. It includes basic necessities (physiological needs, for example, food or transport), personal, financial and health needs (safety and security needs, for example, paying for medical expenses or education), social needs that seek a sense of belonging and acceptance (love and belonging needs, for example, paying for personal care items), needs that give a sense of contribution and acceptance and appreciation by others (esteem needs, for example, paying for personal care items), and lastly, needs that are satisfied once all other levels of needs have been fulfilled (self-actualisation needs, for example, going on a vacation). Personal use is therefore divided between all five levels.	154 154 154 154 154
Telephone	Love and belonging needs	11
Education	Safety and security needs	107
Clothing	Physiological needs	51
Pay debt, bills	Physiological needs Safety and security needs Love and belonging needs Esteem needs Self-actualisation needs	57 57 57 57 57

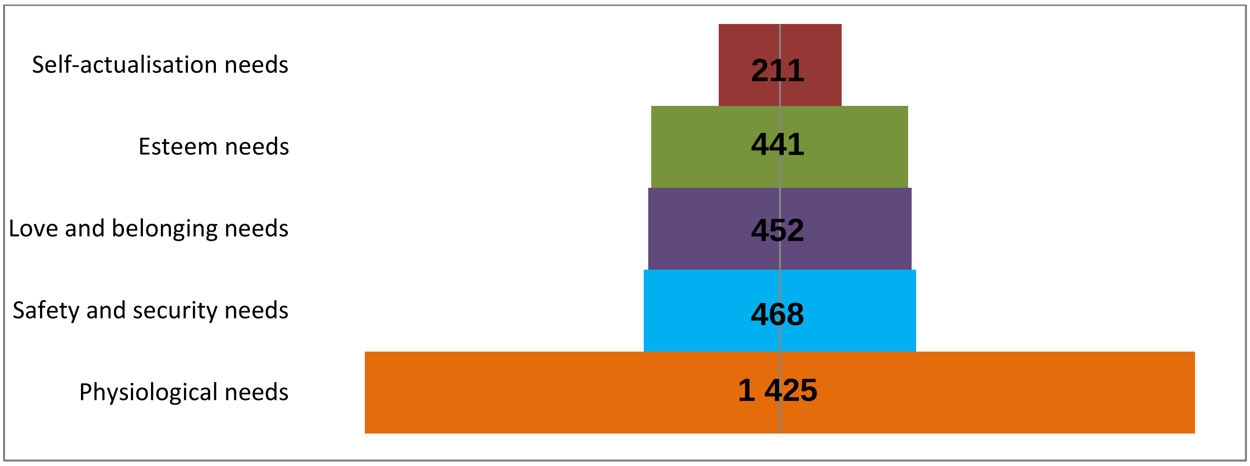
Main groups of financial needs	Maslow's levels in his theory of human motivation[1]	Number of financial needs[2]
	Note: Paying debt and bills falls under all five levels. It includes basic necessities (physiological needs, for example, food or transport), personal, financial and health needs (safety and security needs, for example, paying for medical expenses or education), social needs that seek a sense of belonging and acceptance (love and belonging needs, for example, paying for personal care items), needs that give a sense of contribution and acceptance and appreciation by others (esteem needs, for example, paying for personal care items), and lastly, needs that are satisfied once all other levels of needs have been fulfilled (self-actualisation needs, for example, going on vacation). Paying for debt and bills is therefore divided between all five levels.	
Electricity	Safety and security needs	36
Business expenses	Safety and security needs *Note*: Safety and security needs include needs that refer to personal, financial and health security, for example, having job security.	23

[1] See chapter 2, section 2.2.3.
[2] Needs divided between different levels are rounded to the nearest one.

The 15 main groups of financial needs and number of needs satisfied when using credit are categorised under the five levels of Maslow's theory of human motivation (table 5.2). Fulfilling physiological needs is clearly the largest group of financial needs satisfied when using credit (see figure 5.4).

FIGURE 5.4

FINANCIAL NEEDS AS PER MASLOW'S HIERARCHY OF NEEDS



The analysis of needs can be depicted in a triangular pattern. Figure 5.4 shows that the needs satisfied when using credit as indicated by the respondents follow a similar pattern to Maslow's hierarchy of needs.

The results of the analysis of credit usage according to Maslow's theory of human motivation were presented in a conference paper by Venter and Botha (2012). The participants at the conference provided feedback and suggested that some modifications should be made to the classification of the financial needs satisfied when using credit according to Maslow's five levels of needs. The suggestions included changing the classification of food and grocery needs, educational needs and business-related needs. These changes were carefully considered and the three needs were reclassified according to Maslow's theory of human motivation (see table 5.3).

TABLE 5.3

RECLASSIFICATION OF MAIN GROUPS OF FINANCIAL NEEDS ACCORDING TO MASLOW'S THEORY

Main groups of financial needs	Maslow's levels in his theory of human motivation[1]	Number of financial needs[2]
Housing	Physiological needs	334
Transport	Physiological needs	609
Daily living/basic needs	Physiological needs	83
Emergencies	Safety and security needs	91
Entertainment	Love and belonging needs Esteem needs	11 11
Family and friends	Love and belonging needs Esteem needs	22 22
Food and groceries	Physiological needs *Note*: This group mainly consists of food needs but also includes a few grocery-related needs. However, it is argued that these grocery-related needs mainly satisfy basic needs which can be classified as physiological needs.	410
Goods	Love and belonging needs Esteem needs	60 60
Personal use	Physiological needs Safety and security needs Love and belonging needs Esteem needs Self-actualisation needs	154 154 154 154 154
Telephone	Love and belonging needs	11
Education	Self-actualisation needs *Note*: It is argued that education relates to developing personal growth and reaching one's full potential. Educational needs are therefore classified as self-actualisation needs.	107
Clothing	Physiological needs	51

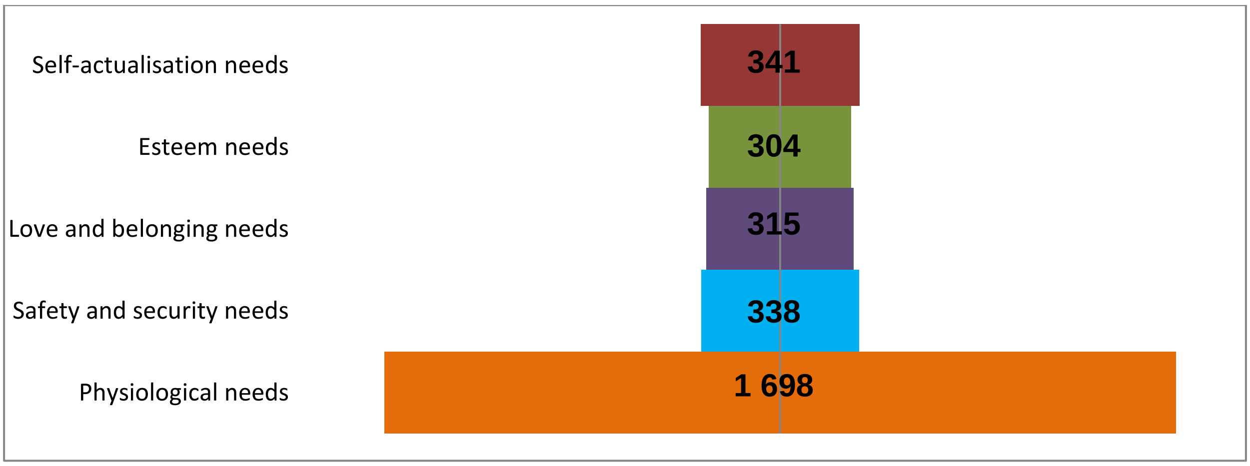
Main groups of financial needs	Maslow's levels in his theory of human motivation[1]	Number of financial needs[2]
Pay debt, bills	Physiological needs Safety and security needs Love and belonging needs Esteem needs Self-actualisation needs	57 57 57 57 57
Electricity	Safety and security needs	36
Business expenses	Self-actualisation needs *Note*: Self-actualisation needs refer to developing personal growth. Having one's own business can contribute to personal growth.	23

[1] See chapter 2, section 2.2.3.
[2] Needs divided between different levels are rounded to the nearest one.

The main groups for credit usage were reclassified according to Maslow's five levels after incorporating suggestions received from participants at a conference. A summary of the results after the reclassification of needs according to Maslow's hierarchy of needs is provided in figure 5.5.

FIGURE 5.5

RECLASSIFIED FINANCIAL NEEDS AS PER MASLOW'S HIERARCHY OF NEEDS



Chapter 2 identified that Maslow's hierarchy of needs consists of five levels (figure 5.5). The first level, namely physiological needs, consists of basic needs and represents the largest group of financial needs satisfied when using credit. According to Maslow's theory of human motivation, human needs are fulfilled in a hierarchical order, which suggests that lower level needs should be fulfilled before satisfying upper level needs resulting in a pyramid structure. However, the results indicated in figure 5.5 clearly contradict Maslow's theory because the results for higher-level needs, namely self-actualisation needs, are higher than the results in some of the lower-level needs. This result confirms the findings of Alderfer (1969) which also reported practical problems in the application of Maslow's theory.

Alderfer (1969) investigated the limitations in Maslow's theory (such as Maslow's hierarchical order) and therefore proposed an alternative theory in which needs are also presented in a hierarchical order but are not as strictly ordered as Maslow's hierarchy. Alderfer's theory does not assume lower-level need gratification before fulfilment of higher-level needs. Financial needs were also classified according to Alderfer's ERG theory (section 5.2.4).

5.2.4 Financial needs according to Alderfer's theory

Alderfer used Maslow's theory of human motivation as a basis when he developed his ERG theory. Alderfer's theory consists of three levels. Similar to the analysis of financial needs according to Maslow's theory, the 15 main groups of financial needs satisfied when using credit could be divided between Alderfer's three levels. If financial needs could be allocated to more than one level, according to Alderfer's ERG theory, they were divided equally between the levels (see table 5.4).

TABLE 5.4

THE MAIN GROUPS OF FINANCIAL NEEDS ACCORDING TO ALDERFER'S THEORY

Main groups of financial needs	**Alderfer's levels in his ERG theory[1]**	**Number of financial needs[2]**
Housing	Existence needs	334
Transport	Existence needs	609
Daily living/basic needs	Existence needs	83
Emergencies	Existence needs *Note*: Existence needs include safety needs. In order to feel safe, emergencies can be allocated to this level.	91
Entertainment	Relatedness needs	21
Family and friends	Relatedness needs	44
Food and groceries	Existence needs	410
Goods	Existence needs	119
Personal use	Existence needs Relatedness needs Growth needs *Note*: Personal use falls under all three levels. It includes basic necessities (existence needs, for example, food, transport or medical insurance), desire needs which involve feeling recognised and forming part of relationships (relatedness needs, for example, paying for entertainment expenses in a social group), and lastly, development needs (growth needs, for example, paying educational expenses). Personal use is therefore divided between all three levels.	256 256 256
Telephone	Relatedness needs	11
Education	Growth needs	107
Clothing	Existence needs	51

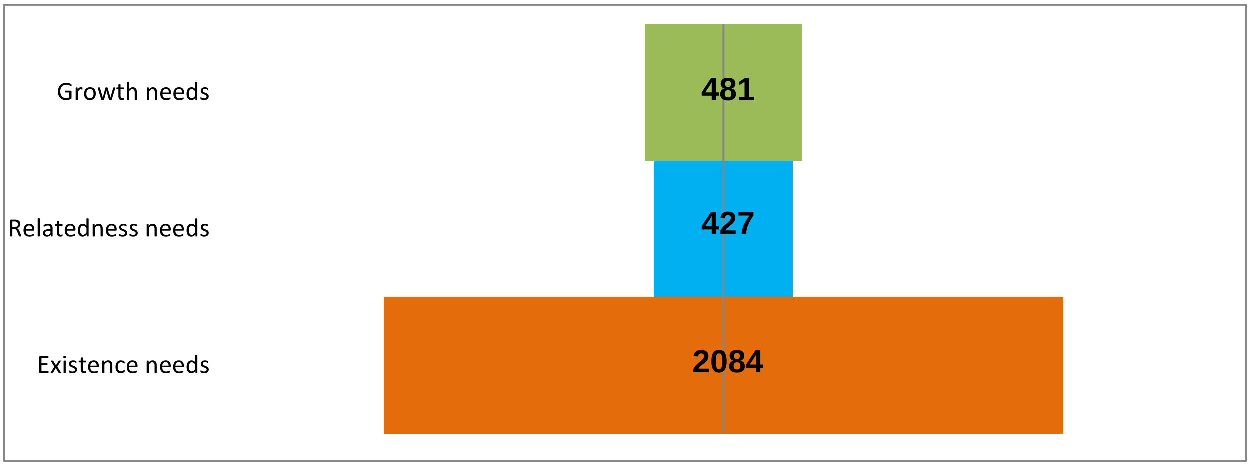
Main groups of financial needs	Alderfer's levels in his ERG theory[1]	Number of financial needs[2]
Pay debt, bills	Existence needs Relatedness needs Growth needs *Note*: Paying debt and bills falls under all three levels. It includes basic necessities (existence needs, for example, food, transport or medical insurance), desire needs which involve feeling recognised and forming part of relationships (relatedness needs, for example, paying for entertainment expenses in a social group), and lastly, development needs (growth needs, for example, paying educational expenses). Paying for debt and bills is therefore divided between all three levels.	95 95 95
Electricity	Existence needs	36
Business expenses	Growth needs *Note*: Growth needs refer to developing personal growth. Having one's own business can contribute to personal growth.	23

[1] See chapter 2, section 2.2.4.
[2] Needs divided between different levels are rounded to the nearest one.

The 15 main groups of financial needs and number of needs satisfied when using credit are categorised into the three levels of Alderfer's ERG theory (table 5.4). Alderfer's theory is more simplified than Maslow's theory. This could be explained by referring to the example of entertainment needs. In Maslow's theory, entertainment needs could be divided into two levels, namely love and belonging needs and esteem needs (see table 5.3). However, when applying Alderfer's theory, entertainment needs only form part of one level, namely relatedness needs. Similar to Maslow's results, fulfilment of lower-level needs (i.e. existence needs) is the most common reason why individuals use credit (figure 5.6).

FIGURE 5.6

FINANCIAL NEEDS AS PER ALDERFER'S ERG THEORY



Chapter 2 identified that Alderfer's ERG theory consists of three levels (figure 5.6). The first level, namely existence needs, consists of material and physiological needs and represents the largest group of financial needs satisfied when individuals use credit. In contrast to Maslow's theory, Alderfer found that human needs are not fulfilled in a hierarchical order, which suggests that upper-level needs, such as growth needs can be fulfilled before satisfying lower-level needs, such as relatedness needs. It is therefore acceptable that growth needs in Alderfer's hierarchy are higher than relatedness needs. Alderfer's ERG theory also combined similar needs levels, which represents the results in a more meaningful manner. The author therefore decided to use Alderfer's ERG theory to provide further detailed analysis of the financial needs fulfilled when using liabilities.

5.2.5 Conclusion

This section classified financial needs which are satisfied when using credit products into main groups (section 5.2.2). The main groups were then classified according to Maslow's theory of human motivation (section 5.2.3) and Alderfer's ERG theory (section 5.2.4). The classification based on Alderfer's ERG theory is used for further analysis in this study because it represents the findings in a more meaningful manner. The classification of financial needs according to Alderfer's theory will therefore be used in the next section to present the analysis and findings of credit usage according to the factors that influence liability usage as identified in the literature (section 5.3).

5.3 FACTORS INFLUENCING LIABILITIES USAGE

5.3.1 Introduction

The aim of this study is to analyse liability usage of South Africans in order to determine why they find it necessary to use credit products (see section 1.1.3). A review of previous international studies revealed that various factors influence an individual's decision to use credit (see section 2.4). These factors will now be analysed under the headings: access to credit (section 5.3.2) and demographic characteristics (section 5.3.3).

5.3.2 Access to credit

5.3.2.1 Introduction

Research conducted on the use of credit has found that access to credit is one of the factors that influences an individual's liability usage (see section 2.4.2). Access to credit can be divided into two components, namely physical access to credit and regulated access to credit. The available data will be analysed for both these components in the following two subsections.

5.3.2.2 Physical access to credit

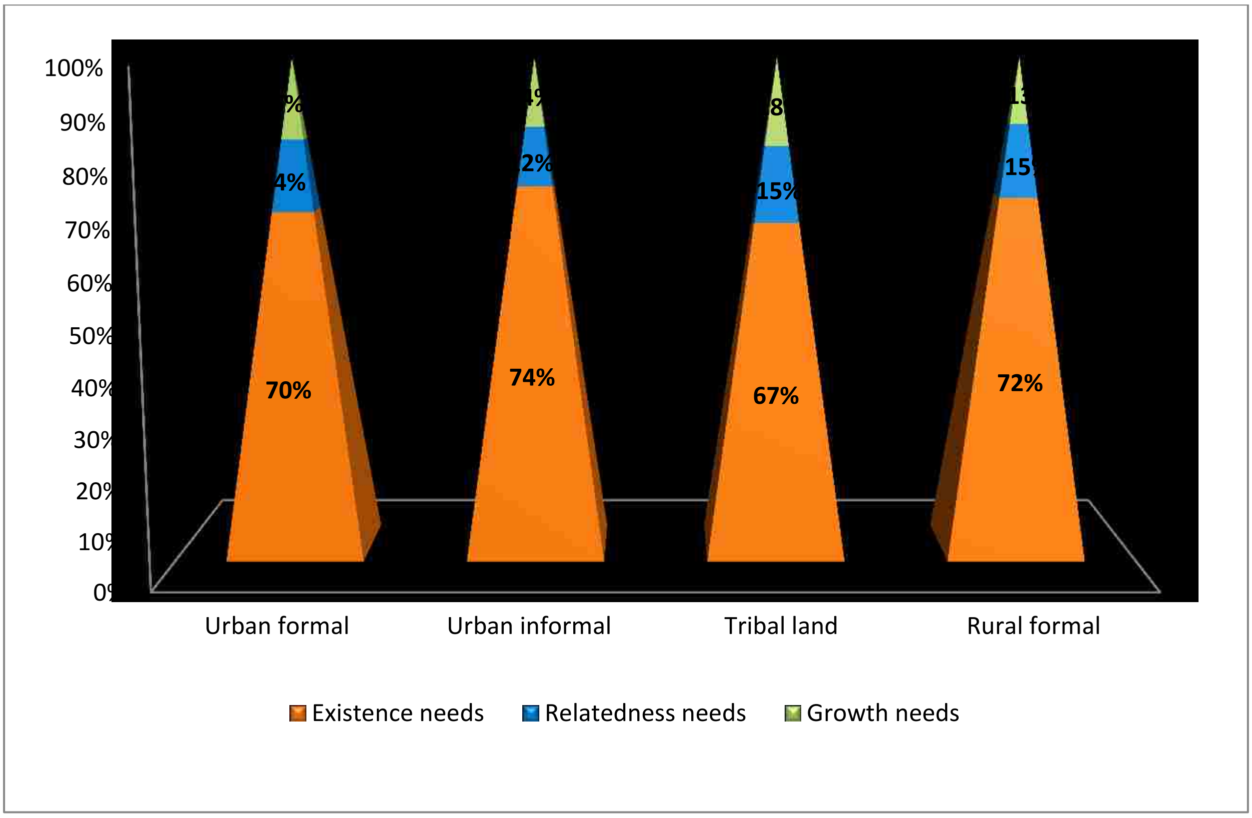
Finmark Trust (2010) found that in South Africa the geographical area and the province in which an individual lives often have an influence on the decision to use or not use credit (section 2.4.2.2). In the following two subsections, both of these factors are analysed for each of Alderfer's levels of needs.

(i) *Geographical area*

According to Finmark Trust (2010) individuals living in rural areas are more financially excluded than individuals living in urban areas. Armstrong, Lekezwa and Siebrits (2008) found that poverty rates in rural areas are much higher than in other geographical areas. The expectation therefore exists that individuals living in rural and informal settlements have a higher credit usage to satisfy low levels of needs. Figure 5.7 provides an analysis of the financial needs satisfied when using credit products of respondents living in different geographical areas.

FIGURE 5.7

ALDERFER'S LEVELS OF NEEDS BY GEOGRAPHICAL AREA



As indicated in figure 5.7, respondents living in informal urban settlements and rural areas have a similar credit usage pattern when satisfying needs. The other geographical groups, namely formal urban and tribal land areas also have a similar credit usage with a slightly higher credit usage to satisfy upper-level needs.

Respondents in all of the geographical areas mostly use credit products to satisfy their lower-level, namely existence needs. In comparison with the other geographical areas, respondents in the informal urban areas indicated that they have the highest credit usage to satisfy their primary needs. This might be the result of urbanisation which takes place as individuals move into informal settlements in urban areas, resulting in a higher need for basics in informal urban areas (News24 2008). In most geographical areas, the second highest level of financial needs that are satisfied by using credit products are the last level secondary needs, namely growth needs, except for respondents in the formal rural areas who indicated that they use more credit to satisfy their relatedness needs. The analysis of needs therefore supports Alderfer's ERG theory which suggests that the satisfaction of needs in his hierarchy is not strictly ordered (see section 2.2.4).

In order to gain a better understanding of the influence of geographical areas on credit usage, the subcomponents of each level in Alderfer's ERG theory are analysed by geographical area.

- ***Existence needs: geographical area***

Existence needs sometimes referred to as primary needs (see section 2.2.4), include basic needs such as the need for food and water as well as needs relating to safety, physical love and affection. The existence needs that are satisfied by using credit products are indicated in table 5.5.

TABLE 5.5

LIABILITY USAGE BY GEOGRAPHICAL AREA: EXISTENCE NEEDS

Needs	Geographical areas			
	Urban formal	Urban informal	Tribal land	Rural formal
Housing	15%	16%	19%	18%
Transport	30%	20%	28%	32%
Daily living/basic needs	4%	5%	3%	1%
Emergencies	4%	9%	5%	4%
Food and groceries	19%	29%	18%	17%
Goods	6%	8%	4%	7%
Personal use	12%	6%	15%	13%
Clothing	3%	1%	3%	2%
Pay debt, bills	5%	5%	4%	3%
Electricity	2%	1%	1%	3%
Total	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage, red – second highest credit usage, and Green – third highest credit usage

Table 5.5 indicates that the formal urban, tribal land and rural areas have relatively similar credit usage patterns, with a slightly different credit usage pattern in informal urban areas. Transportation is the largest component of existence needs that is satisfied by using credit in most geographical areas, with the only exception being in informal urban areas. The highest credit usage to satisfy transportation needs is in formal rural areas. Owing to the legacy of the past, these individuals live far from work and therefore have higher transport expenses to travel to and from their working places.

Costs relating to housing needs are the second largest component of needs that are satisfied for most geographical areas. Respondents living in tribal land and formal rural areas have higher credit usage to pay for housing needs than respondents in urban areas. The Rural Housing Loan fund was especially established to improve access to credit in rural areas (Republic of South Africa 2011). The higher credit usage in these areas might indicate that these individuals do have access to credit to improve their housing conditions.

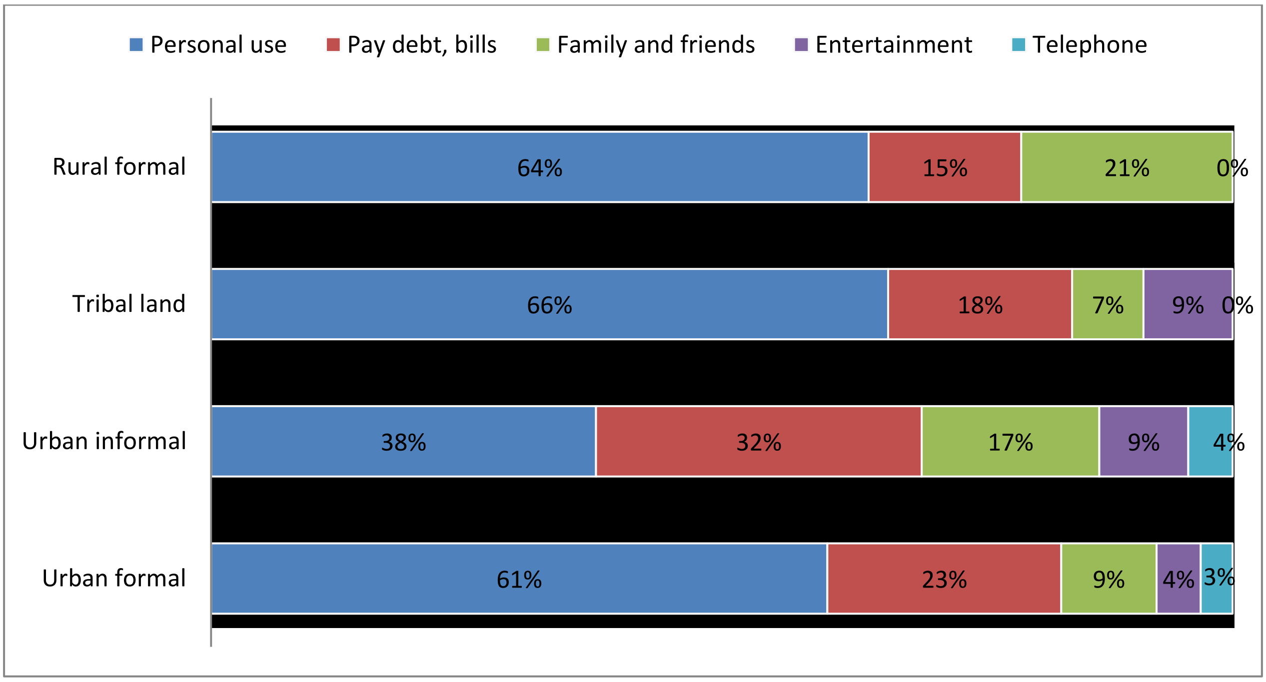
The analysis of liabilities usage also clearly indicates that there is a high usage of credit to satisfy food and grocery needs. This indicates that individuals do not have enough cash to pay for their basic needs, especially in informal settlements where they usually receive low incomes or government grants and therefore find it necessary to fund their food and grocery needs by using credit products (Mashigo 2006). As indicated previously, massive urbanisation can result in people migrating to cities without any support structures to provide food, resulting in the use of credit to meet this need.

- ***Relatedness needs: geographical area***

Relatedness needs can be classified as secondary needs and include the need to feel recognised and secure and include having relationships with other people such as family and friends (see section 2.2.4). The analysis of the subcomponent needs for using credit to satisfy relatedness needs in Alderfer's ERG theory is indicated in figure 5.8.

FIGURE 5.8

LIABILITY USAGE BY GEOGRAPHICAL AREA: RELATEDNESS NEEDS



Credit usage to satisfy relatedness needs is mostly similar for the geographical groups, except in the informal urban area (figure 5.8). Respondents in the geographical areas indicated that they mainly use their credit to satisfy personal needs in the relatedness needs category. In comparison with other geographical areas, individuals in informal urban areas have a much lower credit usage rate to satisfy personal needs and tend instead to use more credit to pay for existing debt and bills. This might be due to individuals receiving insufficient income as a result of high unemployment figures in informal settlements (Roberts, Struwig & Rule 2010). These individuals therefore have to make use of credit products to fulfil their needs, which results in them repaying existing credit with other credit products which exposes them to over-indebtedness (Mashigo 2006).

It is also interesting to note that respondents in the formal rural and informal urban areas have a much higher credit usage to satisfy needs related to family and friends. Owing to the high over-indebtedness in these areas, it is possible that individuals living in these areas who are employed and do have access to credit use their credit to support their family and friends who might be unemployed.

Respondents in formal rural communities also indicated that they do not use any of their credit to pay for entertainment or telephone expenses. This might be due to the lack of entertainment areas in rural areas, for example, the lack of movie theatres (NuMetro 2012) or lack of provision for telecommunication facilities in these areas.

- ***Growth needs: geographical area***

Growth needs are the last level of needs in Alderfer's ERG theory and can also be classified as higher-level secondary needs (section 2.2.4). Growth needs relate to personal growth needs and for the purpose of this study mainly comprise personal needs, educational needs, the need to pay for existing debt and the need to pay for business expenses (see table 5.6).

TABLE 5.6

LIABILITY USAGE BY GEORAPHICAL AREA: GROWTH NEEDS

Needs	**Geographical areas**			
	Urban formal	**Urban informal**	**Tribal land**	**Rural formal**
Personal use	53%	32%	57%	72%
Education	22%	33%	23%	11%
Pay debt, bills	20%	27%	16%	17%
Business expenses	5%	8%	4%	-
Total	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Although formal urban and tribal land areas have similar credit usage, they clearly differ from the profiles in informal urban and formal rural areas with each of these also differing from each other (see table 5.6). Personal needs are one of the largest components of needs that are satisfied in Alderfer's last level of needs. The second highest credit usage for some areas is to fulfil educational needs. However, individuals in rural communities use less credit to satisfy their educational needs and more credit to satisfy their personal needs. The reason for the lower credit usage to pay for education in rural areas is that individuals in these areas often cannot afford to pay for education and therefore qualify for "no fee" education as provided by the Education Laws Amendment Act 24 of 2005 (Republic of South Africa 2011). Interestingly, the results also show that credit usage to fulfil educational needs is the highest component in informal urban areas. Owing to high unemployment rates in informal urban areas, it is expected that credit usage for educational needs in informal areas should also be much lower as the "no fee" rule should also apply to these individuals. Even so, some individuals choose instead to take their children to a public school across town with better resources and infrastructure than other schools (IOL News 2011; Consortium for Research on Education, Access, Transitions & Equity 2009). These public schools are mainly funded by private income received from parents of the school as they might not qualify for the large grants as allocated to schools in the poorer geographical areas. This means that parents are responsible for paying for their children's education, which might explain the higher credit usage to satisfy educational needs for respondents living in informal urban areas.

Other notable results when satisfying growth needs is that respondents in informal urban areas almost use a third of their credit to pay for existing debt, whereas other areas only use a fifth. Although respondents indicated that they only use a fifth of their credit to pay for existing debt, this need has the second highest credit usage in rural areas. As previously mentioned, low levels of income and high unemployment in rural areas might result in individuals accumulating multiple debts in order to satisfy their needs (Mashigo 2006).

It is also interesting to note that respondents living in rural communities do not make use of credit to pay for business expenses, whereas individuals living in other geographical areas use almost a tenth of their credit to satisfy their financial needs by paying for business expenses. It is possible that the low economic activity in rural areas contributes to the fact that these individuals use less of their credit to finance business expenses.

Apart from physical access by geographical area, the province in which an individual lives may also influence his liabilities usage (see next section).

(ii) Province

In the previous section (i) above, physical access to credit by geographical area was analysed. In this section, an analysis of the liabilities usages of the respondents living in different provinces is provided.

The literature indicates that credit usage is often influenced by the province in which an individual lives (National Credit Regulator 2010). To gain a better understanding of credit usage according to province, other variables such as an individual's living standards measure (LSM) can also be analysed. Some studies reported that province is an indicator of living standards of individuals in South Africa (Van Aardt 2008; Statistics South Africa 2012a). According to Van Aardt (2008), province is a strong predictor of an individual's LSM. This can also be seen in the South African

Advertising Research Foundation All Media and Products Survey data which indicate that there are significant differences in living standards between provinces (Van Aardt 2008) (see table 5.7).

TABLE 5.7

PERCENTAGE BREAKDOWN OF PROVINCE BY LSM GROUP

Province	**LSM groups**			
	LSM 1-4 (%)	**LSM 5-7 (%)**	**LSM 8-10 (%)**	**Total (%)**
Eastern Cape	62.8	27.6	9.6	100.0
Free State	45.7	41.1	13.2	100.0
Gauteng	18.6	50.6	30.8	100.0
KwaZulu-Natal	53.4	29.4	17.2	100.0
Limpopo	76.7	20.0	3.3	100.0
Mpumalanga	58.7	31.1	10.2	100.0
North-West	56.0	34.5	9.5	100.0
Northern Cape	42.5	40.9	16.6	100.0
Western Cape	11.6	46.8	41.6	100.0

Source: South African Advertising Research Foundation (2006); Van Aardt (2008)

Table 5.7 clearly indicates the differences in the LSM groups between the different provinces. In terms of the LSM groups, individuals in the lower LSM groups, for example the LSM 1 group, have the lowest living standards and those in the LSM 10 group the highest. According to the South African Advertising Research Foundation (2014) individuals in lower LSM groups are typically asset-poor, meaning that they do not necessarily own television sets, microwave ovens or fridges. Individuals in the lowest LSM groups also have minimal or no access to services, electricity, water or financial services whereas individuals in the higher LSM groups do own a television set, have access to electricity and water and have increased ownership of durables.

As can be seen in table 5.7 in the Eastern Cape, for example, about 63% of the adult population were in the lowest LSM group during 2006, while almost 31% in Gauteng were in the highest LSM group. Owing to this difference, the expectation therefore exists that credit usage will also vary in the different provinces because individuals in different living standard groups might have different needs. For example, provinces with a higher percentage in the lower LSM groups might have a higher credit usage to satisfy basic needs, while provinces with a higher percentage in the higher LSM groups might have a lower credit usage to satisfy lower-level needs, but a higher credit usage to satisfy upper-level needs.

The credit usage when satisfying needs according to the different provinces is indicated in figure 5.9. As can be seen, respondents in the Eastern Cape indicated that they use 75% of their credit to satisfy basic needs, which is the highest among the provinces. The Eastern Cape also has the highest percentage in the lowest LSM group. This is in line with the expectation that respondents in lower LSM groups have a higher credit usage to satisfy primary needs.

FIGURE 5.9

ALDERFER'S LEVELS OF NEEDS BY PROVINCE

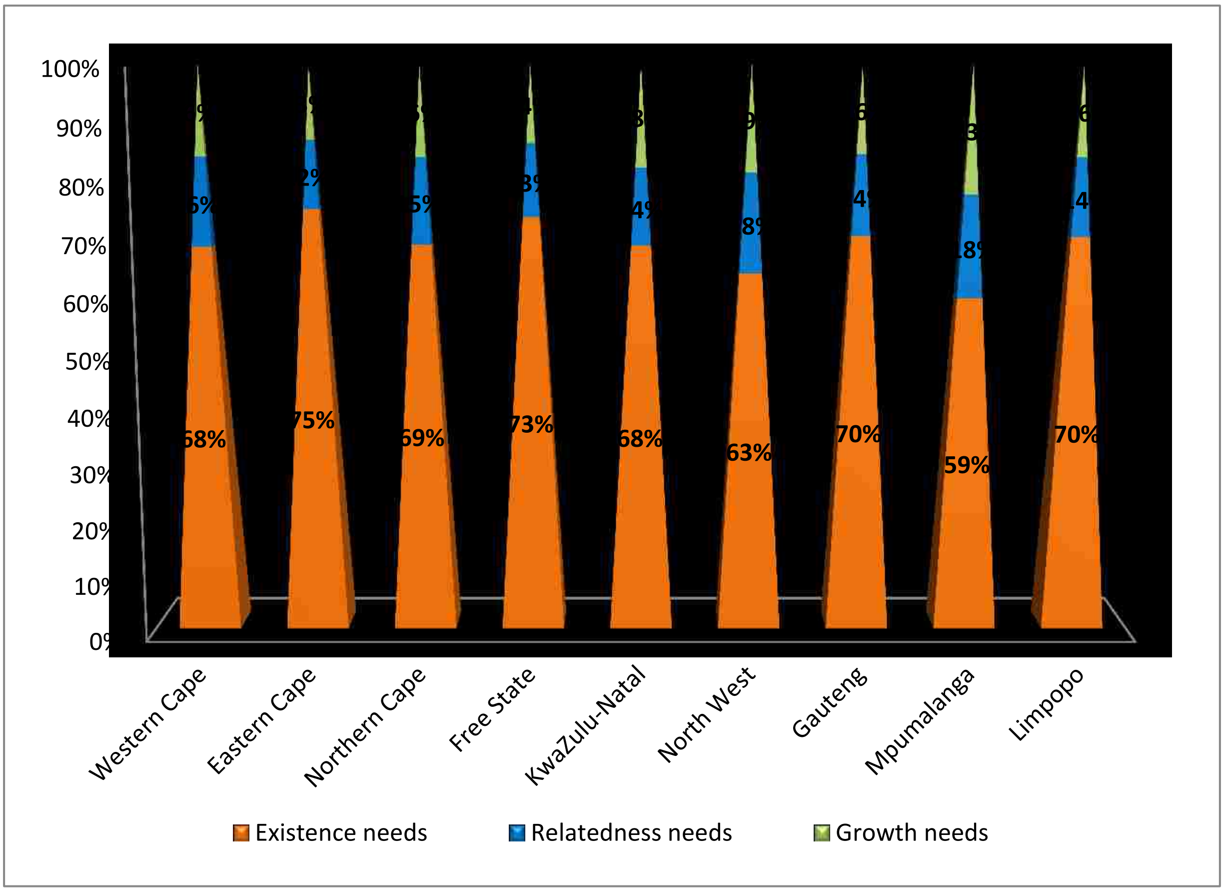


Figure 5.9 indicates that the Eastern Cape and Free State have the highest credit usage to satisfy lower-level needs. In comparison with others, these provinces also have a lower credit usage to satisfy upper-level needs. This is interesting because most individuals in these provinces do not fall within the higher LSM groups.

For all provinces, existence needs are the largest group of needs satisfied when using credit products. The second largest group of needs that are satisfied according to Alderfer's levels of needs are growth needs which illustrates that more upper-level secondary needs are satisfied than lower-level secondary needs. This is line with Alderfer's ERG theory, which suggests that the gratification of the levels of needs is not strictly ordered.

The results also show that the credit usage profile for Mpumalanga is completely different from other provinces. The reason for this is that the responses received in this province were much lower than in other provinces. Further analysis of results in the Mpumalanga province was therefore excluded as no meaningful derivation could be made.

To gain a better understanding of the differences in liability usage in the different provinces, each level of Alderfer's ERG theory is analysed by dividing the levels into subcomponents.

- ***Existence needs: province***

The financial needs fulfilled when using credit as provided by the respondents in relation to existence needs are indicated in table 5.8.

TABLE 5.8

LIABILITY USAGE BY PROVINCE: EXISTENCE NEEDS

Needs	**Provinces**							
	Western Cape	**Eastern Cape**	**Northern Cape**	**Free State**	**Kwa-Zulu-Natal**	**North West**	**Gauteng**	**Limpopo**
Housing	18%	15%	16%	16%	15%	17%	15%	13%
Transport	29%	35%	25%	26%	29%	31%	32%	31%
Daily living/basic needs	4%	4%	3%	8%	3%	1%	3%	4%
Emergencies	4%	4%	5%	8%	4%	3%	3%	3%
Food and groceries	18%	22%	14%	19%	21%	17%	22%	25%
Goods	5%	4%	13%	4%	7%	3%	6%	2%
Personal use	13%	8%	13%	10%	14%	19%	11%	12%
Clothing	2%	2%	3%	2%	3%	2%	1%	5%
Pay debt, bills	5%	4%	6%	4%	3%	7%	5%	4%
Electricity	2%	2%	2%	3%	1%	-	2%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: Mpumalanga is excluded from analysis owing to the low response rate (N < 20).

Despite LSM differences, the credit usage pattern to satisfy existence needs is noticeably similar between most provinces. Respondents use approximately one-third of their credit products to satisfy their transportation needs. The Eastern Cape has the highest credit usage to satisfy transportation needs. Interestingly, the Eastern Cape is the hub of the automotive industry in South Africa and also has two harbours, four airports and an excellent road and rail infrastructure, which make it highly accessible (Republic of South Africa 2011). The Eastern Cape is also one of the provinces with the highest unemployment rates (official and expanded) (Statistics South Africa 2012b). The high credit usage for transport might therefore be attributable to the fact that unemployed respondents who do not receive income use credit to pay for their transport expenses when they are travelling to look for work.

Across the provinces there seems to be relatively similar gratification of food and grocery and housing needs, for which the majority of the other credit is used.

Another interesting finding is that in the Western Cape, individuals have the highest credit usage to fulfil their housing needs. According to Absa home loans (2011), the Western Cape has the highest average nominal house prices, which might explain the higher credit usage as indicated by the respondents in this province.

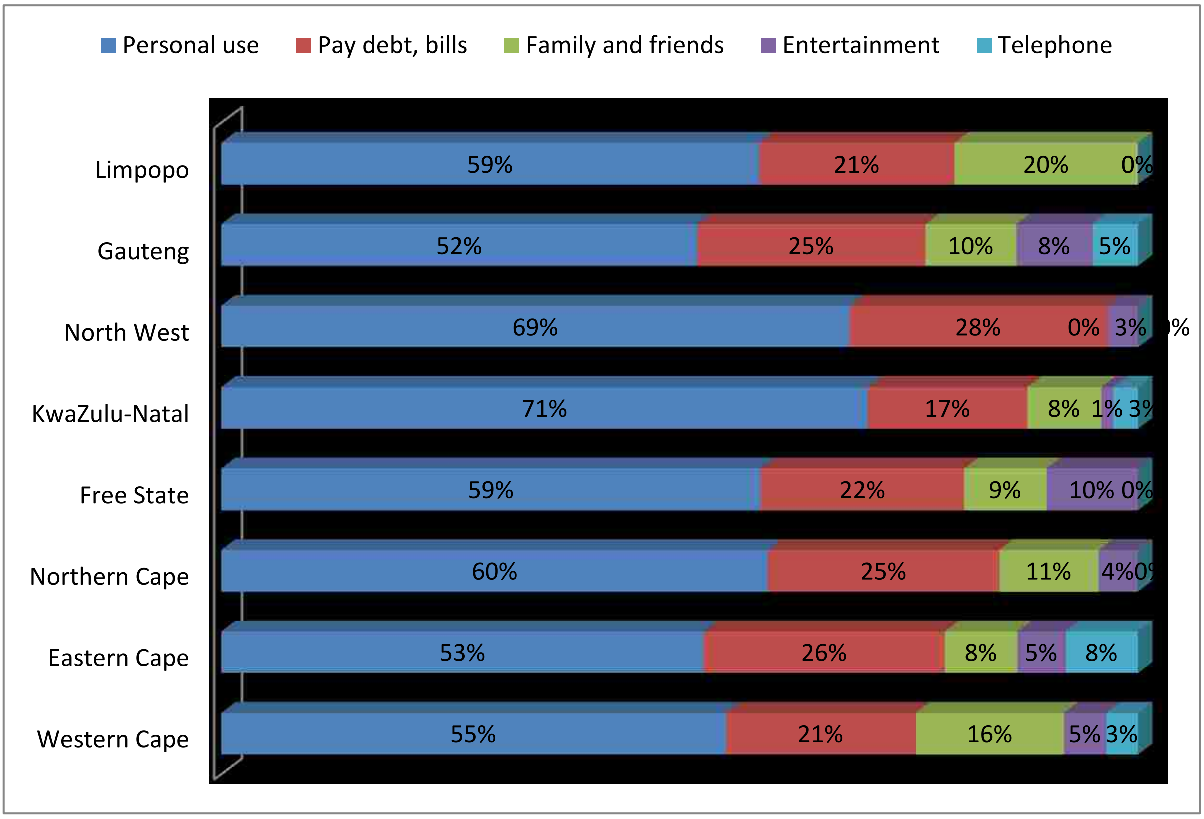
Other differences between the provinces for which there are no apparent explanations include the Free State, where respondents indicated that they have the highest credit usage to satisfy emergency needs, the Eastern Cape with the highest credit usage to satisfy the need to buy goods and the North West with the highest credit usage to satisfy personal needs. Analysis of the other needs indicate a similar gratification pattern between the provinces.

- ***Relatedness needs: province***

Needs associated with relatedness needs are indicated in figure 5.10.

FIGURE 5.10

LIABILITY USAGE BY PROVINCE: RELATEDNESS NEEDS



Note: Mpumalanga was excluded from analysis owing to low response rate (N < 20).

Figure 5.10 indicates that the provinces have a similar credit usage to satisfy relatedness needs, with the exception in the North West and KwaZulu-Natal provinces. As indicated in figure 5.10, credit is mainly used to pay for personal needs. Respondents in almost all of the provinces use a quarter of their credit to pay for existing debt and bills except in the KwaZulu-Natal province where they use less than a quarter of their credit.

Respondents utilise almost a tenth of their credit products to pay for expenses relating to family and friends, except in the Limpopo province where they use a quarter and in the North West where they use no credit at all to pay for family and friends' needs. Even so, respondents in these two provinces had a much lower credit usage to satisfy entertainment and telecommunication expenses, if any at all. It is possible that respondents interpreted expenses relating to family and friends as entertainment or telecommunication expenses, which caused the difference in credit usage between these groups.

- ***Growth needs: province***

The last level of Alderfer’s ERG theory, namely growth needs, consists of the subneeds indicated in table 5.9.

TABLE 5.9

LIABILITY USAGE BY PROVINCE: GROWTH NEEDS

Needs	**Provinces**							
	Western Cape	**Eastern Cape**	**Northern Cape**	**Free State**	**Kwa-Zulu-Natal**	**North West**	**Gauteng**	**Limpopo**
Personal use	52%	47%	56%	55%	53%	64%	48%	51%
Education	24%	24%	16%	16%	30%	10%	24%	24%
Pay debt, bills	20%	24%	24%	21%	13%	26%	22%	18%
Business expenses	4%	5%	4%	8%	4%	-	6%	7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: Mpumalanga was excluded from analysis owing to low response rate (N < 20).

Respondents across the provinces had a similar gratification of needs in Alderfer's last level, with the main credit usage differences between fulfilment of educational needs and the need to pay for existing debt and bills. Table 5.9 indicates that respondents mainly satisfy their growth needs by paying for personal needs. Respondents in the provinces with smaller economies and economic hubs, namely the Free State, the North West and the Northern Cape provinces, indicated that they use less credit to satisfy educational needs than respondents in provinces with larger economies and economic hubs (Western Cape, KwaZulu-Natal and Gauteng) (Statistics South Africa 2011). A possible reason for this is that there are several universities and educational institutions in the provinces with the larger economies and economic hubs which make education more accessible (Republic of South Africa 2011).

5.3.2.3 Regulated access to credit

Chapter 2 identified that liability usage can be influenced by the individual's access to credit (see section 2.4.2). Access to credit can be divided into two components, namely physical access to credit for which data was analysed in the previous section (see section 5.3.2.2) and regulated access to credit for which data are analysed in this section.

Regulated access to credit means that access to credit is influenced by regulations set out in various Acts. For example, in terms of the National Credit Act 34 of 2005, affordability assessments should be conducted on individuals when they apply for credit, thus limiting access to credit to those who can afford it (see section 2.4.2.3). Another example is that the cost of credit is regulated by the National Credit Act which stipulates certain pricing structures in order to govern the interest and fees charged by financial institutions.

To identify whether or not regulated access to credit influences liability usage, data from the Finscope survey were analysed. In the survey, respondents who indicated that they had never used credit before or had used credit in the past but not currently, were requested to indicate why not. The reasons for not using credit provided by respondents are set out in table 5.10.

TABLE 5.10

REASONS FOR NOT USING CREDIT

Reasons for not using credit	Number of times the reason was provided	Distribution of the total reasons*
I was declined or did not qualify	26	0.66%
I don’t have an ID	26	0.66%
I don’t know about loans or borrowing	43	1.09%
I don't know how to go about getting a loan or borrowing	13	0.33%
I never thought about it	154	3.90%
I don't believe in it	383	9.69%
The interest is too high	296	7.49%
My salary is not high enough to qualify for a loan	54	1.37%
I am scared to approach a bank or place where I can borrow money	23	0.58%
I don't want to have debt	803	20.32%
I had it in the past but had a negative experience	38	0.96%
I earn too little to make it worthwhile	113	2.86%
I have too much debt	37	0.94%
I have been blacklisted at the credit bureau	5	0.13%
I don't have a job	840	21.26%
I don't have a regular income	241	6.10%
I can't afford it	626	15.84%
I don’t like credit or don’t need a loan	60	1.52%
I’m still at school	62	1.57%
I don't know	49	1.24%
Other	59	1.49%
Total	**3 951**	**100.00%**

*Percentage calculated on the basis of the total number of reasons provided for not using credit.

As indicated in table 5.10 respondents advanced numerous reasons why they do not use credit. Some of the reasons are markedly similar and can be grouped together - for example, the “I don’t have a job” and “I don’t have regular income” reasons relate to each other as both indicate that an individual might not qualify for a loan. These reasons and other similar reasons were therefore grouped together. The main groups of reasons for not using credit are indicated in table 5.11.

TABLE 5.11

MAIN GROUPS OF REASONS FOR NOT USING CREDIT

Groups of reasons for not using credit	Number of times the reason was provided	Distribution of the total*
Reasons affecting whether or not individuals qualify for credit		
I was declined or did not qualify	26	0.66%
My salary is not high enough to qualify for a loan	54	1.37%
I earn too little to make it worthwhile	113	2.86%
I have been blacklisted at the credit bureau	5	0.13%
I don't have a job	840	21.26%
I don't have regular income	241	6.10%
I can't afford it	626	15.84%
I'm still at school	62	1.57%
I have too much debt	37	0.94%
Total	**2 004**	**50.73%**
Reasons illustrating resistance to credit		
I don't believe in it	383	9.69%
I don't want to have debt	803	20.32%
I had it in the past but had a negative experience	38	0.96%
I don't like credit or don't need a loan	60	1.52%
Total	**1 284**	**32.49%**
Reasons for credit being too costly		
The interest is too high	296	7.49%
Total	**296**	**7.49%**
Reasons illustrating respondents being uninformed about loans		
I don't know about loans or borrowing	43	1.09%
I don't know how to go about getting a loan or borrowing	13	0.33%
I am scared to approach a bank or place where I can borrow money	23	0.58%
Total	**79**	**2.00%**

Groups of reasons for not using credit	Number of times the reason was provided	Distribution of the total*
Miscellaneous reasons for not using credit		
I don't have an ID	26	0.66%
I never thought about it	154	3.90%
I don't know	49	1.24%
Other	59	1.49%
Total	**288**	**7.29%**
Total	**3 951**	**100.00%**

*Percentage calculated on the basis of the total number of reasons provided for not using credit.

Table 5.11 indicates that most of the reasons for not using credit relate to whether or not the individual qualified for the use of credit. Being unemployed and therefore being unable to repay loans because of a lack of income, lead to individuals not qualifying for loans in terms of the affordability assessments which should be performed by financial institutions in terms of the National Credit Act. Interestingly, the second largest group of reasons for not using credit relates to resistance to using credit, and many respondents indicated that they simply do not want to have debt. As previously discussed, another significant consideration when applying for credit is the cost implication and respondents also indicated that they find the cost of credit too high.

5.3.2.4 Conclusion

This section provided the results and discussed the findings of one of the factors that has an influence on the individual's liability usage, namely access to credit. Access to credit was divided into two components namely, physical access to credit (section 5.3.2.2) and regulated access to credit (section 5.3.2.3). As part of physical access to credit, both geographical area and province were analysed according to the three levels in Alderfer's ERG theory.

The majority of the credit usage trends were similar with a few exceptions. It is clear that there are differences between the credit usages of respondents living in informal geographical areas and respondents living in formal areas. Respondents in informal areas indicated that they have a higher credit usage to satisfy primary needs. The findings also indicate that high unemployment figures or low levels of income in informal settlements possibly have an impact on credit usage patterns of respondents living in these areas. There also seems to be a correlation between LSM and credit usage patterns between different provinces. In general, provinces with the highest credit usage to satisfy primary needs also have a lower LSM rating.

As part of the section dealing with regulated access to credit, the reasons for not using credit were analysed. The three main groups of reasons for not using credit included the fact that many respondents do not qualify to take up loans, resistance to the use credit as many respondents do not want to have debt and the cost of credit being too high (affordability).

5.3.3 Demographic characteristics

5.3.3.1 Introduction

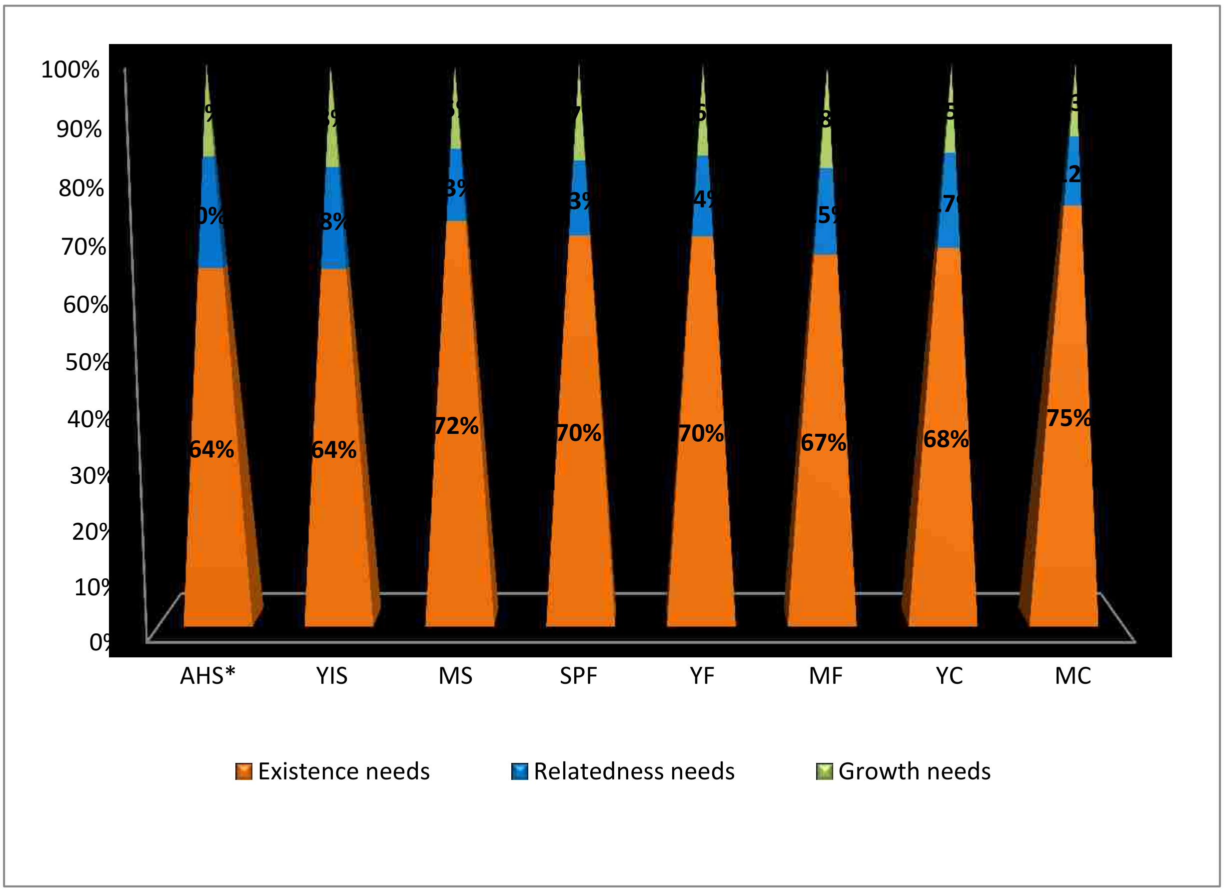
The literature review indicated that some demographic characteristics have an influence on the individual's liabilities usage (see section 2.4.3). Analysis of liabilities usage for the demographic characteristics that were identified in chapter 2 (see section 2.4.5) are discussed in the next sections.

5.3.3.2 Life stages

In chapter 2 (see section 2.4.3.2) it was determined that life stages are an important indicator of the individual's liabilities usage when satisfying needs. The life stages of this study were identified as at-home singles (AHS), young independent singles (YIS), mature singles (MS), single-parent families (SPF), young families (YF), mature families (MF), young couples (YC) and mature couples (MC) (South African Advertising Research Foundation 2011). By using these life stages, the needs satisfied when using credit are analysed according to the main groups of needs (section 5.2.2) using the three levels in Alderfer's ERG theory (section 5.2.4). The life stage theory suggests that there are different needs in the different life stages, resulting in an expectation of different credit usage motives (see figure 5.11).

FIGURE 5.11

ALDERFER'S LEVELS OF NEEDS BY LIFE STAGE



* This group was excluded from further analysis owing to the low response rate (N < 20).

Figure 5.11 clearly indicates similar credit usage patterns across all life stages. Respondents indicated that they mainly use credit to satisfy their primary needs. Interestingly, mature couples have the highest credit usage to satisfy existence needs. This might indicate that there is a lack of provision of cash flow for retirement, which results in older people having to make use of credit to meet their primary needs (Republic of South Africa 2012).

The second highest level of needs that are satisfied through credit usage for most life stages is growth needs. This contradicts Maslow's theory of human motivation which suggests that lower-level needs should be satisfied first before satisfying the upper level of needs in the hierarchy. However, Alderfer's theory is not strictly ordered, which means that it is possible to satisfy upper-level needs before lower-level needs have been fulfilled. The only group that followed a strictly ordered structure was the young couples group, which indicated that they use more credit to satisfy their lower-level secondary needs (relatedness needs) before satisfying their upper-level secondary needs (growth needs).

For a better grasp of how needs are satisfied through the use of credit, each life stage is analysed for the different levels of Alderfer's ERG theory. Note that owing to the low number of respondents in the at-home singles group, it was excluded from the remainder of analysis as the results would not have provided an accurate reflection of liability usage in this group.

- ***Existence needs: life stage***

As indicated in figure 5.11, respondents indicated that they use the majority of their credit products to satisfy their existence needs. This level consists of different needs combined and the question therefore arises if the needs provided by respondents differ between the different life stages. The analysis of the needs satisfied when using credit to meet existence needs between the life stages can be found in table 5.12.

TABLE 5.12

LIABILITY USAGE BY LIFE STAGE: EXISTENCE NEEDS

Needs	**Life stages**						
	YIS	**MS**	**SPF**	**YF**	**MF**	**YC**	**MC**
Housing	12%	18%	8%	17%	21%	17%	27%
Transport	31%	27%	26%	29%	30%	35%	34%
Daily living/basic needs	6%	5%	4%	4%	4%	3%	2%
Emergencies	6%	5%	4%	4%	3%	2%	4%
Food and groceries	13%	16%	31%	20%	15%	13%	11%
Goods	6%	9%	4%	6%	4%	8%	5%
Personal use	18%	12%	12%	11%	13%	15%	10%
Clothing	4%	3%	2%	2%	3%	3%	2%
Pay debt, bills	4%	3%	5%	5%	6%	4%	4%
Electricity	-	2%	4%	2%	1%	-	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: The at-home singles group was excluded from analysis owing to the low response rate (N < 20).

Although credit usage is overall the same across the different life stages, some clear differences are evident in the detailed analysis of existence needs (table 5.12). It is interesting to see that single-parent families have a notably different credit usage pattern from most of the other life stages. Respondents in this group indicated that they use more credit to fulfil food and groceries needs than transport, housing and other needs. Single-parent families have children but only receive a single income, which might result in them not being able to meet their basic food needs and therefore having to make use of credit to fulfil this need. Most other life stage groups indicated that they have a much lower credit usage to satisfy food and grocery needs and use more credit to fulfil transportation and housing needs.

The higher credit usage rate to satisfy transport and housing needs is consistent with the expectation that the credit usage rate should be high when acquiring assets (motor vehicles and houses) (Swart 2002). The credit usage to satisfy transportation needs mainly remains relatively consistent throughout all the life stages. Generally, the high credit usage to fulfil transport needs could be because off the previous policy of segregated development in South Africa which, resulted in many individuals living far away from their workplaces and therefore having to incur huge transport expenses to travel between their homes and workplaces. It is also interesting to see that mature couples have a relatively high credit usage to satisfy transport needs. It could be possible that these older individuals purchase new motor vehicles just before they move into their retirement, which results in a higher credit usage.

The second highest credit usage in the existence needs level for most life stage groups, except single-parent families, is to satisfy housing needs. Mature couples have the highest credit usage towards housing-related expenses. As mature couples (individuals of 50 years and older) move towards the retirement phase of their lives, they often downscale to smaller properties or move to retirement villages, resulting in an increase in their monthly housing expenses owing to the inclusion of additional levies or cost for medical treatment.

Mature couples, young independent singles and mature singles have the highest credit product usage to satisfy emergency needs. As discussed previously, emergency needs include funeral, medical and other emergency expenses (section

5.2). When an individual is faced with an emergency, he must preferably have cash (assets) available to pay for the expenses and if not, he must access credit to satisfy his emergency needs. It is possible that mature couples who are of 50 years and older, are faced with emergencies such as medical expenses, as health problems are often associated with aging. In comparison with this group, young independent singles and mature singles possibly do not have enough assets to withdraw from when an emergency arises and therefore have to make use of credit products.

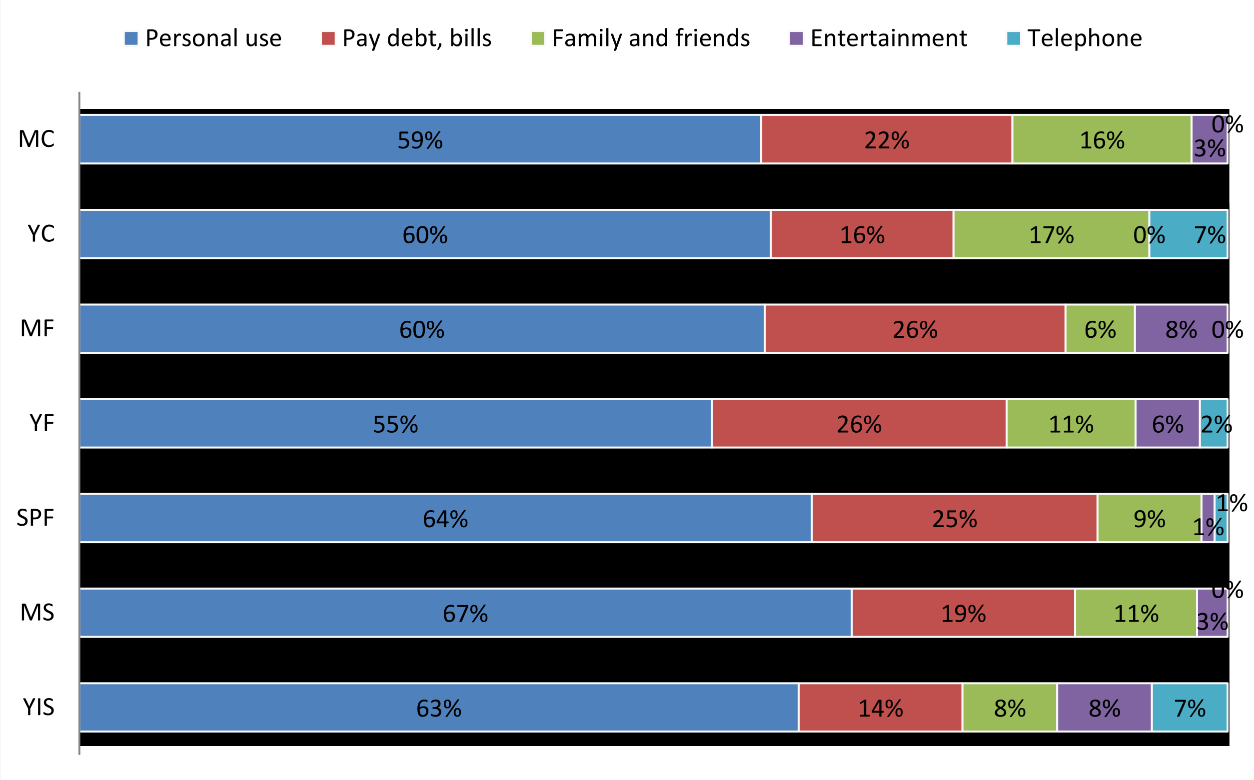
Lastly, when satisfying existence needs, single-parent families indicated that they have the highest credit usage to satisfy electricity needs. An explanation for the higher credit usage is that single-parent families might not have made the necessary budget adjustments taking into account the electricity increases over the past few years and therefore have to make use of credit products to fund their electricity expenses. Interestingly, young independent singles and young couples did not use any credit to pay for electricity expenses. A possible reason for this is that these life stage groups still have young expenditure patterns and it is possible that they made the necessary adjustments to their budgets in order to pay for their electricity expenses.

- ***Relatedness needs: life stage***

Figure 5.12 indicates the relatedness needs satisfied when using credit as provided by the respondents.

FIGURE 5.12

LIABILITY USAGE BY LIFE STAGE: RELATEDNESS NEEDS



Note: The at-home singles group was excluded from analysis owing to the low respondent rate (N < 20).

Respondents in the different life stages indicated that they mainly use their credit to satisfy personal needs, followed by the need to pay for existing debt and bills. In the family life stages, families with dependent children in the household, namely young families and mature families have the highest credit usage to pay for existing debt and bills. According to Keynes (1936), individuals consume a constant percentage of their income. Modigliani and Brumberg (1954) reported that individuals smooth out consumption over their life time owing to the variation of income during a life cycle. In order to smooth out consumption, one would expect younger individuals to borrow earlier in their lives when their income is low and they repay those loans when their income increases. Individuals should also save up during their high-income years to provide for their retirement years. It is therefore to be expected that individuals will thus have a higher credit usage in the earlier life stages which should decrease as they move towards the mature life stages. The fact that mature couples have such a high credit usage to pay for existing debt illustrates that as these individuals move into their retirement phase where their income decreases, they did not save enough during their earlier years and therefore have to make use of credit.

It is also interesting to see that the mature life stages (mature couples, mature families and mature singles) do not use any credit to pay for telecommunication expenses.

- ***Growth needs: life stage***

Table 5.13 provides the needs satisfied when using liabilities across the different life stages when satisfying the last level in Alderfer's ERG theory, namely growth needs.

TABLE 5.13

LIABILITY USAGE BY LIFE STAGE: GROWTH NEEDS

Needs	**Life stages**						
	YIS	**MS**	**SPF**	**YF**	**MF**	**YC**	**MC**
Personal use	63%	58%	50%	49%	49%	65%	58%
Education	20%	11%	27%	24%	22%	18%	18%
Pay debt, bills	14%	17%	20%	23%	22%	17%	21%
Business expenses	3%	14%	3%	4%	7%	-	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: The at-home singles group was excluded from analysis owing to the low response rate (N < 20).

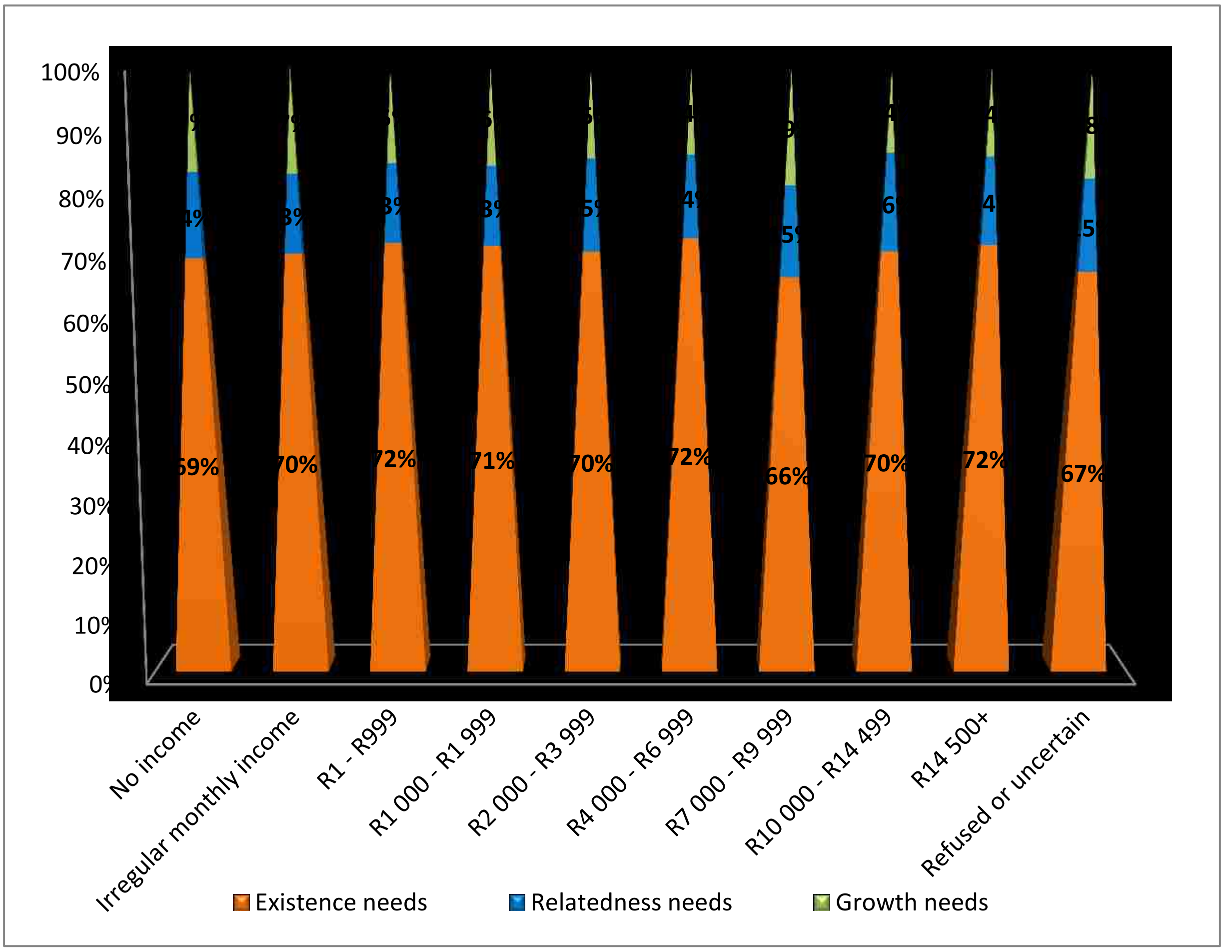
Table 5.13 indicates that the credit usage pattern to satisfy growth needs was quite similar across the different life stages except for mature singles and mature couples who have a slightly different credit usage pattern to satisfy certain needs. Respondents mainly use credit to satisfy their personal needs, educational needs and the need to pay for existing debt and bills in the growth needs level (table 5.13). The family life stages (single-parent families, young families and mature families) have the highest credit usage rate to fulfil educational needs. Because these families still have dependent children in the household, it is expected that paying for their children's education is one of their most important needs. It is also interesting to note that mature singles have the highest credit usage to pay for business expenses.

5.3.3.3 Income

Individuals' liabilities usages are often influenced by the level of income they receive (see section 2.4.3.3). In order to determine what effect income has on the liabilities usage of individuals, the levels of monthly income are analysed according to Alderfer's three levels of needs (see figure 5.13).

FIGURE 5.13

ALDERFER'S LEVELS OF NEEDS BY INCOME



Respondents in the different income groups mostly have similar gratification of Alderfer's three levels of needs (figure 5.13). Most income groups have the highest credit usage to satisfy existence needs, followed by growth needs. Although some of the income groups have the same credit usage to satisfy growth and relatedness needs, respondents earning a monthly income from R10 000 to R14 499 follow a strictly ordered hierarchy by fulfilling more relatedness needs than growth needs. In comparing the income groups, respondents earning a monthly income of R7 000 to R9 999 have the lowest credit usage to fulfil existence needs, but have the highest credit usage to satisfy growth needs. It would be interesting to determine what the reason for this is when analysing the subneeds in each level of Alderfer's theory.

To determine whether or not the different income levels have an influence on how needs are satisfied, each level of Alderfer's ERG theory was analysed according to subneeds. The irregular monthly income group and the refuse or uncertain group were excluded from further analysis because they did not contribute to the understanding of how the different income levels influence liabilities usage.

- ***Existence needs: income***

As indicated in figure 5.13, respondents mainly use credit to satisfy Alderfer's first level of needs, namely existence needs. Existence needs are primary needs which include basic needs such as the need for food and water, but also include needs relating to safety, physical love and affection. The subcomponents of needs in the existence needs level are shown in table 5.14.

TABLE 5.14

LIABILITY USAGE BY INCOME: EXISTENCE NEEDS

Needs	Income groups							
	No income	R1-R999	R1 000-R1 999	R2 000-R3 999	R4 000-R6 999	R7 000-R9 999	R10 000-R14 499	R14 500+
Housing	11%	16%	19%	15%	17%	16%	13%	15%
Transport	27%	28%	29%	26%	33%	34%	27%	34%
Daily living/basic needs	6%	5%	4%	4%	3%	4%	2%	3%
Emergencies	5%	5%	3%	4%	7%	4%	4%	5%
Food and groceries	23%	24%	16%	19%	12%	12%	30%	18%
Goods	5%	4%	8%	8%	8%	7%	4%	8%
Personal use	14%	12%	13%	12%	10%	12%	13%	11%
Clothing	2%	2%	3%	3%	3%	2%	3%	-
Pay debt, bills	5%	4%	4%	5%	4%	7%	2%	5%
Electricity	2%	-	1%	4%	3%	2%	2%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

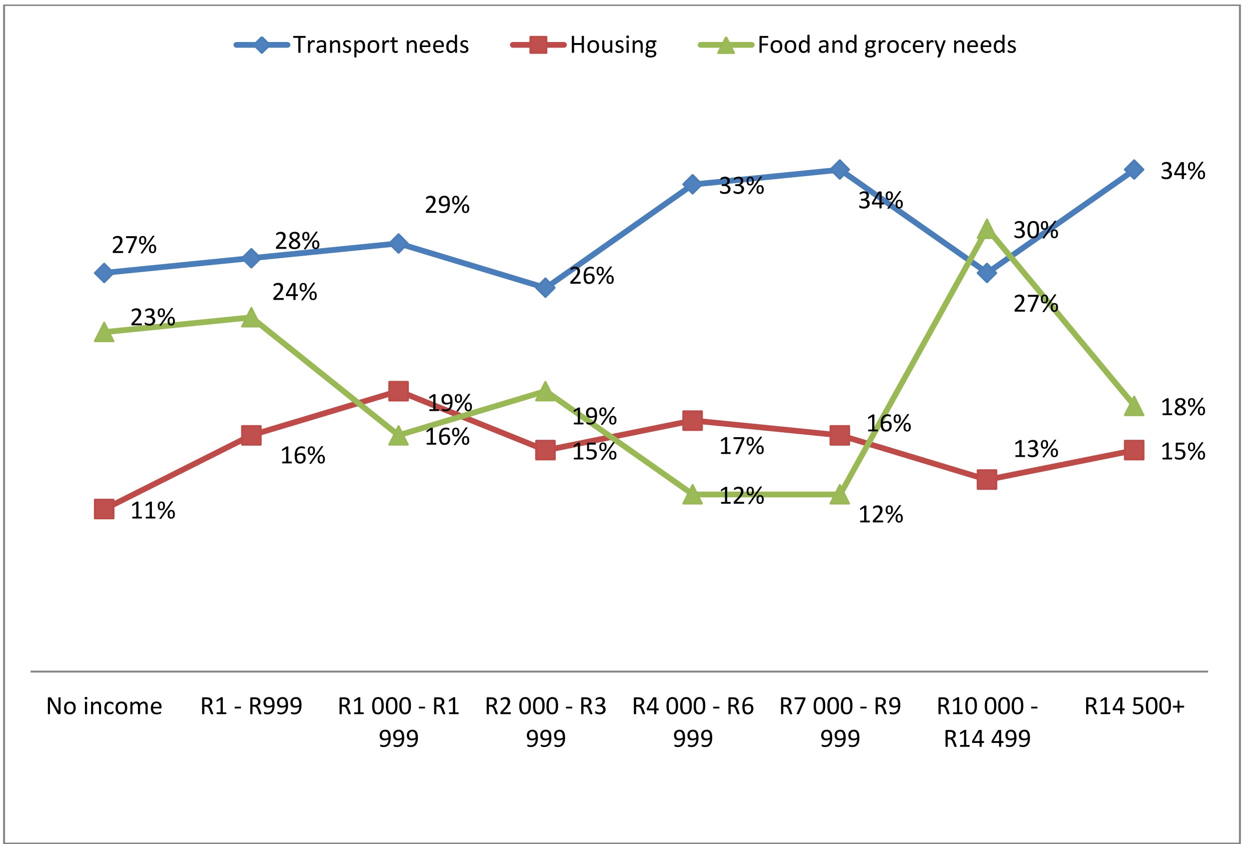
Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: The irregular monthly income group and the refuse or uncertain group were excluded from analysis owing to the low response rate (N < 20).

The top three needs that are satisfied by using credit include transportation, housing and food and grocery needs (table 5.14). In order to determine how the different income groups influence credit usage for the top three existence needs, further analysis of each need is indicated in figure 5.14.

FIGURE 5.14

LIABILITY USAGE BY INCOME FOR THE TOP THREE EXISTENCE NEEDS



Note: The irregular monthly income group and the refuse or uncertain group were excluded from analysis owing to the low response rate (N < 20).

As indicated in table 5.14, credit usage to satisfy transportation needs is the highest for most income groups. Individuals in the higher-income groups, with the exception of individuals earning from R10 000 to R14 499, have the highest credit usage to satisfy transport needs. This is in line with the expectation that individuals in the higher-income group levels use more of their credit on expensive cars than individuals in the lower-income groups. Individuals in the higher-income group might also qualify for larger loans in terms of affordability than individuals in the lower-income groups.

Credit usage to satisfy housing needs remains relatively similar across the income groups. Respondents receiving no income have the lowest credit usage when satisfying housing needs, possibly because they might find it difficult to obtain mortgage loans to purchase houses.

Credit used to satisfy food and grocery needs is relatively high among the no income and lowest-income groups (approximately a quarter) then forming a downward trend for most income groups with a sharp increase for individuals earning from R10 000 to R14 499. This is interesting because the latter income group has a lower credit usage to satisfy transportation and housing needs. The lower-income groups also have high credit usage rates to satisfy food and grocery needs, but in this instance it might indicate that these individuals do not have access to enough cash to buy the necessary food and groceries and therefore find it necessary to use credit products.

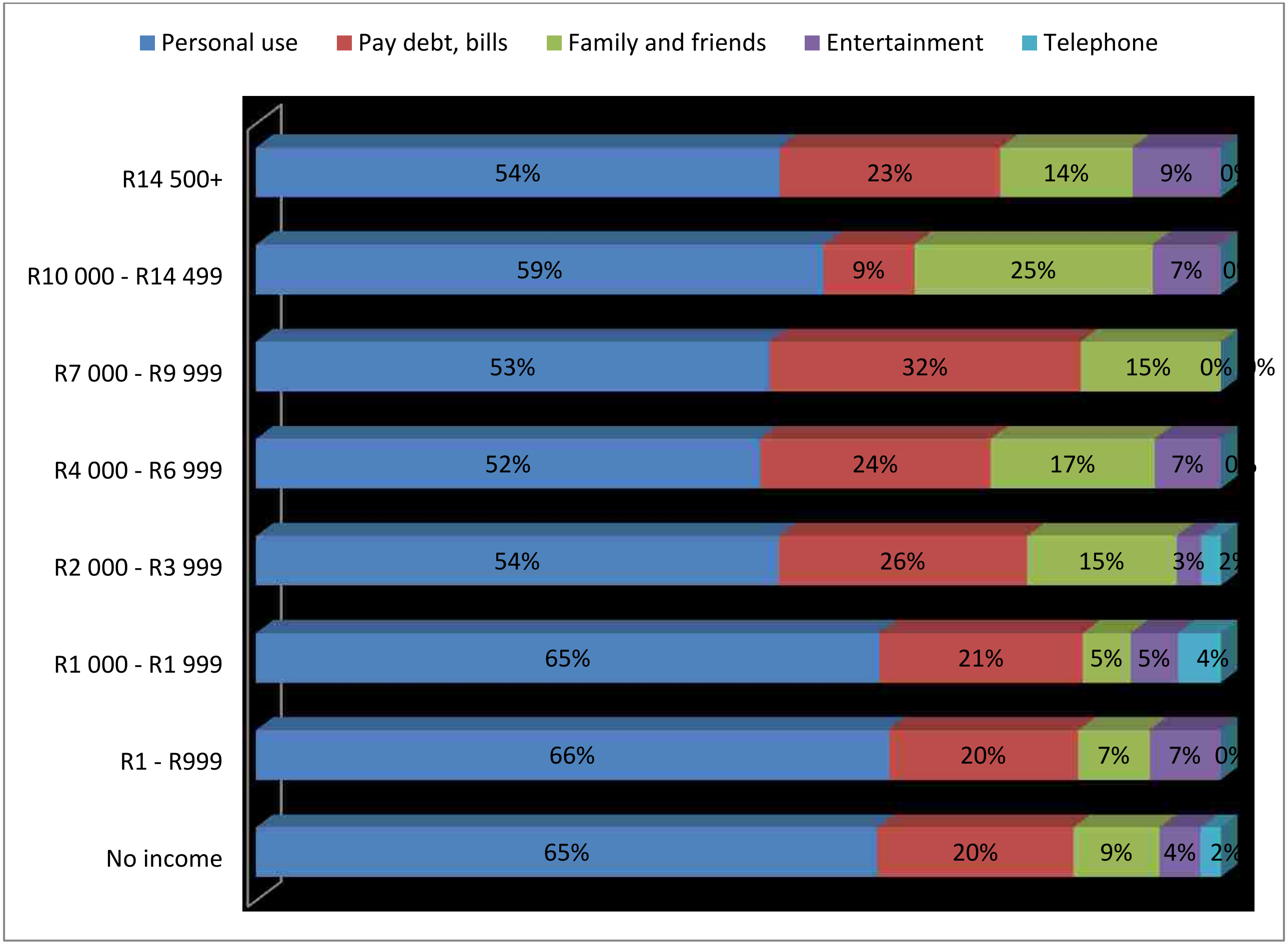
As for the other needs in Alderfer's existence needs level (see table 5.14), gratification of needs seems to be similar across the different income groups with some exception for goods and electricity needs. Credit usage to obtain goods seems to be influenced by income earned. Most higher-income groups indicated that they have higher credit usage to purchase goods (e.g. furniture) than lower-income groups. And lastly, even though there seems to be no trend for credit usage to satisfy electricity needs, respondents in the income group earning from R1 to R999 per month indicated that they do not use any credit to satisfy electricity needs, while income earners in the R2 000 to R6 999 groups reported having the highest credit usage to satisfy electricity needs.

- ***Relatedness needs: income***

The needs associated with relatedness needs are indicated in figure 5.15.

FIGURE 5.15

LIABILITY USAGE BY INCOME: RELATEDNESS NEEDS



Note: The irregular monthly income group and the refuse or uncertain group were excluded from analysis owing to the low response rate (N < 20).

Figure 5.15 indicates that there has been a clear change in the credit usage patterns of respondents earning from R2 000 per month, with these groups also using more credit to pay for existing debt and bills. Respondents across the different income groups mainly use credit to satisfy their personal needs, followed by the need to pay for existing debt and needs relating to family and friends. It is interesting to note that respondents in the three lower-income groups have a much higher credit usage rate to satisfy their personal needs than respondents in the higher-income groups. However, these income groups have a much lower credit usage when satisfying needs relating to family and friends.

Respondents earning from R10 000 to R14 499 a month have the lowest credit usage to pay for existing debt (about a tenth in comparison with up to a third) and the highest credit usage to fulfil needs relating to family and friends. For all of the other income groups, especially the higher-income groups, credit usage to pay for existing debt and bills seems to be quite high. It is expected that the budgets of higher-income earners should make enough provision to satisfy their needs so that they do not find it necessary to use credit to pay for existing debt. However, poor money management may often lead to a debt spiral which result in individuals using debt to pay off existing debt. High credit usage to pay for existing debt among low-income earners might also indicate that these individuals often experience budget constraints when they want to fulfil their needs.

Gratification of entertainment needs seems to be relatively constant across the different income groups. It is interesting to see that respondents in the higher-income groups do not use any credit products to satisfy telecommunication needs.

- ***Growth needs: income***

The last level of Alderfer's ERG theory, namely growth needs consists of the subneeds indicated in table 5.15.

TABLE 5.15

LIABILITY USAGE BY INCOME: GROWTH NEEDS

Needs	Income groups							
	No income	R1-R999	R1 000-R1 999	R2 000-R3 999	R4 000-R6 999	R7 000-R9 999	R10 000-R14 499	R14 500+
Personal use	56%	55%	56%	55%	51%	40%	68%	54%
Education	24%	25%	22%	16%	10%	29%	21%	18%
Pay debt, bills	18%	16%	18%	26%	23%	24%	11%	23%
Business expenses	2%	4%	4%	3%	16%	7%	-	5%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: The irregular monthly income group and the refuse or uncertain group were excluded from analysis owing to the low response rate (N < 20).

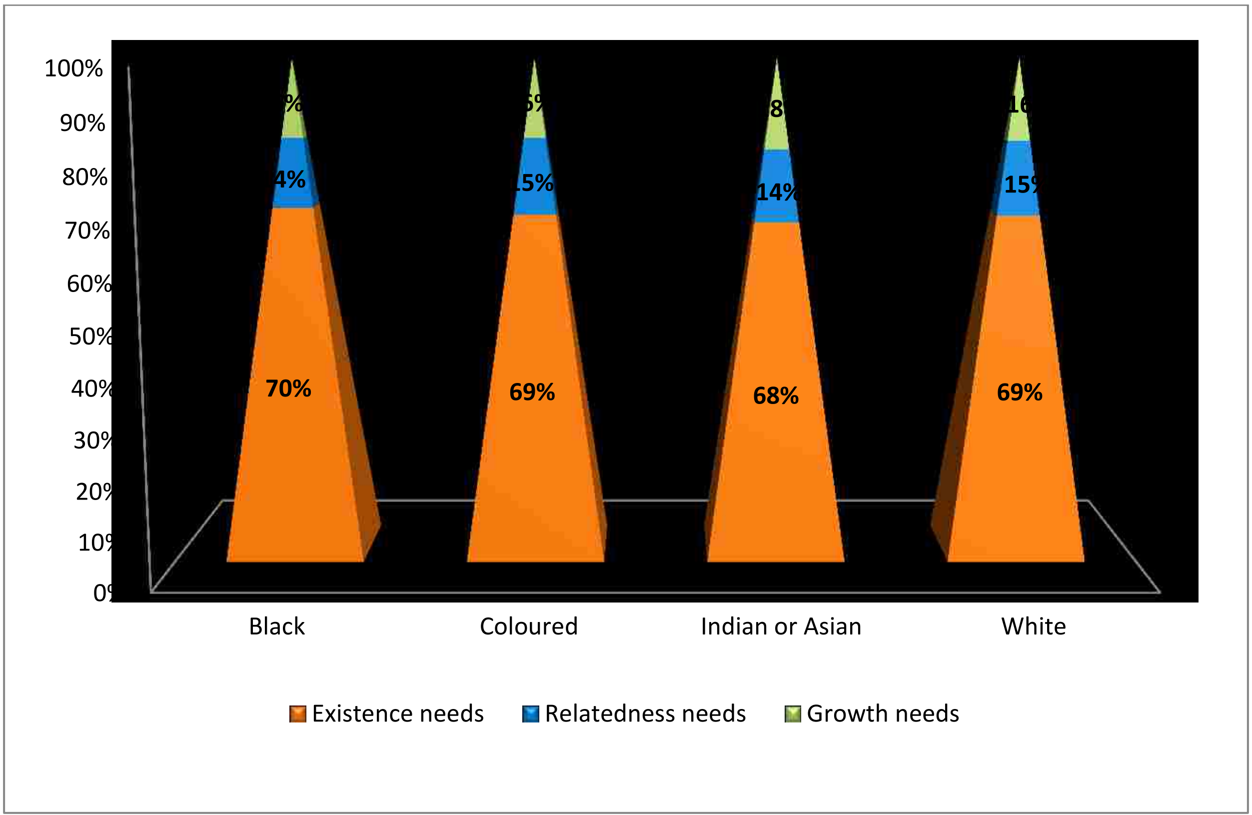
In general, the different income groups mostly have a similar credit usage to satisfy growth needs with a few exceptions in the credit usage patterns of some of the middle- and higher-income groups (table 5.15). Growth needs are mainly satisfied by using credit to pay for personal needs. Respondents indicated that they use about a quarter of their credit to pay for educational needs, except for the income group earning from R4 000 to R6 999, which uses only a tenth. Although there is no clear explanation for this, it is interesting to note that respondents in this group have a much higher credit usage to pay for business expenses. It is possible that these individuals attempt to supplement their incomes by operating businesses on the sideline which may result in using credit to fund business expenses. Respondents also indicated that they use a large portion of their credit to pay for existing debt and bills. Interestingly, higher-income earners also seem to be over-indebted. The National Credit Regulator (2010) reported that higher-income earners have the largest portion of all types of credit granted. The analysis and findings presented in table 5.15 suggest that this group also seems to struggle with repayment of debt.

5.3.3.4 Race

As discussed previously (see section 2.4.3.4), race is one of the demographic characteristics that influence the individual's liability usage (Lee et al. 2007; Tippett 2010; Yilmazer & DeVaney 2005). Respondents across the different racial groups indicated that they use credit to satisfy similar needs according to Alderfer's ERG theory (see figure 5.16).

FIGURE 5.16

ALDERFER'S LEVELS OF NEEDS BY RACE



Despite previous studies indicating differences between race groups, the analysis in this study clearly indicates that there are no major differences between the groups (figure 5.16).

To better grasp how the different racial groups use credit to satisfy their needs, each racial group was analysed according to each level of Alderfer's ERG theory.

- ***Existence needs: race***

As shown in figure 5.16, respondents across all racial groups mainly use credit to satisfy existence needs. The analysis of the subneeds in the existence needs level should provide a better understanding of the existence needs that are satisfied by using credit. The different needs in the existence needs level are indicated in table 5.16.

TABLE 5.16

LIABILITY USAGE BY RACE: EXISTENCE NEEDS

Needs	**Race**			
	Black	**Coloured**	**Indian or Asian**	**White**
Housing	16%	15%	17%	17%
Transport	28%	27%	36%	30%
Daily living/basic needs	4%	3%	2%	5%
Emergencies	5%	6%	3%	3%
Food and groceries	23%	17%	14%	16%
Goods	4%	9%	7%	6%
Personal use	12%	12%	13%	14%
Clothing	2%	4%	2%	2%
Pay debt, bills	4%	5%	5%	5%
Electricity	2%	2%	1%	2%
Total	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

No major differences exist between credit usage for the different racial groups to satisfy existence needs (table 5.16). The only difference between the groups is that respondents in the black and coloured racial groups indicated that they use more credit to satisfy food and grocery needs compared to the other racial groups that have a slightly higher use for housing needs.

- ***Relatedness needs: race***

As previously mentioned, relatedness needs include the need to feel recognised and secure. These needs also involve forming part of social groups or having relationships with other people such as family and friends. The needs that form part of the relatedness needs level in Alderfer's ERG theory are indicated in figure 5.17.

FIGURE 5.17

LIABILITY USAGE BY RACE: RELATEDNESS NEEDS

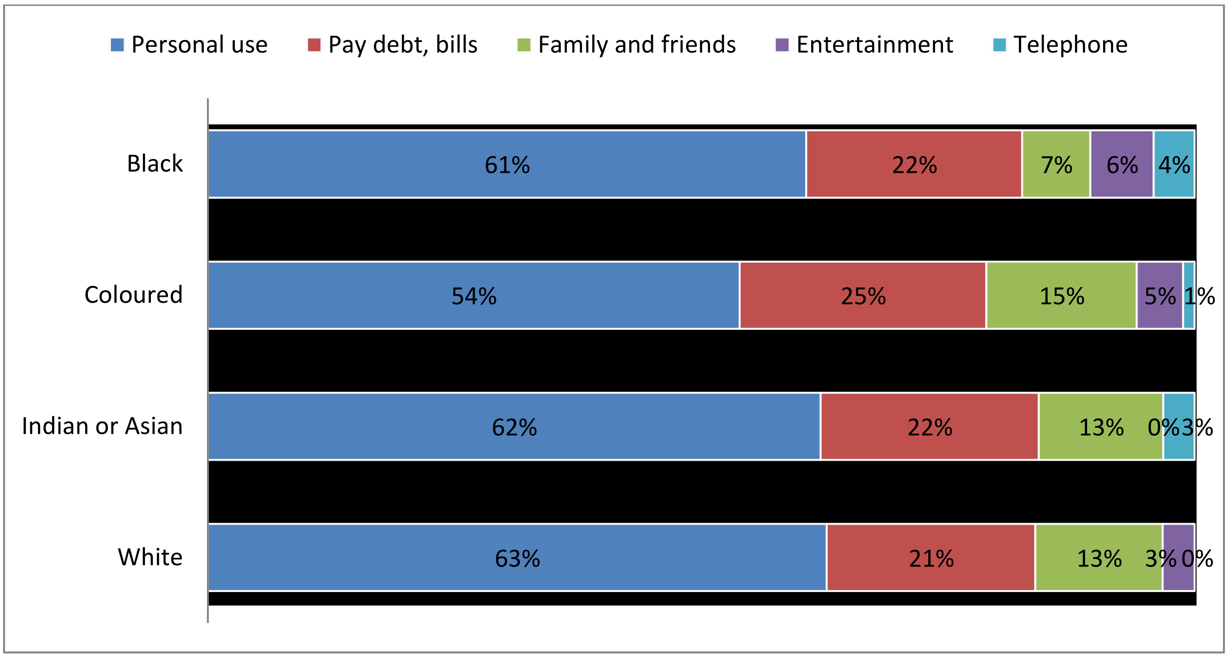


Figure 5.17 indicates that there are similar credit usage patterns across the different groups in the relatedness needs level except for the coloured group which has the lowest credit usage to satisfy personal needs but a slightly higher credit usage to pay for existing debt or bills and using credit for their family and friends.

- ***Growth needs: race***

Details of the liability usages of the different racial groups when satisfying the last level in Alderfer's ERG theory are provided in table 5.17.

TABLE 5.17

LIABILITY USAGE BY RACE: GROWTH NEEDS

Needs	**Race**			
	Black	**Coloured**	**Indian or Asian**	**White**
Personal use	53%	52%	49%	56%
Education	23%	19%	33%	20%
Pay debt, bills	19%	24%	18%	19%
Business expenses	5%	5%	-	5%
Total	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

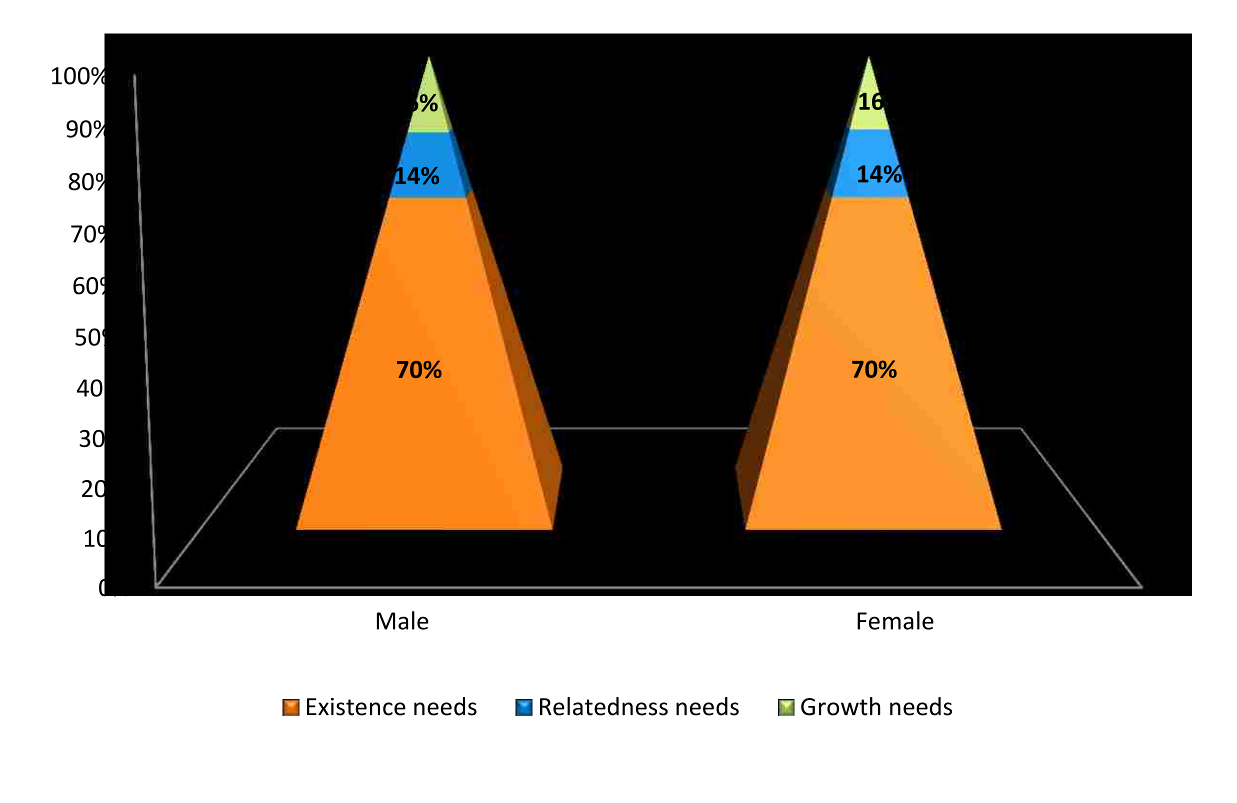
Respondents in most of the racial groups use their credit to satisfy similar growth needs, firstly, by using credit to satisfy personal needs, followed by educational needs and paying existing debt or bills. Indians or Asians have the highest credit usage to satisfy educational needs (a third in comparison with almost a quarter for other race groups). It is also interesting to note that Indians or Asians do not use any credit to pay for their business expenses.

5.3.3.5 Gender

In chapter 2 (section 2.4.3.4), gender was identified as one of the demographic characteristics that has an influence on the individual's liabilities usage (Tippett 2010; Yilmazer & DeVaney 2005; Lyons & Fisher 2006). The needs fulfilled when using credit are analysed according to Alderfer's ERG theory (see figure 5.18).

FIGURE 5.18

ALDERFER'S LEVELS OF NEEDS BY GENDER



Females and males use credit to satisfy similar financial needs (figure 5.18). According to Alderfer's theory, both gender groups mostly use credit to satisfy their existence needs (figure 5.18). Both male and female gender groups indicated that they satisfy more upper-level secondary needs, namely growth needs than lower-level secondary needs, namely relatedness needs.

Each gender group was analysed for each level of Alderfer's ERG theory to better understand how needs are satisfied through the use of credit (see table 5.18).

TABLE 5.18

LIABILITY USAGE BY GENDER GROUP ACORDING TO THE LEVELS IN ALDERFER'S ERG THEORY

Needs	**Gender**	
	Male	**Female**
Existence needs		
Housing	16%	16%
Transport	29%	29%
Daily living/basic needs	3%	4%
Emergencies	5%	4%
Food and groceries	20%	20%
Goods	7%	5%
Personal use	12%	12%
Clothing	2%	3%
Pay debt, bills	4%	5%
Electricity	2%	2%
Total	**100%**	**100%**
Relatedness needs		
Entertainment	5%	5%
Family and friends	11%	10%
Personal use	62%	58%
Telephone	2%	3%
Pay debt, bills	20%	24%
Total	**100%**	**100%**
Growth needs		
Personal use	53%	54%
Education	28%	18%
Pay debt, bills	17%	22%
Business expenses	2%	6%
Total	**100%**	**100%**

Blue – highest credit usage; Red – second highest credit usage; Green – third highest credit usage

Males and females use credit products to satisfy similar needs in Alderfer's different levels (table 5.18). Respondents in the gender groups indicated that they mainly satisfy existence needs by paying for transportation, followed by food and groceries needs and housing needs. In the relatedness needs and growth needs levels, both males and females mainly use their credit to satisfy personal use needs. One of the main differences between the gender groups is that females use slightly more credit than males to pay off existing debt and to fund business expenses. Males, however, indicated that they have a higher credit usage to satisfy educational needs. For most of the other needs in Alderfer's ERG theory, gender does not seem to influence individuals' liabilities usage when satisfying their needs.

5.3.3.6 Marital status

According to various studies (Tippett 2010; Lee et al. 2007; Brown et al. 2008; Yilmazer & DeVaney 2005), marital status often influences the liabilities usage of individuals. In order to gain a better understanding of the influence of marital status on liabilities usage, the different needs fulfilled when using liabilities were analysed using Alderfer's three levels in his ERG theory (see figure 5.19).

FIGURE 5.19

ALDERFER'S LEVELS OF NEEDS BY MARITAL STATUS

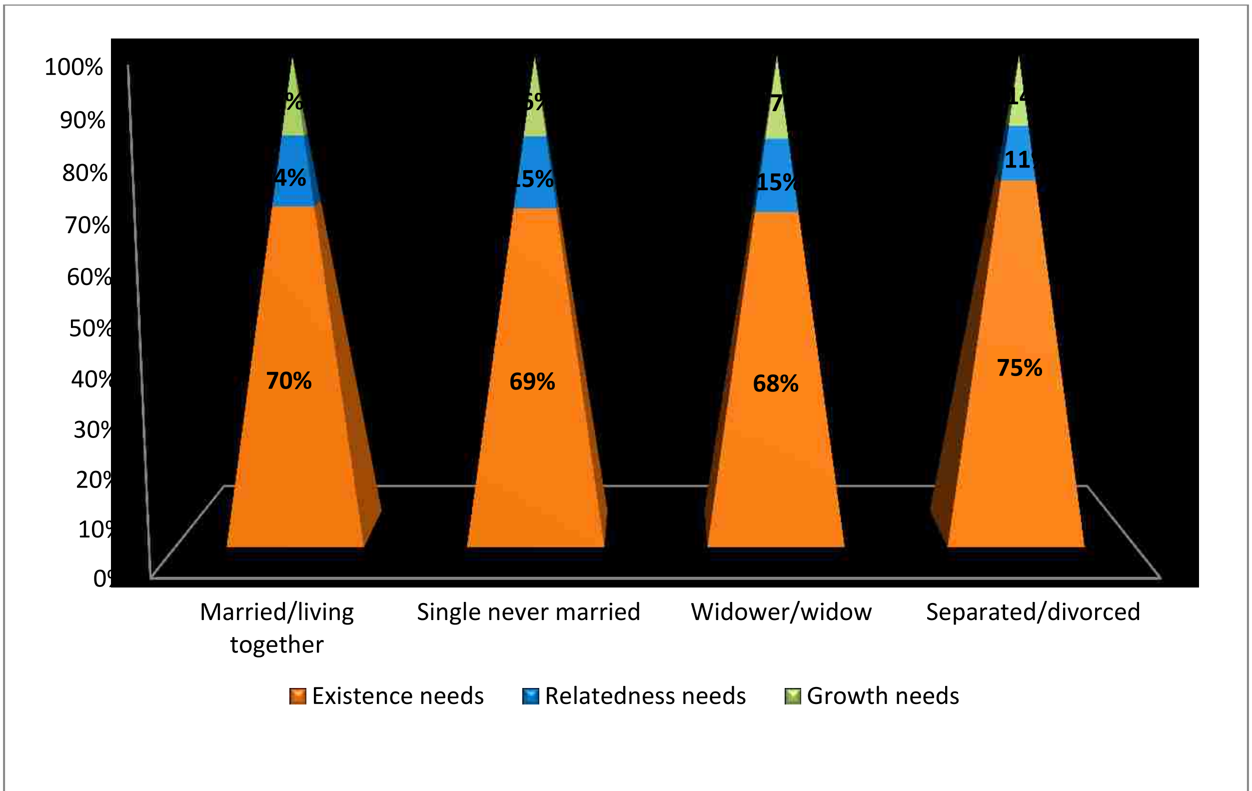


Figure 5.19 indicates that the different marital status groups have similar gratification of needs according to Alderfer's ERG theory. In all marital status groups, respondents indicated that they have the highest credit usage to satisfy existence needs, followed by growth needs and then relatedness needs. In comparing the different marital status groups, although fulfilment of needs seems to be similar for the groups, separated or divorced respondents have the highest credit usage to satisfy primary needs (existence needs), but have a lower credit usage to satisfy secondary needs (growth and relatedness needs). To better grasp these differences, the subcomponents in each level of Alderfer's needs are analysed below.

- ***Existence needs: marital status***

Respondents indicated that they mainly use credit to satisfy Alderfer's first level of needs, namely existence needs. The subcomponents of needs in the existence needs level is shown in table 5.19.

TABLE 5.19

LIABILITY USAGE BY MARITAL STATUS: EXISTENCE NEEDS

Needs	**Marital status**			
	Married/ living together	**Single never married**	**Widower/ widow**	**Separated/ divorced**
Housing	17%	13%	17%	15%
Transport	29%	31%	27%	29%
Daily living/basic needs	4%	4%	6%	2%
Emergencies	4%	5%	3%	3%
Food and groceries	19%	21%	20%	21%
Goods	6%	5%	5%	9%
Personal use	12%	13%	13%	8%
Clothing	3%	2%	1%	5%
Pay debt, bills	5%	4%	6%	5%
Electricity	1%	2%	2%	3%
Total	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

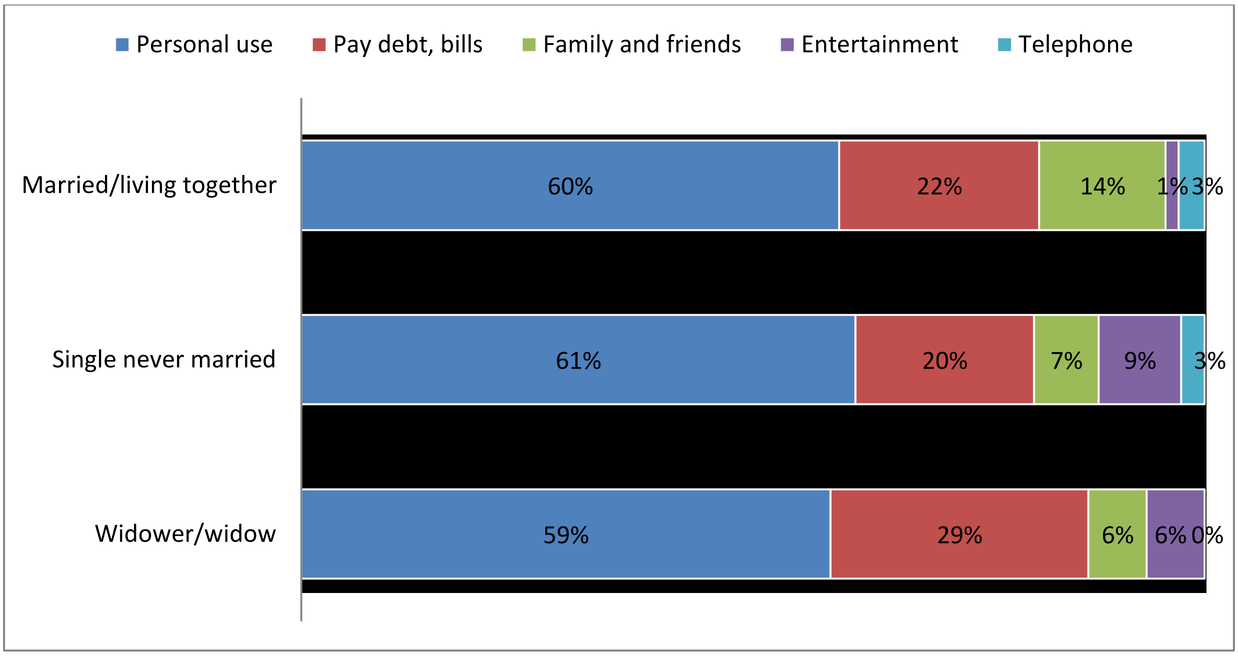
Generally, respondents in the different marital status groups have similar gratification of existence needs (table 5.19). Some minor differences exist between the groups but there is no clear pattern indicating that marital status influences the credit usage needs in Alderfer's existence needs level.

- ***Relatedness needs: marital status***

Figure 5.20 indicates the analysis of the different needs in the relatedness needs level.

FIGURE 5.20

LIABILITY USAGE BY MARITAL STATUS: RELATEDNESS NEEDS



Note: The separated/divorced group was excluded from analysis owing to low response rate (N < 20).

As shown in figure 5.20, there are clear differences between the groups with some similarities between the married or living together and single never married groups. The responses received for the separated or divorced group are below 20 and are therefore excluded from analysis. When comparing the married or living together and single never married groups, it is interesting to see that the married or living together group has the highest credit usage to satisfy needs relating to family and friends and a much lower credit usage to satisfy entertainment needs. This group might have more commitments and therefore does not use as much credit on entertainment expenses. However, the single never married group has the opposite credit usage to fulfil these needs and therefore the opposite reasoning might be applicable, meaning that this group does not have as many commitments and can therefore afford to spend more credit on entertainment expenses.

- ***Growth needs: marital status***

The details of the liability usages of the different marital status groups when satisfying the last level in Alderfer's needs theory are provided in table 5.20.

TABLE 5.20

LIABILITY USAGE BY MARITAL STATUS: GROWTH NEEDS

Needs	**Marital status**			
	Married/ living together	**Single never married**	**Widower/ widow**	**Separated/ divorced**
Personal use	53%	55%	52%	42%
Education	24%	21%	15%	25%
Pay debt, bills	20%	18%	25%	25%
Business expenses	3%	6%	8%	8%
Total	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Growth needs are mainly satisfied by using credit to pay for personal needs (table 5.20). Similar credit usage patterns exist between the groups with a few exceptions. The separated or divorced group indicated that it has a much lower credit usage to fulfil personal needs and has a similar credit usage to satisfy educational needs and the need to pay for existing debt. The widower or widow group indicated that it has a much lower credit usage to satisfy educational needs and a higher need to pay for existing debt. A possible explanation for the higher credit usage to pay for existing debt might be that these individuals only receive a single income, which shows that they are under financial pressure because they do not have enough cash available to pay for all their expenses.

5.3.3.7 Family size

Studies have found that larger households are more likely to make use of credit than smaller households (Lee et al. 2007; Tippett 2010; Kempson & Collard 2004). It has also been reported that the size of the household determines which credit products are used in the household (Yilmazer & DeVaney 2005). This section analyses the liability usage when satisfying needs to determine whether family size can also have an influence on the use of credit products. The family size groups consist of families with no children, one to two children and three and more children (see figure 5.21).

FIGURE 5.21

ALDERFER'S LEVELS OF NEEDS BY FAMILY SIZE

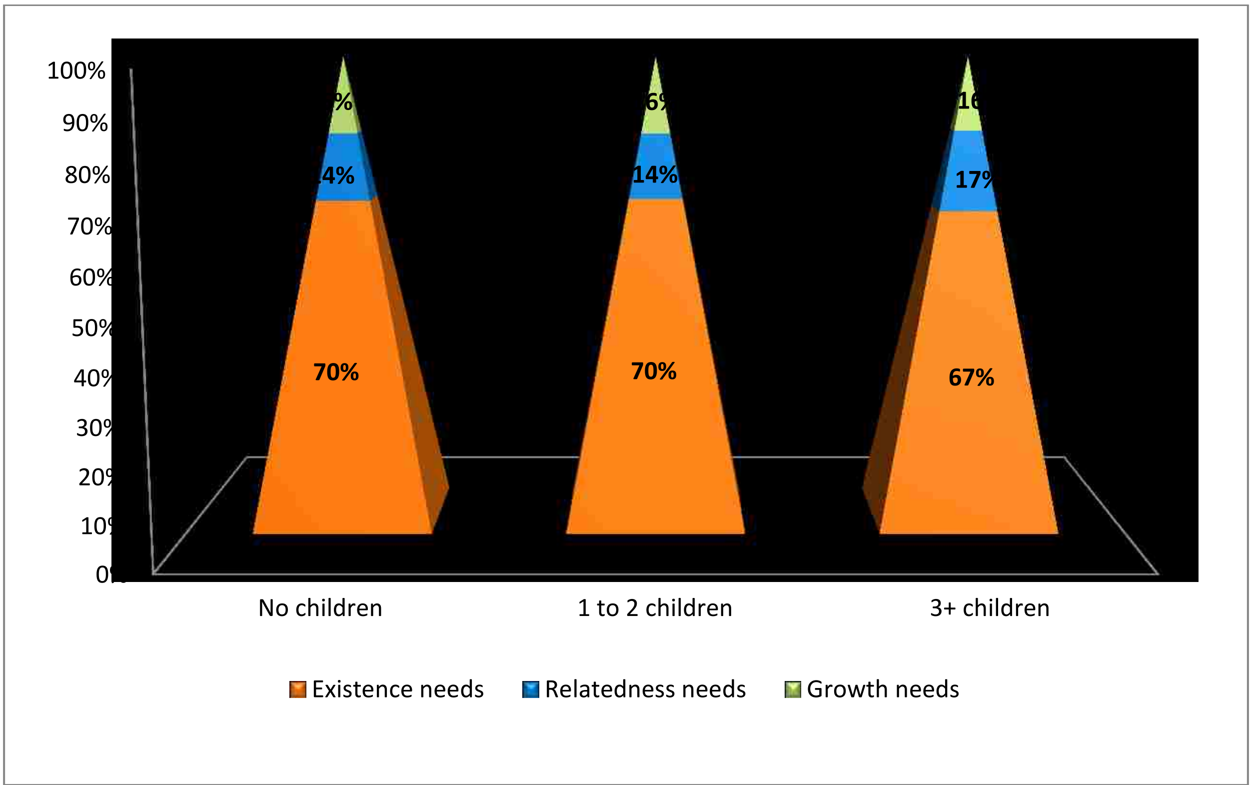


Figure 5.21 indicates that respondents in the first two groups have a similar credit usage pattern with some differences in the more than three children group.

To better understand liabilities usage among the different family size groups, each level in Alderfer's theory is analysed.

- ***Existence needs: family size***

An analysis of subneeds in Alderfer's first level of needs is provided in table 5.21.

TABLE 5.21

LIABILITY USAGE BY FAMILY SIZE: EXISTENCE NEEDS

Needs	**Family size**		
	No children	**1 to 2 children**	**3+ children**
Housing	15%	17%	9%
Transport	30%	30%	24%
Daily living/basic needs	4%	4%	5%
Emergencies	3%	5%	7%
Food and groceries	19%	19%	25%
Goods	7%	6%	4%
Personal use	13%	11%	15%
Clothing	2%	2%	3%
Pay debt, bills	5%	5%	4%
Electricity	2%	1%	4%
Total	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

The no children and one to two children groups have similar need gratification with some major differences between these groups and the three and more children group (table 5.21). The three and more children group has the lowest credit usage to satisfy housing needs. This is interesting because one would expect credit usage to satisfy housing needs to be higher for larger households since these families often live in bigger houses which are more expensive. Another notable difference between the groups is that the three and more children group has the highest credit usage to satisfy food and grocery needs. It would seem that credit usage to satisfy food and grocery needs remains relatively constant and increases as family size increases. This is expected because this group has more family members to provide for. It is also interesting to note that credit usage to satisfy emergency needs increases as the family size increases. A possible reason for this might be that larger households have more medical expenses and therefore have a higher need to satisfy emergency expenses. The higher credit usage to satisfy electricity expenses in the three and more children group is also expected as bigger families use more electricity.

- ***Relatedness needs: family size***

Figure 5.22 presents the needs relating to Alderfer's second level of needs, namely relatedness needs.

FIGURE 5.22

LIABILITY USAGE BY FAMILY SIZE: RELATEDNESS NEEDS

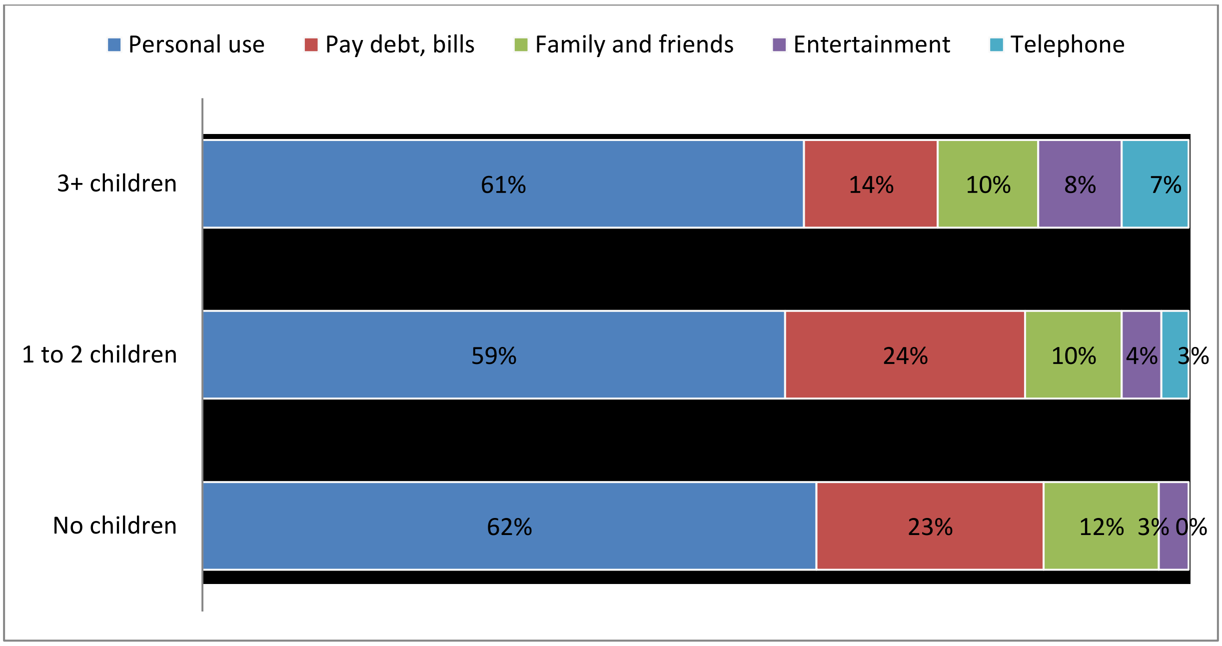


Figure 5.22 indicates that some similarities and differences exist between the family size groups when satisfying relatedness needs. It is interesting to note that as family size increases, credit usage to fulfil entertainment and telecommunication needs also increases. Another difference between the groups is that the three and more children group also has a much lower credit usage to pay for existing debt and bills than smaller families. Larger households often have limited budget resources and therefore have to plan their debt usage in order to maintain their budgets. The analysis of relatedness needs therefore shows that larger households use credit to satisfy their needs differently.

- ***Growth needs: family size***

The difference between the liability usages by family size group is shown in table 5.22.

TABLE 5.22

LIABILITY USAGE BY FAMILY SIZE: GROWTH NEEDS

Needs	**Family size**		
	No children	**1 to 2 children**	**3 + children**
Personal use	55%	50%	69%
Education	23%	23%	14%
Pay debt, bills, etc.	20%	21%	15%
Business expenses	2%	6%	2%
Total	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; Green – third highest credit usage

The analysis of results for the different family sizes in Alderfer's last level of needs, namely growth needs, indicates that bigger families (three and more children) satisfy their needs differently when making use of credit products.

Although all of the family size groups indicated that they mainly use credit to satisfy personal needs, the three and more children group indicated that they have a much higher credit usage when satisfying personal needs. It is interesting to see that this group has a much lower credit usage to satisfy educational needs. This is possible because some schools often provide rebates to families as the number of children attending the same school increases (Hoërskool Uitsig 2012). However, the high credit usage rate for educational expenses for families with no children might indicate that respondents in this group often use credit products for self-development through education.

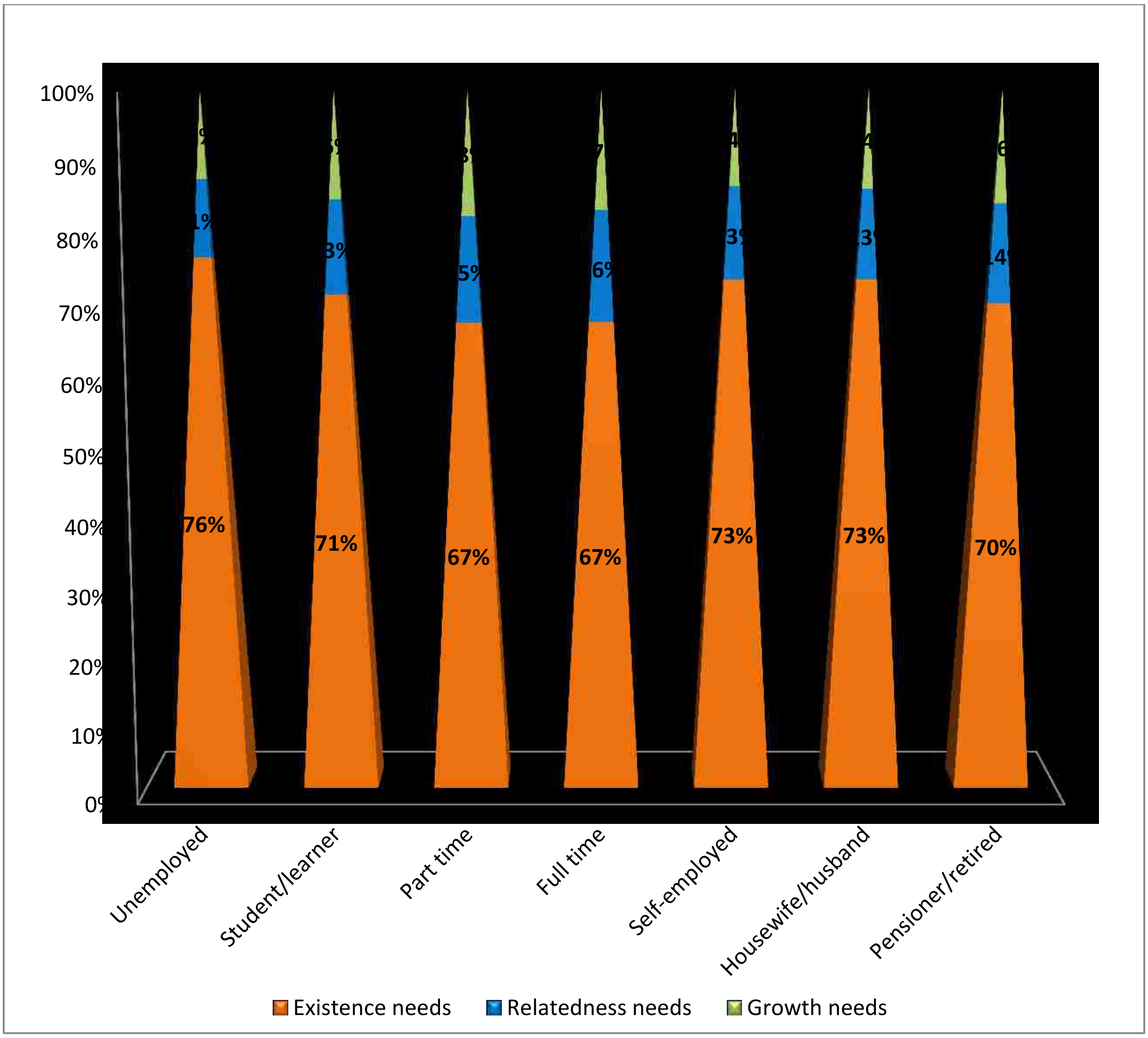
5.3.3.8 Employment status

Chapter 2 identified the fact that employment status often influences liabilities usage and the types of credit products used by individuals (Lee et al. 2007; Mashigo 2006; Kempson & Collard 2004; Yilmazer & DeVaney 2005).

Figure 5.23 provides an analysis of the needs provided by respondents when using credit according to Alderfer's three levels of needs.

FIGURE 5.23

ALDERFER'S LEVELS OF NEEDS BY EMPLOYMENT STATUS



Note: The seasonal worker and other groups were excluded from further analysis owing to the low response rate (N < 20).

It is interesting to see that the unemployed group has a much higher credit usage for gratification of primary needs. This is expected because this group does not receive any income and therefore has to satisfy its basic level needs by using credit. The opposite is true for the employed groups (part time and full time) where respondents indicated that they have a lower credit usage to satisfy primary needs, since these needs are partially satisfied through the income that they receive. These groups therefore use more credit to satisfy upper-level needs in comparison with other groups.

It is important to note that some groups were excluded from analysis as the responses received were below 20 which made it difficult to reach a meaningful conclusion. For the employment status groups with responses above 20, the subneeds in Alderfer's three levels of needs were analysed to gain a better understanding of credit usage among the different employment status groups.

- ***Existence needs: employment status***

An analysis of sub-needs in Alderfer's first level of needs is provided in table 5.23.

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TABLE 5.23

LIABILITY USAGE BY EMPLOYMENT STATUS: EXISTENCE NEEDS

Needs	**Unemployed**	**Student/ learner**	**Part time**	**Full time**	**Self-employed**	**Housewife/ husband**	**Pensioner/ retired**
Housing	20%	14%	12%	19%	9%	14%	12%
Transport	27%	23%	25%	34%	20%	33%	33%
Daily living/basic needs	3%	3%	6%	4%	5%	3%	3%
Emergencies	4%	5%	5%	5%	3%	1%	8%
Food and groceries	22%	29%	32%	9%	36%	24%	18%
Goods	6%	6%	5%	6%	4%	8%	4%
Personal use	10%	10%	9%	14%	11%	13%	15%
Clothing	3%	1%	1%	3%	4%	-	-
Pay debt, bills	3%	6%	3%	5%	4%	3%	6%
Electricity	2%	3%	2%	1%	4%	1%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

As indicated in table 5.23, no particular credit usage pattern exists among the employment status groups. This confirms that credit usage is often influenced by the individual's employment status.

Respondents in the self-employed group have the lowest credit usage to satisfy housing needs. A possible explanation for this might be that these individuals find it difficult to obtain credit because they are often seen as a risk in terms of affordability assessments that have to be conducted in terms of the National Credit Act 34 of 2005. It is also clear that the self-employed group relies more on credit products to satisfy food and grocery needs which might be because of the lack of stable income.

Full-time employed respondents have the highest credit usage when satisfying transportation needs. A reason for this is that being employed on a full-time basis often makes it easier to obtain credit to purchase motor vehicles and it is therefore understandable that this group has the highest credit usage to satisfy transport needs. This group also has a much lower credit product usage to fulfil food and grocery needs as individuals receive fixed monthly incomes which are sufficient to buy their food and groceries with their existing cash.

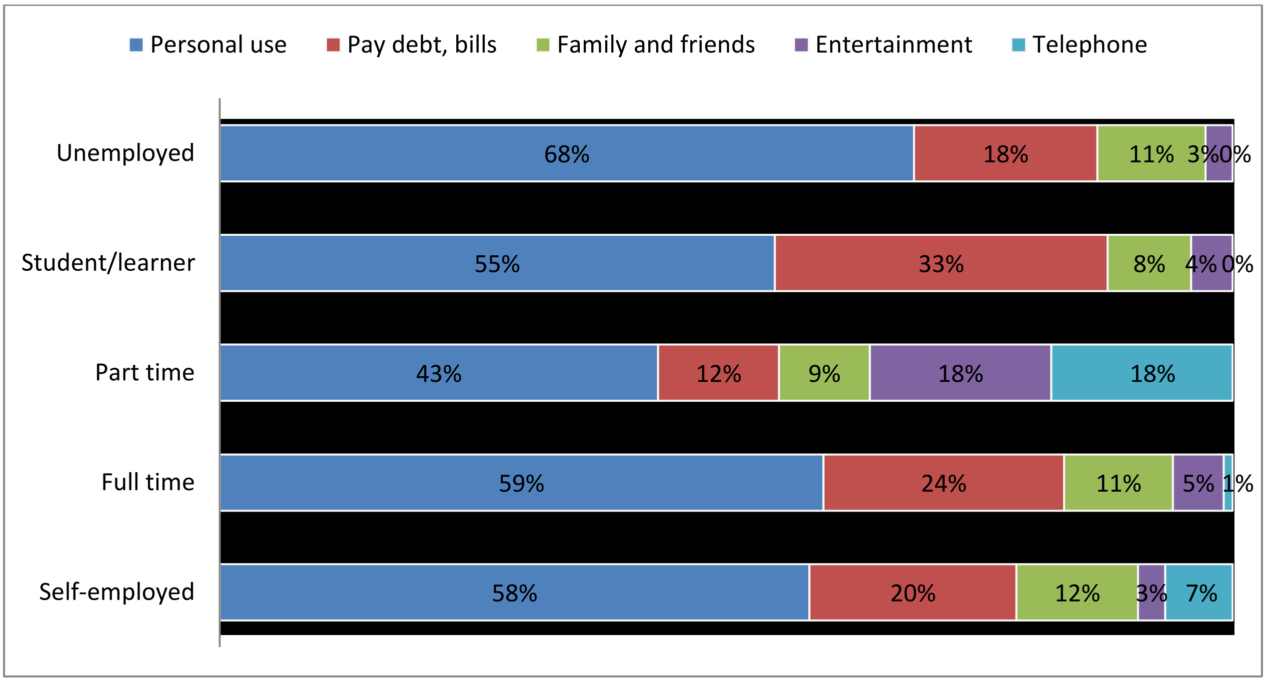
Respondents in the pensioner or retired group indicated that they have the highest credit usage to satisfy emergency expenses. This is in line with the expectation that individuals in this group often have more medical bills to pay but might not have enough cash to pay for these bills and therefore have to make use of credit.

- ***Relatedness needs: employment status***

Figure 5.24 indicates the needs relating to Alderfer's second level of needs, namely relatedness needs.

FIGURE 5.24

LIABILITY USAGE BY EMPLOYMENT STATUS: RELATEDNESS NEEDS



Note: The housewife/husband and pensioner/retired groups together with the other groups were excluded from analysis owing to the low response rate (N < 20).

Figure 5.24 indicates that there is no existing credit usage pattern in the different employment status groups to satisfy relatedness needs. The only similarity between the different groups is that respondents in the groups indicated that they mainly use their credit to satisfy personal needs (figure 5.24). The part-time employment group has the lowest credit usage to satisfy personal needs, but has a much higher credit usage to satisfy entertainment and telecommunication needs. The group with the highest credit usage to satisfy personal needs is the unemployed group. This group, however, has a much lower credit usage to satisfy other needs in the relatedness needs level.

Even though there are no clear explanations for the differences in credit usage in the employments status groups, it should be noted that employment status influences liabilities usage when satisfying relatedness needs.

- ***Growth needs: employment status***

The difference between the credit usages by employment status is shown in table 5.24.

TABLE 5.24

LIABILITY USAGE BY EMPLOYMENT STATUS: GROWTH NEEDS

Needs	**Employment status**				
	Unemployed	**Student/ learner**	**Part time**	**Full time**	**Self-employed**
Personal use	59%	47%	37%	53%	55%
Education	18%	25%	49%	21%	22%
Pay debt, bills	16%	28%	10%	21%	19%
Business expenses	7%	-	4%	5%	4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: The housewife/husband and pensioner/retired groups together with the other groups were excluded from analysis owing to the low response rate (N < 20).

It is clear that respondents in the different employment status groups satisfy growth needs differently (table 5.24). Growth needs are mainly satisfied by using credit to pay for personal needs, except in the part-time employed group where respondents indicated that they use more credit to satisfy educational needs. It is possible that part-time employees use more credit on education in an attempt to position themselves better in the employment market and to benefit from future permanent employment. Another difference between the groups is that the student or learner group has a higher need to pay for existing debt and bills. A possible reason for this could be that this group does not earn any income to satisfy needs and therefore mainly uses debt for gratification of needs. It is then often necessary for this group to use credit to pay for existing debt. It is also interesting to note that the unemployed group has the highest credit usage to satisfy business expenses. It is possible that this group attempts to earn income by operating their own businesses.

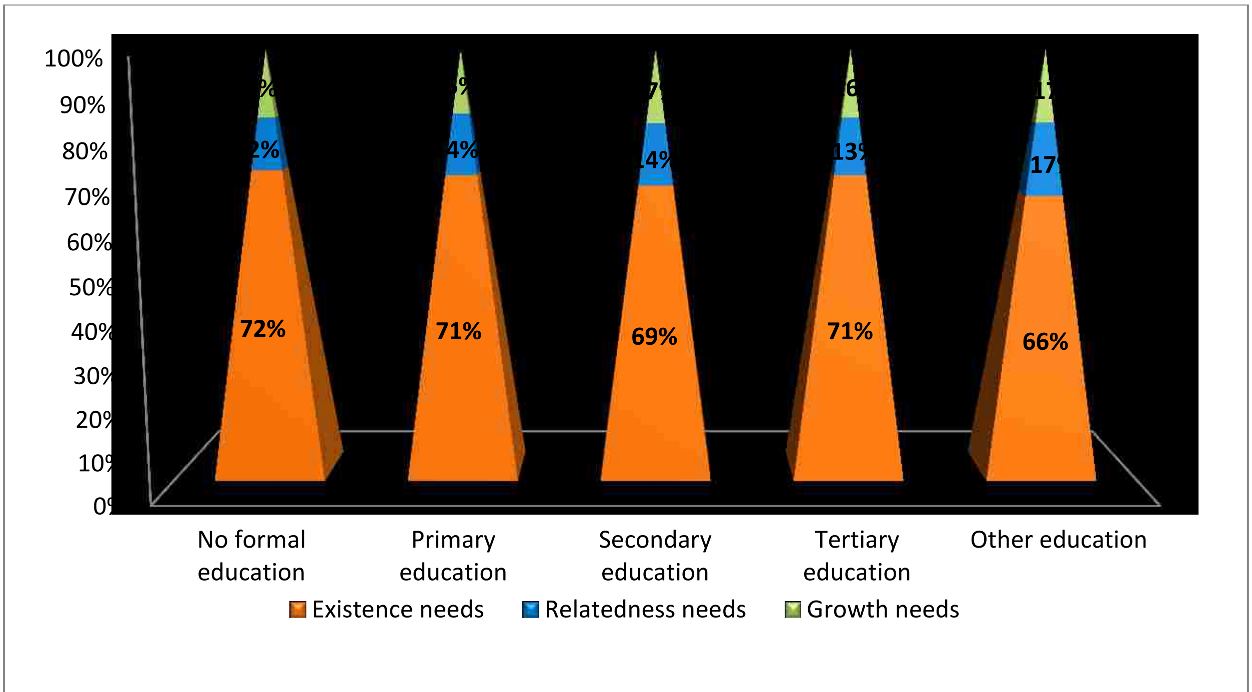
5.3.3.9 Educational status

Some studies have indicated that education does have an impact on liability usage of individuals (Lee et al. 2007; Tippett 2010; Brown et al. 2008). Yilmazer and DeVaney (2005) reported that the type of credit used by an individual depends on the individual's educational status. In this section, liability usages are analysed to determine whether individuals with different educational backgrounds have different credit usage needs.

Liability usages when satisfying needs are analysed according to five educational groups, namely no formal education, primary education (some primary school or completed primary school), secondary education (some high school or completed high school), tertiary education (some university, university completed or any post-graduate qualification) and other education (technical training, credits from a university of technology or apprenticeships). Refer to figure 5.25.

FIGURE 5.25

ALDERFER'S LEVELS OF NEEDS BY EDUCATIONAL STATUS



As indicated in figure 5.25, respondents with different educational backgrounds satisfy the three levels of needs similarly with the highest credit usage for gratification of existence needs. For a better understanding of how individuals use credit to satisfy the subneeds in Alderfer's three levels of needs, each level is analysed separately.

- ***Existence needs: educational status***

An analysis of subneeds in Alderfer's first level of needs is provided in table 5.25.

TABLE 5.25

LIABILITY USAGE BY EDUCATIONAL STATUS: EXISTENCE NEEDS

Needs	**Educational status**				
	No formal	**Primary**	**Secondary**	**Tertiary**	**Other**
Housing	25%	17%	15%	15%	17%
Transport	32%	25%	29%	33%	27%
Daily living/basic needs	1%	5%	4%	5%	3%
Emergencies	3%	2%	5%	3%	4%
Food and groceries	14%	24%	19%	19%	23%
Goods	4%	7%	5%	7%	3%
Personal use	14%	12%	13%	10%	14%
Clothing	3%	2%	3%	2%	1%
Pay debt, bills	4%	4%	5%	5%	5%
Electricity	-	2%	2%	1%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

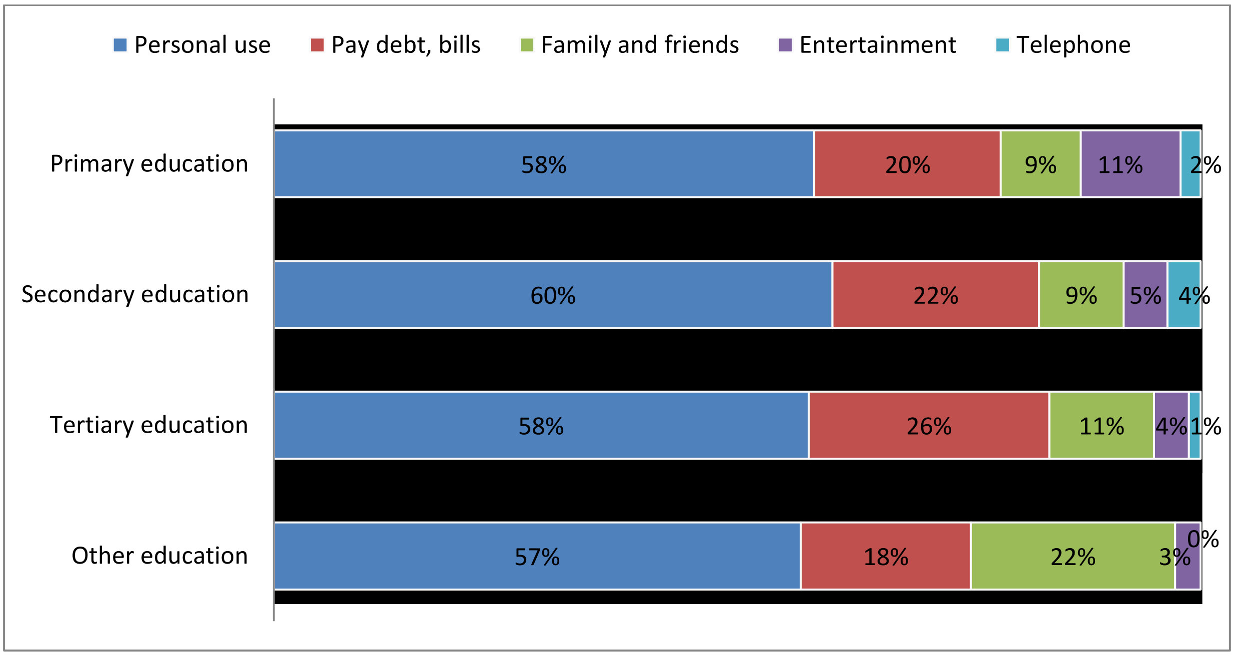
It should be noted that respondents in the no formal education group have a different credit usage pattern compared with respondents with some form of education (table 5.22). Respondents with educational backgrounds mostly have similar credit usage patterns among the groups and indicated that they mainly use their credit to satisfy transportation, food and grocery and housing needs.

- ***Relatedness needs: educational status***

Figure 5.26 indicates the needs relating to Alderfer's second level of needs, namely relatedness needs.

FIGURE 5.26

LIABILITY USAGE BY EDUCATIONAL STATUS: RELATEDNESS NEEDS



Note: The no formal education group was excluded from analysis owing to the low response rate (N < 20).

Figure 5.26 indicates that the majority of groups have similar gratification of relatedness needs through credit usage, with some interesting differences. In Alderfer's relatedness needs level, the different educational groups mainly use credit products to satisfy personal needs, mostly followed by the need to pay for existing debt and bills. Even though there are no clear explanations for the differences between the groups it is interesting to note that one of the differences between the groups is that the other education group has the lowest credit usage to pay for existing debt, but has a higher credit usage to satisfy needs related to family and friends. Another difference between the groups is that individuals in the primary education group has a much higher credit usage to satisfy entertainment needs than the other educational groups.

- ***Growth needs: educational status***

The difference between the credit usages by educational group for growth needs is shown in table 5.26.

TABLE 5.26

LIABILITY USAGE BY EDUCATIONAL STATUS: GROWTH NEEDS

Needs	Educational status			
	Primary	**Secondary**	**Tertiary**	**Other**
Personal use	56%	53%	49%	57%
Education	23%	22%	26%	17%
Pay debt, bills	19%	19%	22%	18%
Business expenses	2%	6%	3%	8%
Total	**100%**	**100%**	**100%**	**100%**

Blue – highest credit usage; red – second highest credit usage; green – third highest credit usage

Note: The no formal education group was excluded from analysis owing to the low response rate (N < 20).

It is evident in table 5.26 that similar overall credit usage patterns exist between the groups. It should be noted that individuals in the tertiary education group spend more credit on education, which indicates that tertiary education is more expensive. Interestingly, even though no clear explanation could be found, one of the notable differences is that respondents in the other educational group have the highest credit usage to pay for business expenses.

5.3.3.10 Conclusion

Chapter 2 identified the fact that certain demographic characteristics influence the individual's liability usage (section 2.4). This section analysed the results and findings of the identified demographic characteristics, namely life stages (section 5.3.3.2), income (section 5.3.3.3), race (section 5.3.3.4), gender (section 5.3.3.5), marital status (section 5.3.3.6), family size (section 5.3.3.7), employment status (section 5.3.3.8) and educational status (section 5.3.3.9) according to Alderfer's three levels in his ERG theory.

The findings presented in this study indicate that life stages, income, marital status, family size, employment status and educational status do influence the individual's liability usage. Although minor differences were found between the credit usage of the different racial and gender groups, these two demographic characteristics do not appear to have an influence on credit usage when satisfying the individual's needs.

Some clear differences between the different life stage groups were that single-parent families have a notably different credit usage pattern than most of the other life stages. The results also indicate that there seems to be a lack of planning for old age, especially when satisfying housing, transport and emergency needs. Mature couples (individuals of 50 years of age and older) also seem to have an extremely high credit usage to pay for existing debt and bills which confirms that older individuals do not save enough during their younger years to provide for their retirement years.

Even though most needs are satisfied in a similar fashion between the different income groups, there seems to be a clear shift in credit usage patterns between the low- and higher-income earners when satisfying certain needs. It is also quite worrying to see that most income groups, especially higher-income earners, have high credit usage to pay for existing debt and bills, while it is expected that the budgets of these groups should be flexible enough to satisfy their needs without obtaining liabilities.

Although most marital status groups have similar need gratification in Alderfer's levels of needs, the only major difference between the groups is that separated or divorced respondents seem to have a higher credit usage to satisfy lower-level needs and a lower credit usage for gratification of upper-level needs. This might be an indication that this group often struggles to provide for its families' basic needs because it has insufficient income resources.

Some major differences were evident in the credit usage of the different family size groups. As expected, the analysis of liability usage according to family size indicates that credit usage patterns change as the family becomes larger.

No specific credit usage pattern exists among the different employment status groups, which might indicate that employment status seems to affect credit usage as well. One of the obvious differences between the groups is that there seems to be a distinct credit usage difference between the unemployed and other employment status groups. Because unemployed individuals do not receive income, they cannot fulfil their basic needs and therefore have to make use of credit. It is also interesting to see that the unstable income of self-employed respondents influences their credit usage since they rely more on credit products to fulfil basic needs such as food and grocery needs. The latter group also has a noticeably low credit usage to fulfil housing needs. Similar to the findings presented under life stages, the analysis once again confirms that pensioners or retired individuals do not save enough in their younger years because they have a much higher credit usage to satisfy emergency expenses. Another notable difference is that part-time employees use a material amount of credit to satisfy educational needs.

Lastly, some differences in credit usage patterns exist between the different educational status groups. This clearly indicates that respondents with no formal education have a different credit usage pattern to those individuals with some educational background.

5.3.4 Conclusion

This section presented the findings and results of the factors that have an influence on the individual's decision to use credit. As expected, these factors, namely access to credit (section 5.3.2) and demographic characteristics (section 5.3.3) do have an effect on the individual's credit usage patterns.

5.4 CONCLUSION

The four phases in the process of selecting credit products to satisfy financial needs as identified in chapter 1 (section 1.3.3) consist of identifying human needs which develop into financial needs (phase 1), analysing the individual's financial position to determine whether needs should be satisfied by using cash or credit (phase 2), identifying the factors that will influence the individual's liability usage (phase 3) and determining which credit products are available to fulfil the individual's financial needs (phase 4).

The four phases in the process of selecting credit products to satisfy financial needs were identified to assist in achieving the research objectives of this study and thus answer the research question of this study. This chapter addressed the third research objective, namely:

- Analyse the actual needs satisfied by individuals when using different liabilities.

To address the third research objective, this study followed two different approaches, firstly by analysing the financial needs fulfilled when using liabilities, and secondly, by determining which credit products are used when satisfying needs. This chapter dealt with the first approach by identifying and analysing needs according to Alderfer's ERG theory and the factors that influence liability usage as discussed in the literature. The next chapter will address the third research objective following the second approach by analysing data and presenting the findings to indicate which credit products are used when South Africans satisfy their needs.

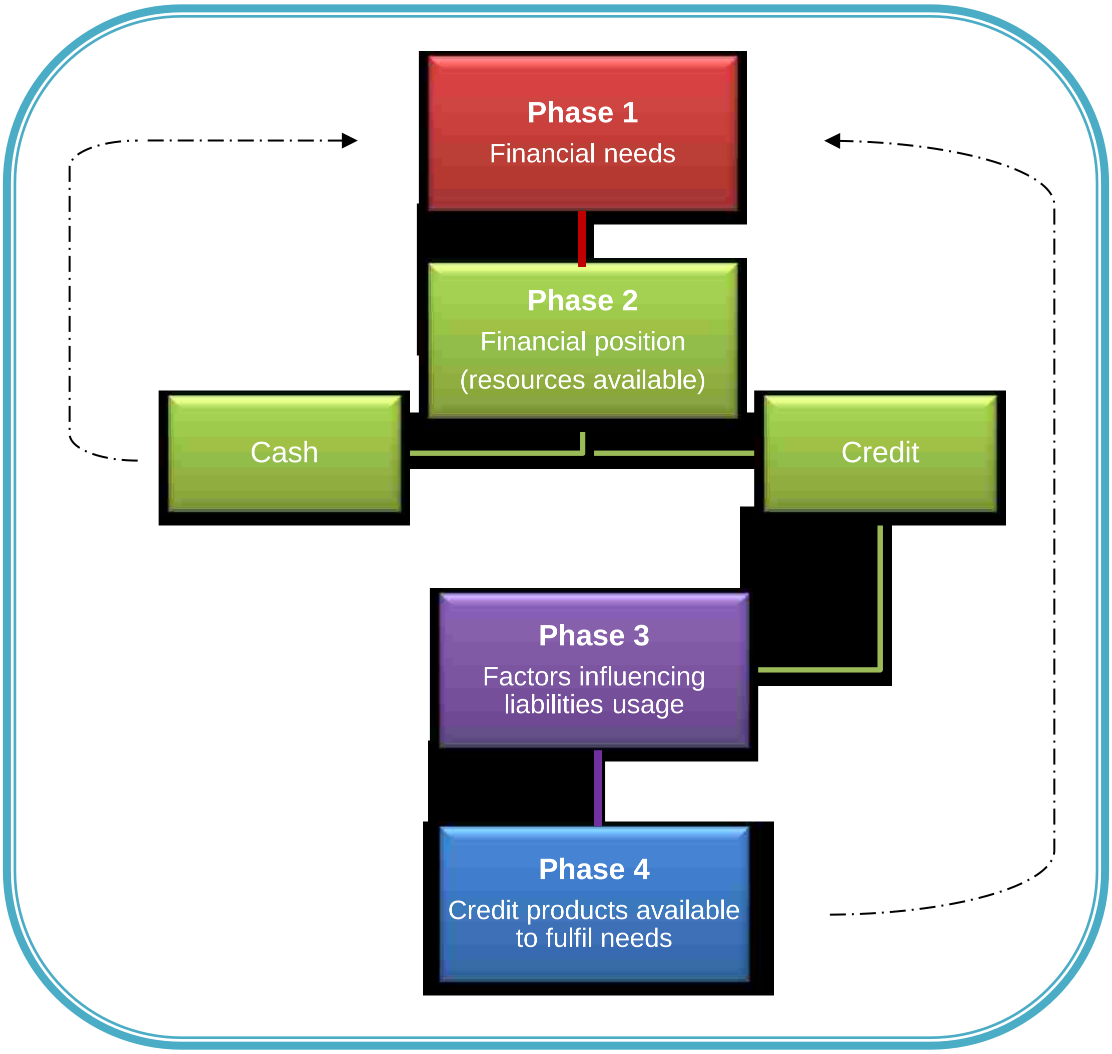
CHAPTER 6
ANALYSING CREDIT PRODUCTS WHEN SATISFYING FINANCIAL NEEDS

6.1 INTRODUCTION

The four phases in the process of selecting credit products to fulfil financial needs were identified in chapter 1 (section 1.3.3). In the first phase of the process, humans develop needs that develop into financial needs. The second phase entails analysing the individual's financial position to determine whether his financial needs should be satisfied using cash or credit. If the individual decides to make use of credit, the factors that have an influence on his liability usage should be identified in the third phase. Lastly, he should determine which credit products should be used to fulfil the financial needs as identified in the first phase. The four phases in the process of selecting credit products to fulfil financial needs are indicated in figure 6.1.

FIGURE 6.1

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

Figure 6.1 depicts the different phases in the process of selecting credit products to satisfy financial needs. The four phases were applied to help answer the research question and achieving the research objectives of the study. The research objectives of the study were formulated in chapter 1 (see section 1.1.2). This chapter will address the third research objective, namely:

- Analyse the actual needs satisfied by individuals when using different liabilities.

As previously explained, both chapters 5 and 6 address the third research objective following two different approaches. In the first approach, the different financial needs that are satisfied when using credit products were identified and analysed (chapter 5) based on the theoretical framework developed in the literature (chapter 2). In the second approach, the use of different credit products is analysed to determine which credit products South Africans use when satisfying their financial needs. This chapter deals with the second approach and focuses on the analysis and findings of the data to indicate which credit products are used to satisfy different needs.

To help address the third research objective, a debt classification framework was developed in the literature to provide a list indicating which credit products are available to South Africans (see section 3.4.3). The credit products listed in the debt classification framework were also classified according to Alderfer's ERG theory to indicate which products should be used to satisfy which needs (see section 3.4.4). This chapter will use the debt classification framework to classify the different types of credit products into main groups (section 6.2). Thereafter, credit product usage will be analysed based on the identified credit product classification (section 6.3), following which an analysis of credit usage is conducted on the basis of needs (section 6.4).

6.2 CREDIT PRODUCT CLASSIFICATION

6.2.1 Introduction

The literature describes the different types of credit products available to individuals if they decide to use credit to satisfy their financial needs (see section 3.3). Each of the credit products described in chapter 3 has its own debt classification. Owing to the different debt classifications used by different role players, a debt classification framework was developed to indicate if each credit product can be classified as informal or formal credit, secured or unsecured credit and long- or short-term credit (see section 3.4). The classification for each of the products is provided in table 6.1.

TABLE 6.1

DEBT CLASSIFICATION FRAMEWORK

Type of credit product	**Informal or formal credit**	**Secured or unsecured credit**	**Long- or short-term credit**
Friends, family or colleagues	Informal	Unsecured	Short term
Payday loans	Informal	Secured	Short term
Loans from mashonisas	Informal	Unsecured	Long or short term
Loans from societies	Informal	Unsecured	Long or short term
Loans from pawnbrokers	Informal	Secured	Short term
Loans from spaza shops	Informal	Unsecured	Short term
Micro-loans	Formal	Unsecured	Short term
Store cards	Formal	Unsecured	Short term
Store loans	Formal	Unsecured	Long term
Credit cards	Formal	Unsecured	Short term
Overdraft facilities	Formal	Unsecured	Short term
Personal loans	Formal	Unsecured	Long term
Loans against policies	Formal	Secured	Long term
Instalment or lease agreements	Formal	Secured	Long term
Property mortgage loans	Formal	Secured	Long term
Garage cards	Formal	Unsecured	Short term
Educational loans	Formal	Unsecured	Long term
Emergency loans	Formal	Unsecured	Short term
Loans from other banks	Formal	Secured or unsecured	Long or short term

Source: Compiled by the author (see section 3.4)

Table 6.1 indicates how each credit product was classified on the basis of the term of the credit, security status and structure. Based on the results of the debt classification framework, the credit products used by respondents of the Finscope survey can be grouped into main groups according to their classifications (section 6.2.2). These main credit product groups are then further classified according to Alderfer's ERG theory (section 6.2.3). Using the debt classifications identified in the two above-mentioned sections, credit product usage will be analysed to see which credit products are used to satisfy the needs of individuals in South Africa (sections 6.3 and 6.4).

6.2.2 Credit product groups according to the debt classification framework

The debt classification framework (see section 6.2.1) can be used to identify different groups of products with similar characteristics used by South Africans. All the credit products that are used can be classified into groups to determine if they are used for their intended purposes. For example, loans from friends, family or colleagues and loans from spaza shops can be grouped together as informal, unsecured, short-term loans because both loans have a similar debt classification. See table 6.2 for the main credit product group components and their subcomponents according to the debt classification framework.

TABLE 6.2

CREDIT PRODUCT GROUP COMPONENTS

Main credit product group component	Subcomponents of main credit products groups as per the debt classification framework
Group 1 Informal, unsecured, short-term loans	• Friends, family or colleagues • Loans from spaza shops
Group 2 Informal, secured, short-term loans	• Payday loans • Loans from pawn brokers
Group 3 Informal, unsecured, long- or short-term loans	• Loans from mashonisas • Loans from societies
Group 4 Formal, unsecured, short-term loans	• Micro-loans • Store cards • Credit cards • Overdraft facilities • Garage cards • Emergency loans
Group 5 Formal, unsecured, long-term loans	• Store loans • Personal loans • Educational loans
Group 6 Formal, secured, long-term loans	• Loans against policies • Instalment or lease agreements • Property mortgage loans
Group 7 Other	• Loans from other banks

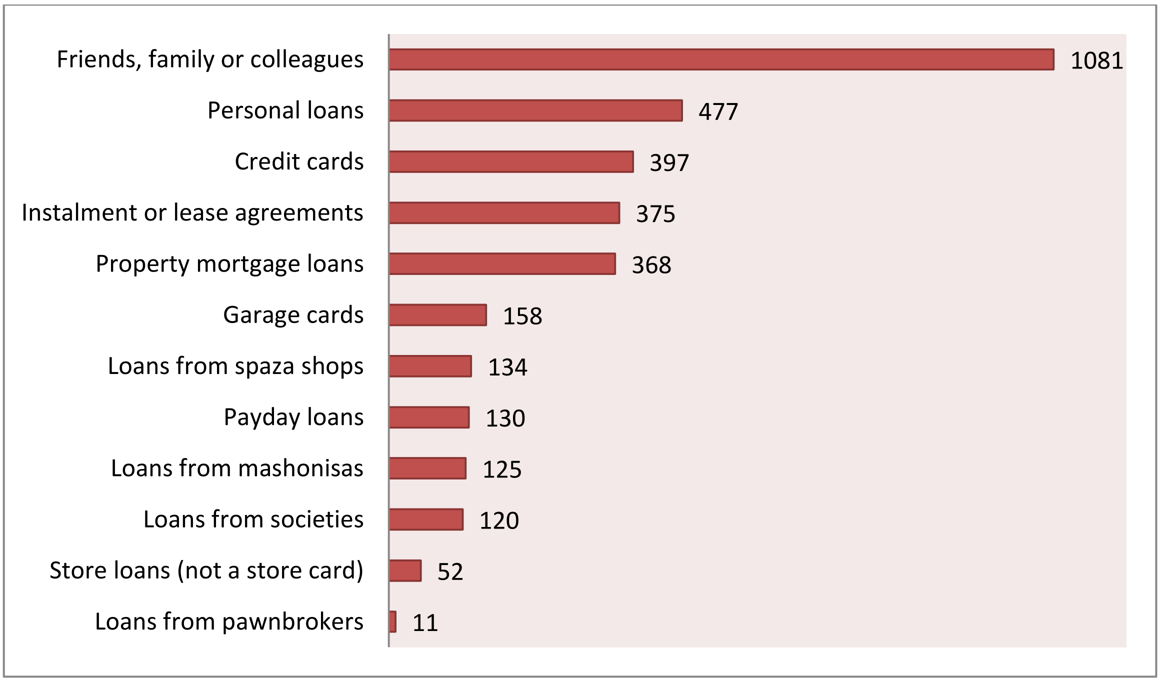
Source: Compiled by the author

The different credit product groups described in table 6.2 were used to classify the credit products used by the respondents in the Finscope 2010 survey.

According to the survey, 1 729 individuals indicated that they have used credit products in the past or that they are currently using credit. These individuals provided 3 428 financial needs satisfied when using credit, and for each need, indicated which type of credit product they have used. The main types of credit products used to fulfil the respondents' needs are indicated in figure 6.2.

FIGURE 6.2

CREDIT PRODUCTS USED BY RESPONDENTS IN THE FINSCOPE SURVEY



Individuals use different types of credit products to satisfy different needs. Most respondents in the survey indicated that they use loans from friends, family or colleagues to satisfy their needs (figure 6.2). Personal loans, credit cards, instalment or lease agreements and property mortgage loans are among the other most frequently used types of credit products.

Each of the credit products identified by respondents in the survey can be allocated according to the main credit product group components in table 6.3.

TABLE 6.3

GROUPING OF CREDIT PRODUCTS USED IN FINSCOPE SURVEY

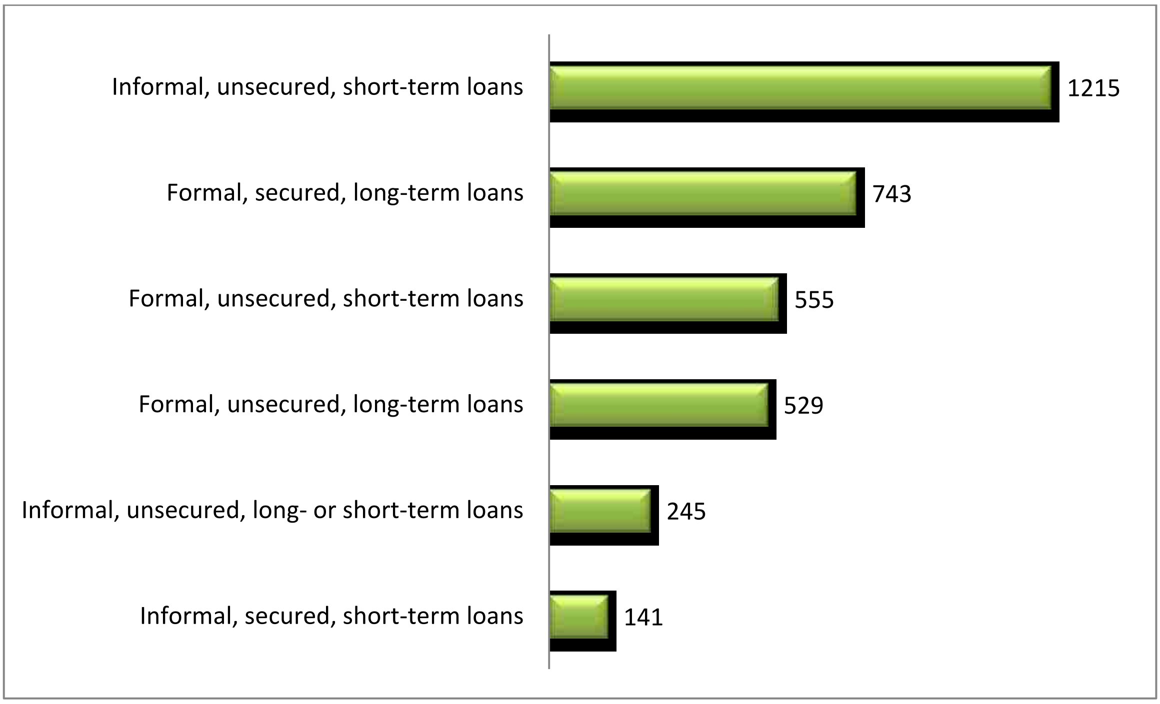
Main credit product group component	Type of credit product as per Finscope survey	Number of credit products used
Group 1 Informal, unsecured, short-term loans	• Friends, family or colleagues • Loans from spaza shops	1 081 134 **Total 1 215**
Group 2 Informal, secured, short-term loans	• Payday loans • Loans from pawn brokers	130 11 **Total 141**
Group 3 Informal, unsecured, long- or short-term loans	• Loans from mashonisas • Loans from societies	125 120 **Total 245**
Group 4 Formal, unsecured, short-term loans	• Credit cards • Garage cards	397 158 **Total 555**
Group 5 Formal, unsecured, long-term loans	• Store loans • Personal loans	52 477 **Total 529**
Group 6 Formal, secured, long-term loans	• Instalment or lease agreements (car loans) • Property mortgage loans	375 368 **Total 743**

Source: Compiled by the author

Table 6.3 provides a classification of the different credit products used by respondents in the survey according to the main credit product group components that were identified. For each type of credit product, the number of credit products that were used to fulfil different needs is also provided. As indicated in figure 6.3, respondents mainly used informal, unsecured, short-term loans when using credit products to fulfil their needs.

FIGURE 6.3

MAIN CREDIT PRODUCT GROUP COMPONENTS USED



The main credit product group components with the number of credit products used to fulfil different needs are shown in figure 6.3. To determine if the credit products are used for their intended purposes, the main credit product groups provided in figure 6.3 can be categorised further using Alderfer's ERG theory (section 6.2.3).

6.2.3 Classification of credit product groups according to Alderfer's ERG theory

Alderfer (1969) used Maslow's (1943) human need theory as the basis for developing the ERG theory (see section 2.2.4.). According to Alderfer's ERG theory, human needs can be divided into three levels, namely existence, relatedness and growth needs. Existence needs include material and basic needs, such as the need for water, food, clothing, shelter and safety. Relatedness needs include the desire to feel recognised and secure and to form part of social groups. Growth needs relate to the need to develop oneself in order to improve. Each credit product in the debt classification framework was also classified according to the three levels in Alderfer's ERG theory to indicate which needs should be fulfilled when using the credit product (see section 3.4.4). The debt classification framework, according to Alderfer's ERG theory, is provided in table 6.4.

TABLE 6.4

DEBT CLASSIFICATION FRAMEWORK ACCORDING TO NEEDS

Type of credit product	Debt classifications			Type of needs
	Informal or formal credit	Secured or unsecured credit	Long- or short-term credit	
Friends, family or colleagues	Informal	Unsecured	Short term	Existence
Payday loans	Informal	Secured	Short term	Existence
Loans from mashonisas	Informal	Unsecured	Long or short term	Existence Relatedness Growth
Loans from societies	Informal	Unsecured	Long or short term	Existence Relatedness Growth
Loans from pawnbrokers	Informal	Secured	Short term	Existence
Loans from spaza shops	Informal	Unsecured	Short term	Existence
Micro-loans	Formal	Unsecured	Short term	Existence Growth
Store cards	Formal	Unsecured	Short term	Existence
Store loans	Formal	Unsecured	Long term	Existence Relatedness Growth
Credit cards	Formal	Unsecured	Short term	Existence
Overdraft facilities	Formal	Unsecured	Short term	Existence Relatedness Growth
Personal loans	Formal	Unsecured	Long term	Existence Relatedness Growth
Loans against policies	Formal	Secured	Long term	Existence Relatedness Growth
Instalment or lease agreements	Formal	Secured	Long term	Existence
Property mortgage loans	Formal	Secured	Long term	Existence
Garage cards	Formal	Unsecured	Short term	Existence

Type of credit product	Debt classifications			Type of needs
	Informal or formal credit	**Secured or unsecured credit**	**Long- or short-term credit**	
Educational loans	Formal	Unsecured	Long term	Growth
Emergency loans	Formal	Unsecured	Short term	Existence Relatedness Growth
Loans from other banks	Formal	Secured or unsecured	Long or short term	Existence Relatedness Growth

Source: Compiled by the author

As indicated in table 6.4, each credit product in the debt classification framework can be classified according to the three levels of needs in Alderfer's ERG theory.

Using Alderfer's ERG theory, the main groups of credit products provided in figure 6.3 are classified as follows:

- Informal, unsecured, short-term loans consist of loans obtained from friends, family or colleagues and spaza shops. As previously discussed, these loans are often obtained to satisfy primary needs and should therefore be used to satisfy existence needs according to Alderfer's ERG theory (sections 3.3.2.1 and 3.3.2.6).

- Informal, secured, short-term loans consist of payday loans and loans received from pawnbrokers. Payday loans are usually used to satisfy primary needs (section 3.3.2.2) and in the majority of cases loans from pawnbrokers are used to satisfy primary needs as well (section 3.3.2.5). Both these credit products are therefore used to satisfy existence needs according to Alderfer's levels of needs and can be classified accordingly.

- Informal, unsecured, long- or short-term loans consist of loans from mashonisas and societies. Loans from mashonisas can be used for emergencies, luxuries, home improvement, family rituals (labola), education, business opportunities, debt clearance or top-up of income (section 3.3.2.3) and are divided among all three levels in Alderfer's ERG theory. Similarly loans from societies are also used to satisfy all three needs levels (section 3.3.2.4) and can be classified accordingly.

- Formal, unsecured, short-term loans consist of credit cards (3.3.3.4) and garage cards (section 3.3.3.10). The expectation exists that these loans are mainly used to satisfy primary needs and are therefore classified as existence needs. However, it would be interesting to see whether these loans are also used to fulfil relatedness and growth needs.

- Formal, unsecured, long-term loans consist of store loans (section 3.3.3.3) and personal loans (section 3.3.3.6). These loans can be used to satisfy needs in all levels of Alderfer's theory and can be classified accordingly.

- Formal, secured, long-term loans consist of instalment or lease agreements specifically relating to car loans (section 3.3.3.8) and property mortgage loans (section 3.3.3.9). Both of these loans are used to fulfil basic needs such as transportation and housing needs and are therefore classified as existence needs in terms of Alderfer's ERG theory.

Table 6.5 summarises the classification of the main credit product groups according to Alderfer's three levels of needs. As discussed, some credit products can be classified in more than one level of Alderfer's needs and is classified accordingly.

TABLE 6.5

MAIN CREDIT PRODUCT GROUPS ACCORDING TO ALDERFER'S ERG THEORY

Main credit product group component	Credit product group according to Alderfer's ERG theory
Group 1 Informal, unsecured, short-term loans	Existence needs
Group 2 Informal, secured, short-term loans	Existence needs
Group 3 Informal, unsecured, long- or short-term loans	Existence needs Relatedness needs Growth needs
Group 4 Formal, unsecured, short-term loans	Existence needs
Group 5 Formal, unsecured, long-term loans	Existence needs Relatedness needs Growth needs
Group 6 Formal, secured, long-term loans	Existence needs

Source: Compiled by the author

The main credit product group components according to Alderfer's three levels in his ERG theory are presented in table 6.5. This classification can be used to analyse the credit product usage of respondents according to the survey based on credit products (section 6.3).

6.2.4 Conclusion

This section used the debt classification framework which was developed in chapter 3 as a basis to classify the different types of credit products used by respondents into main groups according to their descriptions (section 6.2.2). Finally, the main credit product group components were further classified according to Alderfer's ERG theory (section 6.2.3).

In order to better understand the credit products used when fulfilling needs, credit usage analysis is provided to give insight into the liability usages of South Africans (sections 6.3 and 6.4).

6.3 CREDIT USAGE ANALYSIS BASED ON CREDIT PRODUCTS

6.3.1 Introduction

This section deals with the analysis of data and findings relating to credit usage based on the credit product classifications identified in the previous section. Credit product usage is analysed according to Alderfer's ERG theory, following which an indication is provided of the credit products used to fulfil the individual's needs.

6.3.2 Analysis

This section analyses the credit product usage for the main credit product group components and their subcomponents according to Alderfer's needs theory in order to identify differences or trends in the use of credit between several products.

In the previous section the different credit products used by respondents in the Finscope survey were grouped into six credit product groups (see section 6.2.2 and table 6.3). The main credit product groups were then classified according to the different levels of needs, namely existence, relatedness and growth needs according to Alderfer's ERG theory (see section 6.2.3). An analysis of credit usage of respondents in the survey according to the main credit product groups classified either as existence, relatedness or growth needs according to Alderfer's ERG theory is provided in figure 6.4.

FIGURE 6.4

CREDIT PRODUCT USAGE BY CREDIT PRODUCT GROUP

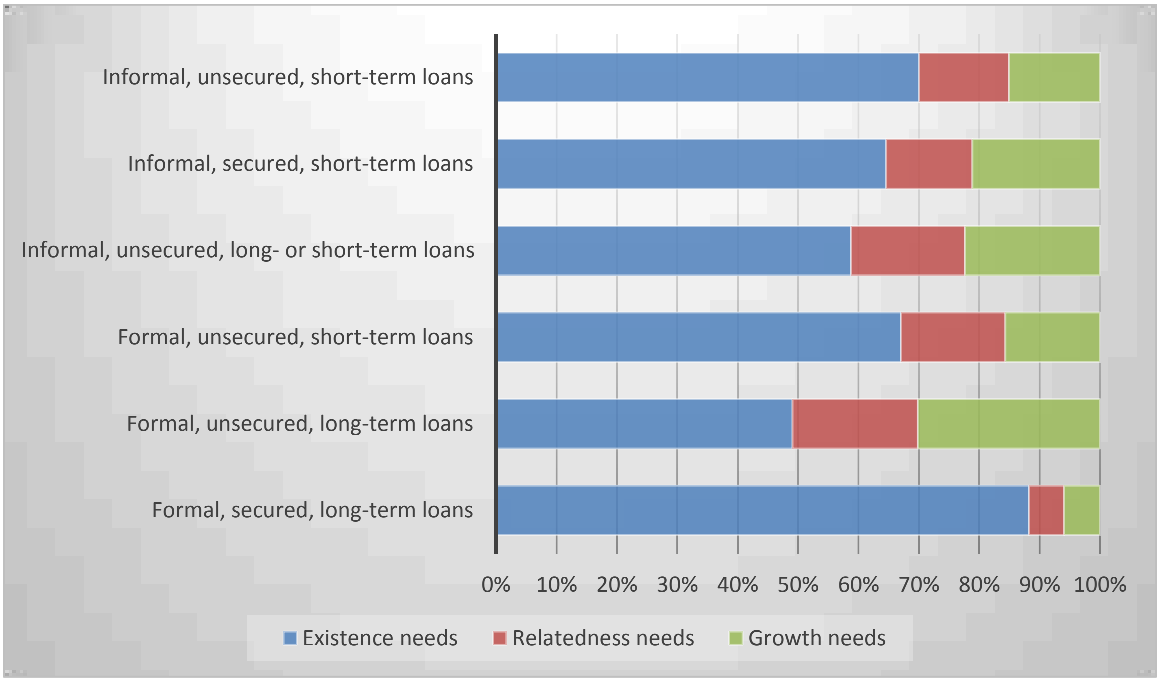


Figure 6.4 indicates that products in each group are used to satisfy needs across all three levels in Alderfer's ERG theory. The visual observation shows that credit products are mainly used to satisfy existence needs. From a South African perspective, this might be higher than other countries owing to the high poverty levels (Armstrong et al. 2008) which result in individuals having to use credit to satisfy their basic needs. There are, however, notable differences in credit usage patterns across some of the subcomponents of the credit product groups. For a better understanding of these differences, credit usage of each credit product group and its subcomponents is analysed. The credit product group distribution is calculated proportionately, based on its credit usage.

- ***Informal, unsecured, short-term loans***

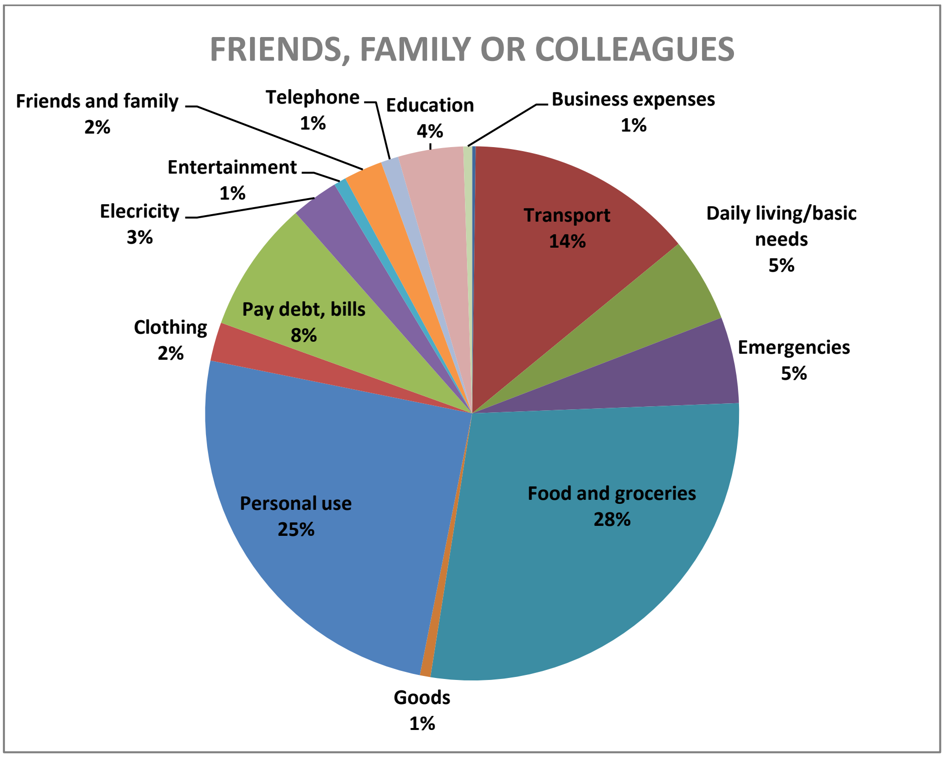
Consistent with expectations (see section 6.2.3), informal, unsecured, short-term loans are mainly used to satisfy existence needs. To determine whether there are differences between products used in the group, the needs satisfied by each of the subcomponents are provided next.

Credit product group and type	Alderfer's need levels			
	Existence needs	Related-ness needs	Growth needs	Total
Friends, family or colleagues	69%	15%	16%	100%
Loans from spaza shops	78%	11%	11%	100%
Informal, unsecured, short-term loans	**70%**	**15%**	**15%**	**100%**

In the informal, unsecured, short-term loans credit product group, loans from spaza shops have a higher credit usage to fulfil existence needs and a slightly lower credit usage to satisfy the other levels of needs. These differences indicate that although both credit products in this group have the same characteristics, they are not used to satisfy the same needs. For a better understanding of the differences, a detailed analysis of the needs satisfied when using each of the products in the group is provided in figure 6.5.

FIGURE 6.5

NEEDS SATISFIED WHEN USING INFORMAL, UNSECURED, SHORT-TERM LOANS



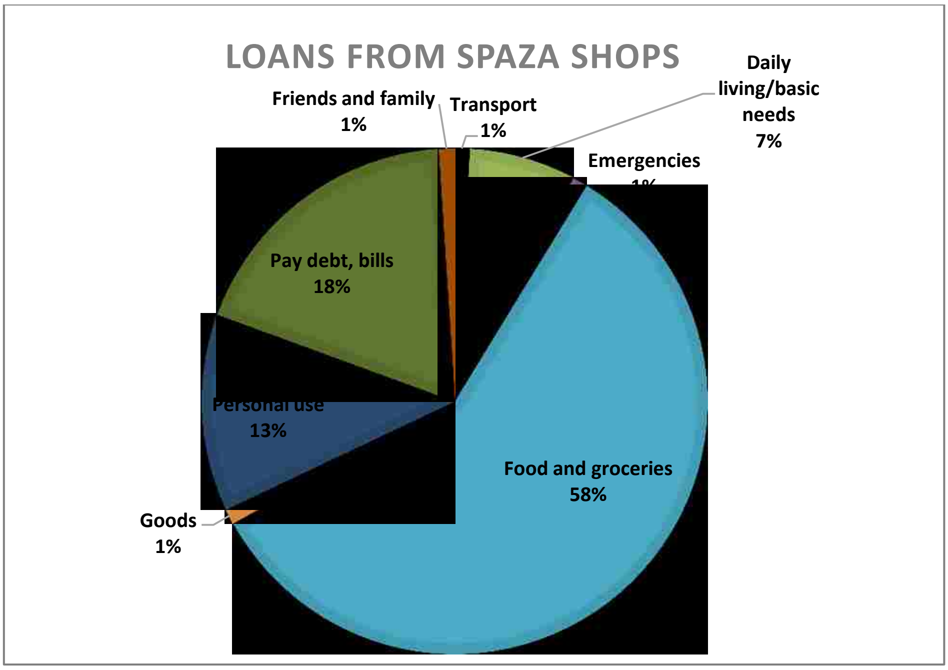


Figure 6.5 indicates that products with the same characteristics in a group do not necessarily satisfy needs in similar way. The main difference between the two credit products in this group is that more than half of credit from spaza shops is used to

fulfil food and grocery needs, while credit usage from friends, family or colleagues is somewhat spread to satisfy different needs. Other notable differences include a higher credit usage from loans from spaza shops when paying for existing debt and bills and a lower credit usage when fulfilling personal use and transport needs compared to loans from friends, family or colleagues.

- ***Informal, secured, short-term loans***

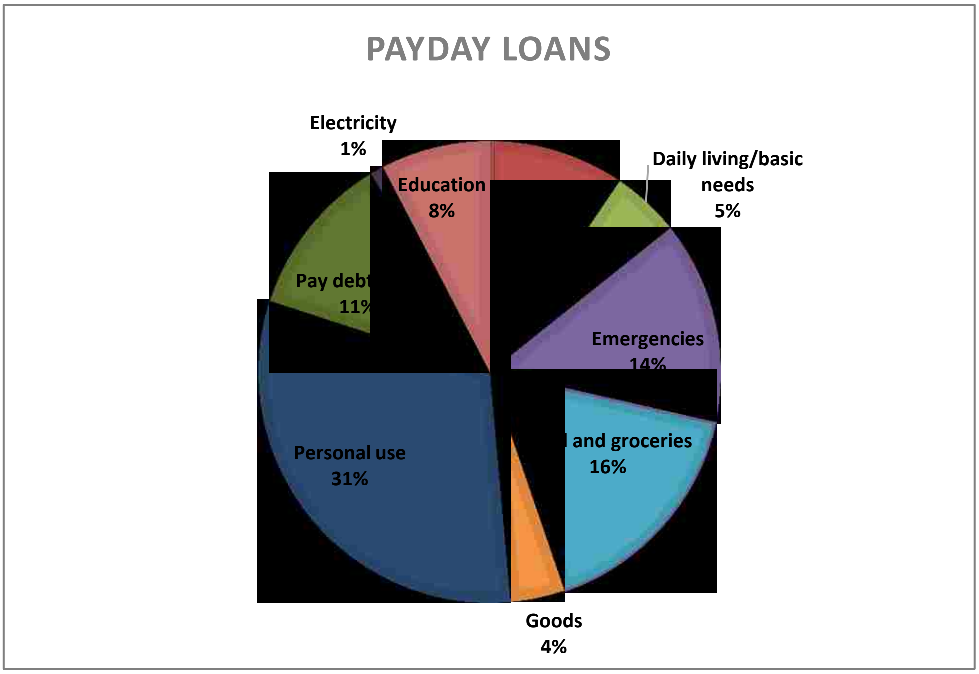
Figure 6.4 indicates that informal, secured, short-term loans are mainly used for gratification of existence needs. This is in line with the expectation that products in this group are used to satisfy primary needs (see section 6.2.3). The analysis of credit usage for subcomponents in this group is presented below.

Credit product group and type	**Alderfer's need levels**			**Total**
	Existence needs	**Related-ness needs**	**Growth needs**	
Payday loans	64%	14%	22%	100%
Loans from pawnbrokers	70%	15%	15%	100%
Informal, secured, short-term loans	**65%**	**14%**	**21%**	**100%**

The credit usage of loans from pawnbrokers differs from payday loans because it has a higher credit usage to satisfy existence needs but a lower credit usage to fulfil growth needs. To explain the differences in credit usage, the needs satisfied when using the credit products in this group are indicated in figure 6.6.

FIGURE 6.6

NEEDS SATISFIED WHEN USING INFORMAL, SECURED, SHORT-TERM LOANS



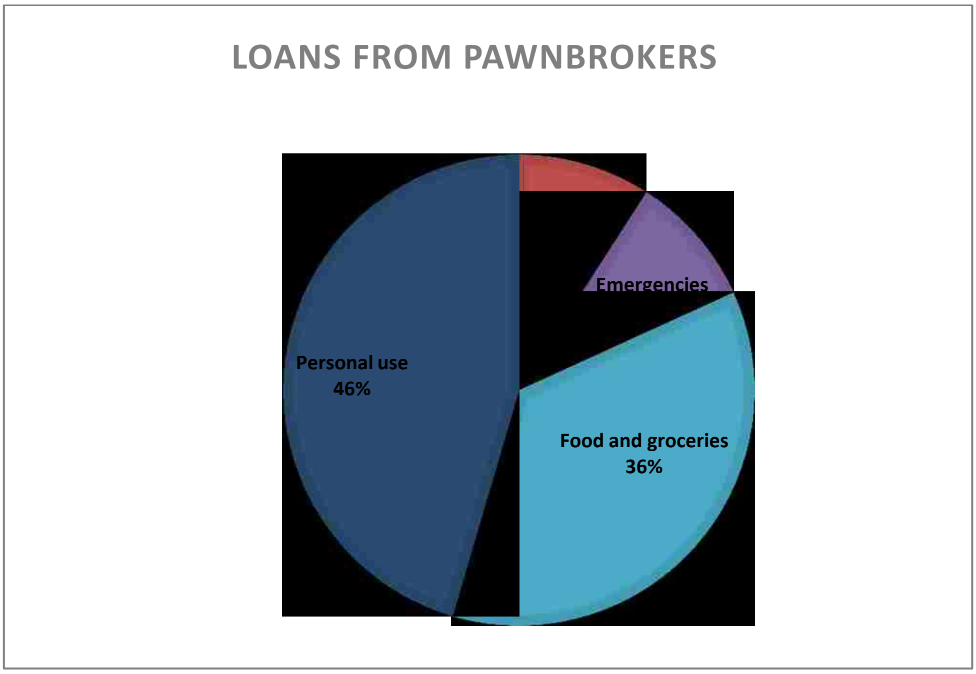


Figure 6.6 shows that the credit products used in the informal, secured, short-term loan group satisfy needs differently. One of the main differences between the credit products in the group is that payday loans are used to satisfy more types of needs, while respondents indicated that they use loans from pawnbrokers to satisfy transport, emergency, food and grocery and personal use needs. Respondents

indicated that they mainly use loans from pawnbrokers to satisfy personal needs and food and grocery needs, while pay day loans are also used to satisfy these needs, but to a lesser extent. Another difference between the credit products is that about a tenth of credit from payday loans is used to satisfy other needs such as paying for existing bills and educational needs.

- ***Informal, unsecured, long- or short-term loans***

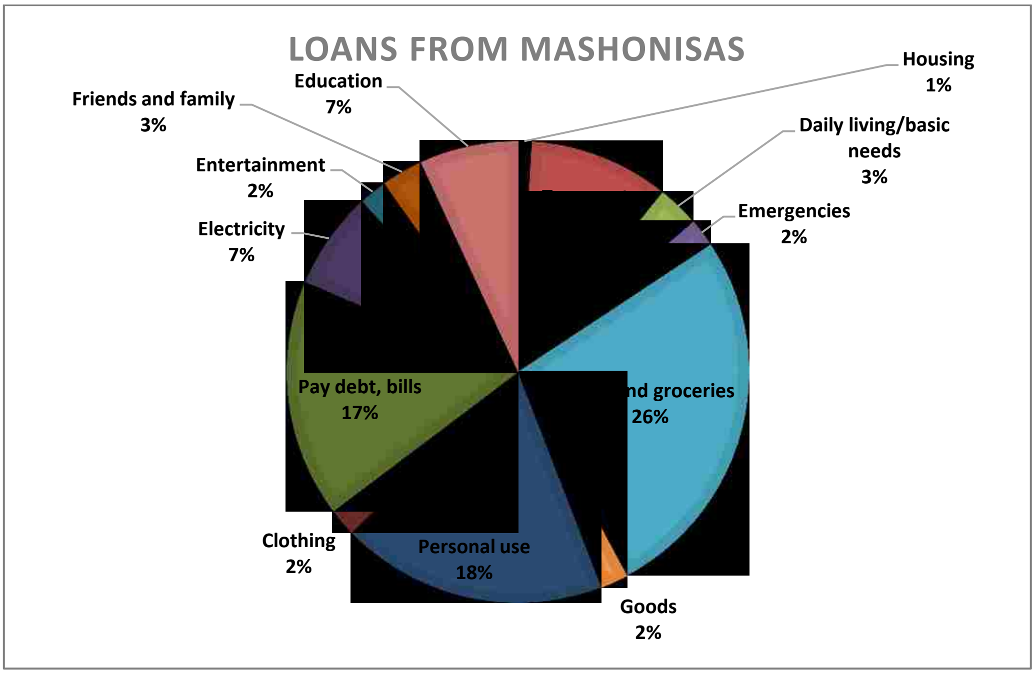
As discussed in section 6.2.3, it is expected that informal, unsecured, long- or short-term loans are used to satisfy all three levels of needs. Although figure 6.4 shows that informal, unsecured, long- or short-term loans are used to satisfy all three levels of needs, respondents indicated that they mainly use credit products in this group to satisfy existence needs. However, it is notable that the proportion of credit used to satisfy relatedness needs and growth needs in this group is higher than in most of the other credit product groups. To determine if differences in credit usage exist when satisfying needs in this credit product group, an analysis of credit usage of the subcomponents is provided below.

Credit product group and type	**Alderfer's need levels**			**Total**
	Existence needs	**Relatedness needs**	**Growth needs**	
Loans from mashonisas	64%	17%	19%	100%
Loans from societies	53%	21%	26%	100%
Informal, unsecured, long- or short-term loans	**59%**	**19%**	**22%**	**100%**

Loans from societies have a different credit usage pattern from loans from mashonisas. Respondents using loans from societies indicated that they use less credit to satisfy their existence needs but have a slightly increased credit usage when satisfying the other levels of needs. Although credit is used differently in each these credit products, as expected, both credit products in this group are used to satisfy all three levels of needs. To better understand the differences in credit usage between these products, the needs fulfilled of each subcomponent in this credit product group are provided in figure 6.7.

FIGURE 6.7

NEEDS SATISFIED WHEN USING INFORMAL, UNSECURED, LONG- AND SHORT-TERM LOANS



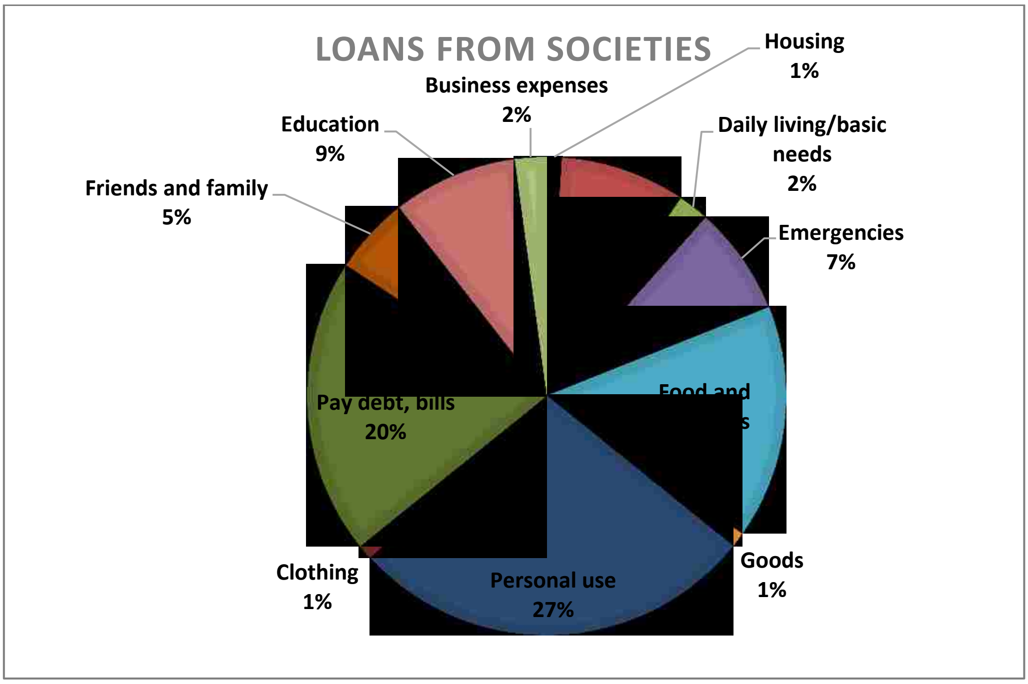


Figure 6.7 shows that some of the needs satisfied when using loans from mashonisas and societies are similar, with a few exceptions. One of these differences is that loans from mashonisas have a higher credit usage to satisfy food, grocery and electricity needs. This explains the higher credit usage to satisfy existence needs when using loans from mashonisas compared to loans from

societies. Loans from societies, however, have a higher credit usage to satisfy personal needs as well as a slightly higher credit usage to satisfy friends and family, educational and business expense needs. This explains the slightly higher credit usage in satisfying relatedness and growth needs when using loans from societies.

- ***Formal, unsecured, short-term loans***

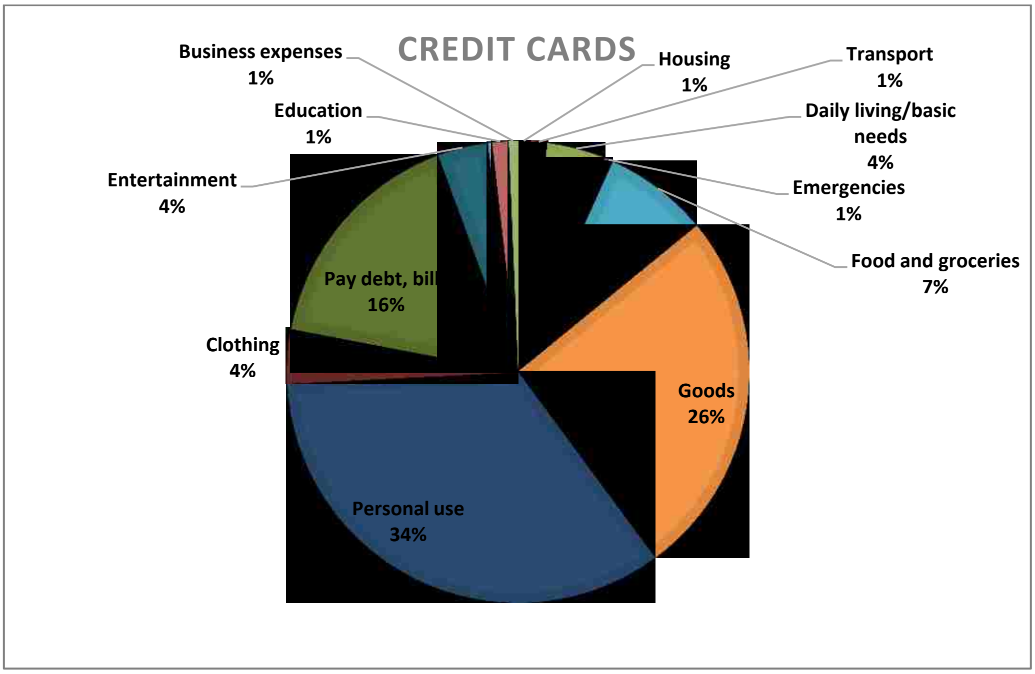
Formal, unsecured, short-term loans should be used to satisfy existence needs (see section 6.2.3). As indicated in figure 6.4, loans in this group are mostly used to satisfy existence needs, although a proportion is also used to satisfy relatedness and growth needs. The analysis below can be used to identify differences in credit usage of each of the subcomponents in this group when fulfilling needs.

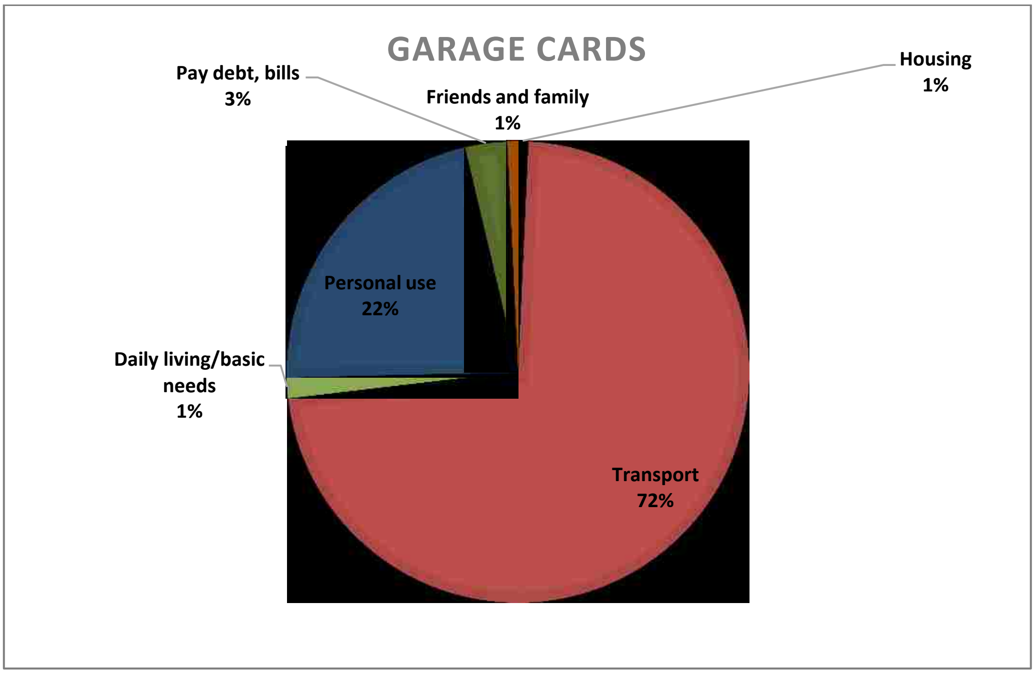
Credit product group and type	**Alderfer's need levels**			**Total**
	Existence needs	**Relatedness needs**	**Growth needs**	
Credit cards	60%	21%	19%	100%
Garage cards	83%	9%	8%	100%
Formal, unsecured, short-term loans	**67%**	**17%**	**16%**	**100%**

It is interesting to note that the credit usage patterns between credit cards and garage cards in the formal, unsecured, short-term loans group are quite different from each other. Respondents using credit cards indicated that they have a lower credit usage when satisfying existence needs, but a higher credit usage when satisfying relatedness needs and growth needs in comparison with garage cards. Garage cards are mainly used to satisfy existence needs, which is in line with the expectation that garage cards should be used for transport expenses (i.e. existence needs). The analysis shows that credit cards are used to satisfy all three levels of needs, whereas garage cards are mostly used to satisfy existence needs. To better understand the differences in credit usage between the products in this group, a breakdown of needs fulfilled when using each credit product is provided in figure 6.8.

FIGURE 6.8

NEEDS SATISFIED WHEN USING FORMAL, UNSECURED, SHORT-TERM LOANS





Although credit cards and garage cards have the same credit product characteristics, these products are used to satisfy needs differently (see figure 6.8). Credit cards are mainly used to pay for personal needs, goods and existing debt and bills. It is interesting to see that less than a tenth of credit from credit cards is used to satisfy food and grocery needs, which might explain the lower credit usage to satisfy existence needs. Consistent with their intended use, garage cards are mostly used to satisfy transport needs.

- ***Formal, unsecured, long-term loans***

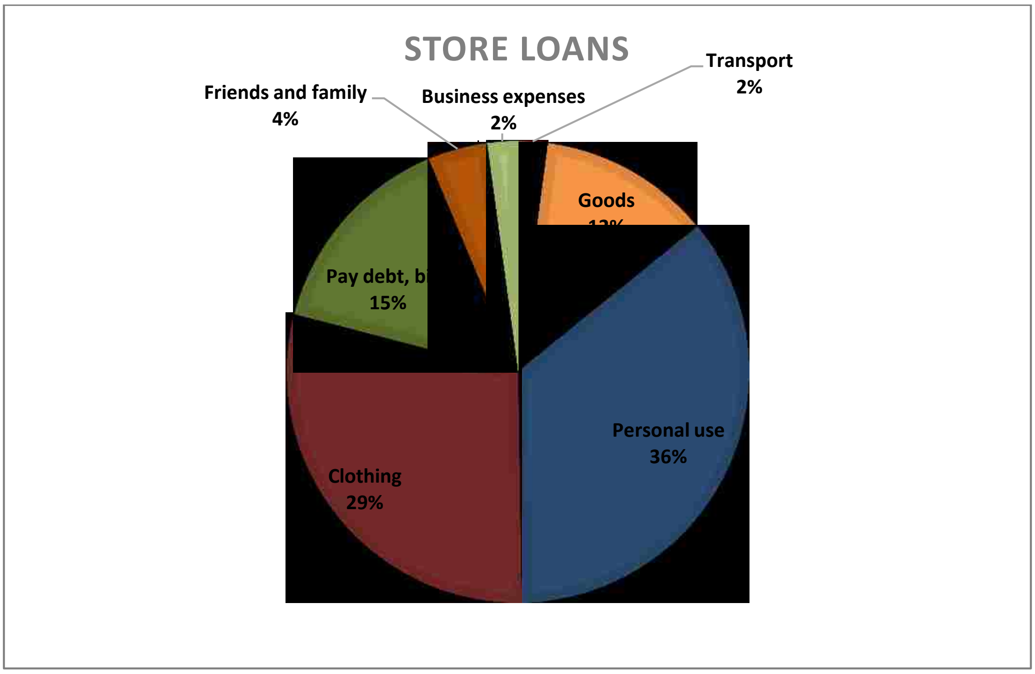
The allocation of credit usage among the different levels of needs for formal, unsecured, long-term loans is noticeably different when compared with the other credit product groups (see figure 6.4). Even though respondents mainly indicated that they satisfy existence needs when using formal, unsecured long-term loans, gratification of higher level needs has a much higher allocation of credit usage than the other credit product groups. This is consistent with the expectation that loans in this credit product group should be used to satisfy all three levels of needs. To identify differences in credit usage when satisfying needs, credit usage of each subcomponent in this group is indicated below.

Credit product group and type	**Alderfer's need levels**			**Total**
	Existence needs	**Relatedness needs**	**Growth needs**	
Store loans	60%	21%	19%	100%
Personal loans	48%	21%	31%	100%
Formal, unsecured, long-term loans	**49%**	**21%**	**30%**	**100%**

A number of clear credit usage differences exist in the formal, unsecured, long-term loan group. When comparing the two credit products, it is clear that store loans have a higher gratification of existence needs and a lower credit usage to satisfy growth needs. Both products satisfy relatedness needs in the same way. It is also noted that the usage of credit from personal loans is more evenly spread through the different levels of needs, which is in line with the expectation that loans in this category are used to satisfy needs at all three levels of Alderfer's ERG theory. For a better understanding of the differences in credit usage between the products in this group, the details of the needs satisfied when using each product are provided in figure 6.9.

FIGURE 6.9

NEEDS SATISFIED WHEN USING FORMAL, UNSECURED, LONG-TERM LOANS



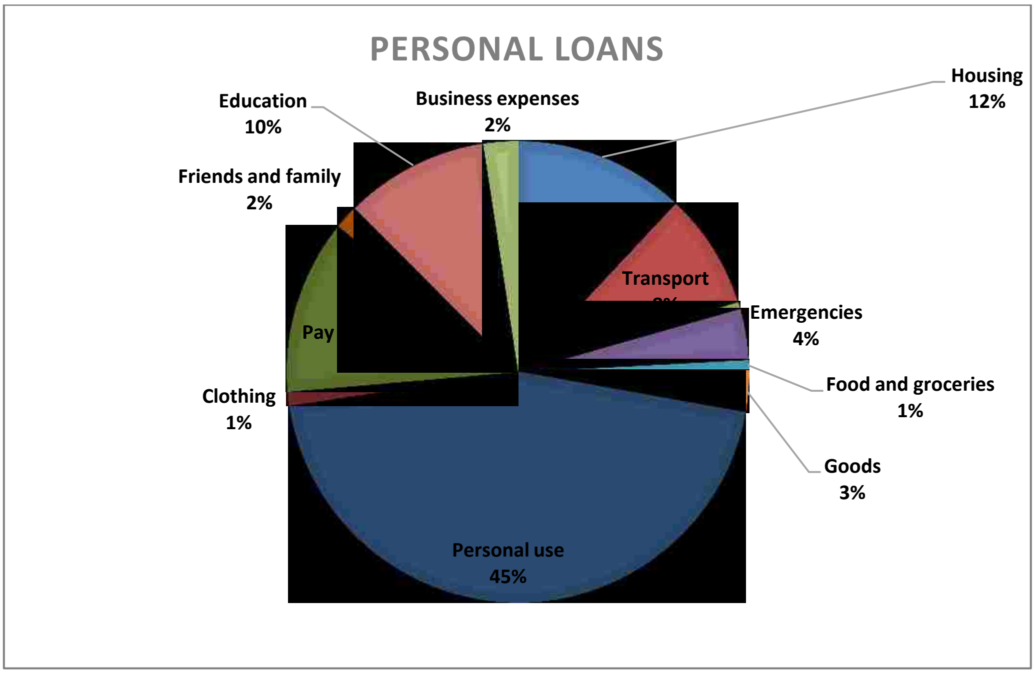


Figure 6.9 shows that respondents use the products in the formal, unsecured, long-term loans group to satisfy different needs. The main needs satisfied when using store loans include personal needs, clothing needs, the need to pay for existing debt and bills and the need to purchase goods. Almost half of credit from personal loans is used to satisfy personal needs, while some credit is also used to fulfil housing needs and the need to pay for existing debt and transport needs. Consistent with

expectations, even though loans in this group are mainly used to satisfy existence needs, it is clear that a small proportion of credit is also used to satisfy relatedness and growth needs.

- ***Formal, secured, long-term loans***

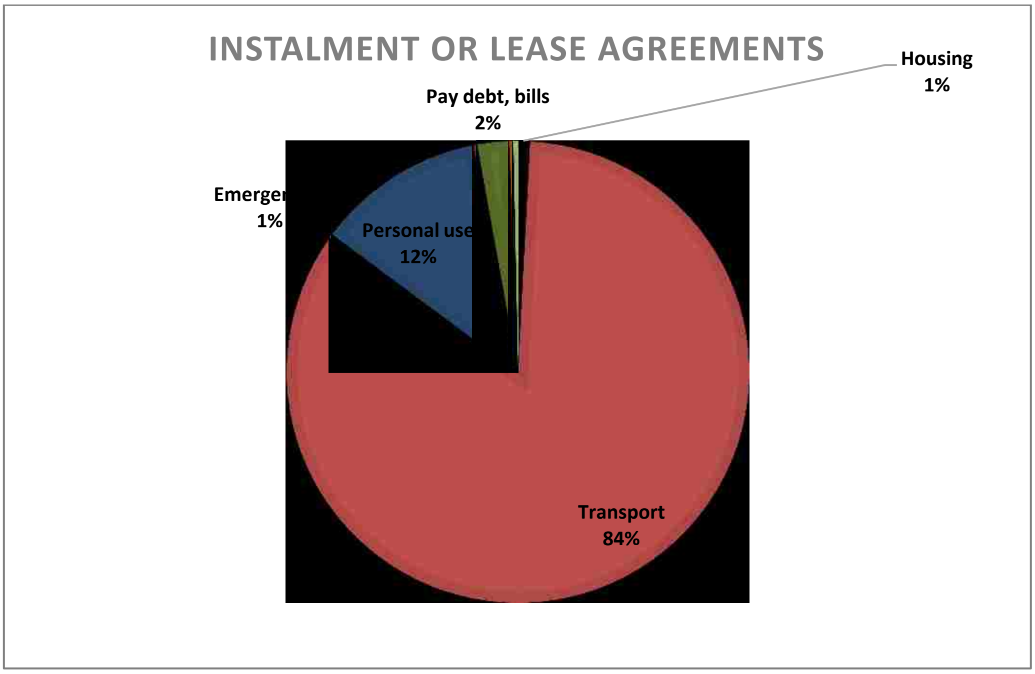
The expectation exist that formal, secured, long-term loans are used for gratification of existence needs, namely housing and transport needs, especially since this loan group consists of instalment or lease agreements (car loans) and property mortgage loans. Consistent with the theory, respondents indicated that formal, secured, long-term loans are mainly used to satisfy existence needs in the form of housing and transport. It is notable that this credit product group has the highest credit product usage for existence needs of all other credit product groups. A credit usage analysis of the subcomponents in this credit product group is provided below.

Credit product group and type	**Alderfer's need levels**			**Total**
	Existence needs	**Relatedness needs**	**Growth needs**	
Instalment or lease agreements	90%	5%	5%	100%
Property mortgage loans	86%	7%	7%	100%
Formal, secured, long-term loans	**88%**	**6%**	**6%**	**100%**

Credit usage of the products in this loan group to satisfy needs is noticeably similar. As expected, these loans are mainly used to satisfy existence needs of a long-term nature. For a better understanding of credit usage, an analysis of the needs satisfied when using each of the products in this group is provided in figure 6.10.

FIGURE 6.10

NEEDS SATISFIED WHEN USING FORMAL, SECURED, LONG-TERM LOANS



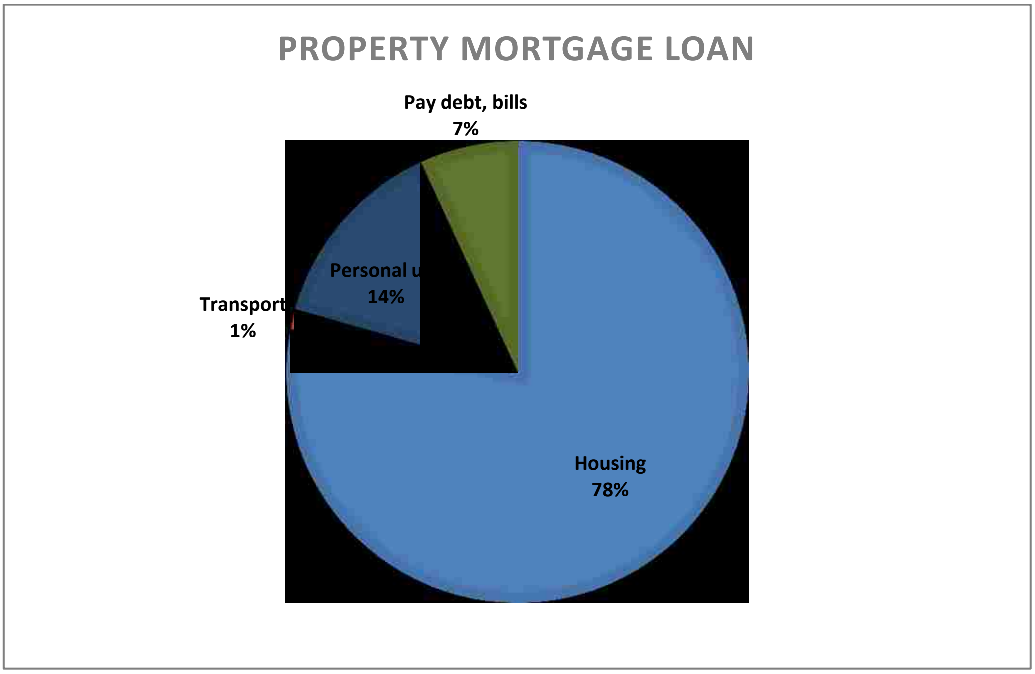


Figure 6.10 clearly indicates that respondents use instalment or lease agreements to satisfy transport needs and property mortgage loans to satisfy housing needs, which is consistent with each product's intended use. This is also in line with the expectation that products in this group should be used to satisfy existence needs. It is also argued that because transport and housing needs are long-term needs, one would expect them to be satisfied using long-term credit products.

6.3.3 Conclusion

This section analysed credit usage according to the debt classification framework and Alderfer's ERG theory. The analysis shows that respondents mainly use credit to satisfy existence needs. This might be an indication of high poverty levels or over-indebtedness in South Africa as individuals have to make use of credit to fulfil their basic needs.

The credit usage analysis provided in this section can also be extended to provide more details of which credit products are used to satisfy the different needs (section 6.4).

6.4 CREDIT USAGE ANALYSIS BASED ON NEEDS

6.4.1 Introduction

Chapter 2 identified that individuals have different human needs which develop into financial needs (see section 2.2). Based on Maslow's (1943) theory of human motivation, Alderfer (1969) classified the different human needs into three levels of his ERG theory namely, existence, relatedness and growth needs. Using Alderfer's classification, this section presents an analysis to indicate which credit products are used to fulfil the three levels of needs in Alderfer's ERG theory.

FIGURE 6.11

CREDIT PRODUCTS USED TO SATISFY ALDERFER'S LEVELS OF NEEDS

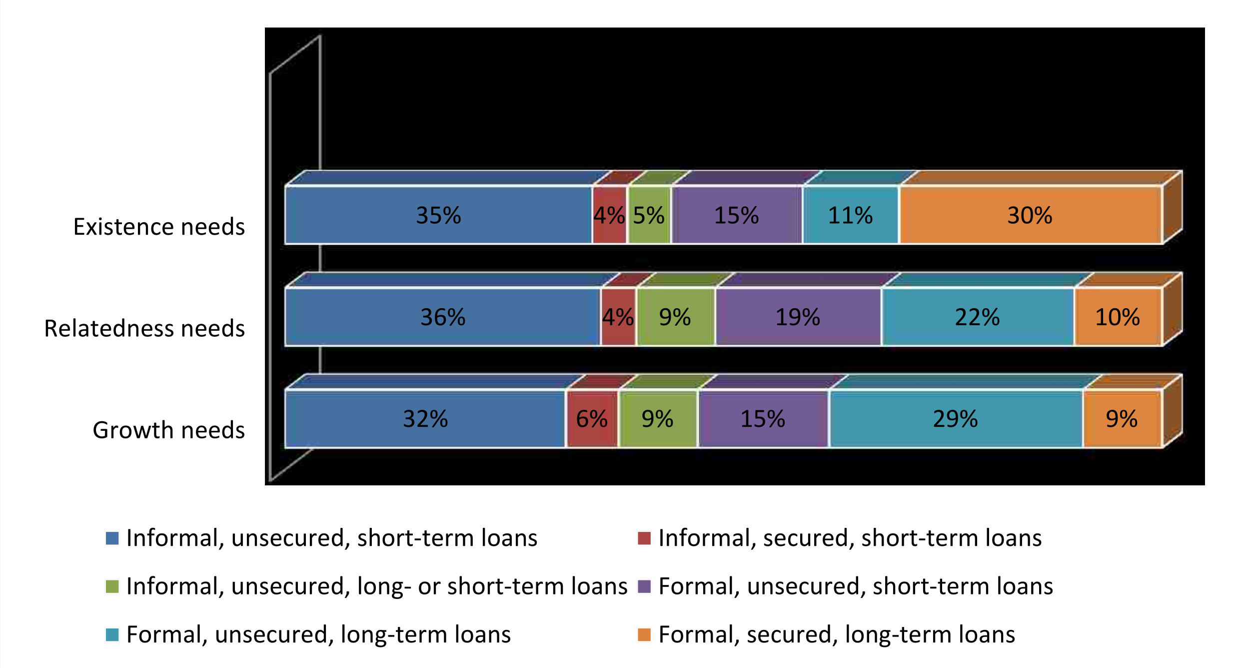


Figure 6.11 provides an analysis to show which credit products are used to fulfil the different levels of needs. Of interest is the fact that respondents mainly indicated that they use unsecured credit to satisfy their needs. This corresponds with the fact that the South African Reserve Bank reported an increase in unsecured lending (South African Reserve Bank 2013). As expected, a large proportion of credit from formal, secured, long-term loans is used to satisfy existence needs which include housing and transport needs.

A detailed analysis of credit usage can be provided to gain a better understanding of the subcomponents in Alderfer's three levels of needs that are satisfied when using the different credit products (see section 6.4.2).

6.4.2 Analysis

This section will focus on presenting the analysis and discussing the findings of the credit products used to fulfil the subcomponents of needs in the existence, relatedness and growth needs levels of Alderfer's ERG theory.

- ***Existence needs***

As discussed in chapter 2 (section 2.2.4.2), existence needs include basic needs such as water, food, clothing, shelter, safety, physical love and affection. Table 6.6 indicates the credit product usage of the different credit product groups to fulfil the needs in the existence needs level. The highlighted values indicate that a need is mainly fulfilled through the use of a specific group of products.

TABLE 6.6

CREDIT PRODUCT USAGE WHEN FULFILLING EXISTENCE NEEDS

Needs according to Alderfer's ERG theory	Credit product group						Total
	Informal, unsecured, short-term loans	Informal, secured, short-term loans	Informal, unsecured, long- and short-term loans	Formal, unsecured, short-term loans	Formal, unsecured, long-term loans	Formal, secured, long-term loans	
Existence needs	**35%**	**4%**	**5%**	**15%**	**11%**	**30%**	**100%**
Housing	1%	-	1%	1%	15%	82%	100%
Transport	22%	2%	3%	17%	6%	50%	100%
Daily living/basic needs	66%	6%	6%	19%	3%	-	100%
Emergencies	54%	17%	10%	2%	16%	1%	100%
Food and groceries	78%	5%	10%	6%	1%	-	100%
Goods	6%	3%	3%	73%	15%	-	100%
Personal use	32%	5%	6%	19%	26%	12%	100%
Clothing	30%	-	6%	26%	36%	2%	100%
Pay debt, bills	32%	6%	12%	20%	19%	11%	100%
Electricity	77%	3%	20%	-	-	-	100%

As shown in table 6.6, the highest credit usage to fulfil housing and transport needs is when using formal, secured, long-term loans. This is in line with the expectation that long-term needs, namely housing and transport, are satisfied using long-term finance such as mortgage loans and instalment loans. It is also interesting to see that more than 50% of daily living needs, emergency needs, food and grocery needs and electricity needs are fulfilled using informal, unsecured, short-term loans. It is possible that individuals do not have access to formal loans owing to low income and not meeting the affordability criteria in terms of the National Credit Act 34 of 2005 and therefore have to make use of informal loans to satisfy their basic needs. Respondents indicated that they buy goods mainly by using formal, unsecured, short-term loans. Another interesting trend is that electricity needs are satisfied using informal loans only.

- ***Relatedness needs***

Relatedness needs include those pertaining to recognition, security and forming part of relationships (see section 2.2.4.2). The credit products used to fulfil needs in this group are shown in table 6.7.

TABLE 6.7

CREDIT PRODUCT USAGE WHEN FULFILLING RELATEDNESS NEEDS

Needs according to Alderfer's ERG theory	Credit product group						Total
	Informal, unsecured, short-term loans	Informal, secured, short-term loans	Informal, unsecured, long- and short-term loans	Formal, unsecured, short-term loans	Formal, unsecured, long-term loans	Formal, secured, long-term loans	
Relatedness needs	**36%**	**4%**	**9%**	**19%**	**22%**	**10%**	**100%**
Entertainment	33%	-	10%	57%	-	-	100%
Friends and family	55%	-	19%	2%	22%	2%	100%
Personal use	32%	5%	6%	19%	26%	12%	100%
Telephone	91%	-	-	9%	-	-	100%
Pay debt, bills	32%	6%	12%	20%	19%	11%	100%

Respondents indicated that they mainly use formal, unsecured, short-term loans to fulfil entertainment needs. This is in line with the expectation that credit cards, which form part of this group, are used to pay for entertainment (see section 3.3.3.4). Table 6.6 also indicates that informal, unsecured, short-term loans are mainly used to satisfy needs relating to family and friends. It is also interesting to note that respondents mainly use informal, unsecured, short-term loans to pay for telephone expenses. This indicates that individuals might make use of spaza shops to purchase their airtime (Spaza News 2013).

- ***<u>Growth needs</u>***

Chapter 2 described growth needs as the need for self-development. The details of credit used when satisfying growth needs in Alderfer's ERG theory are provided in table 6.8.

TABLE 6.8

CREDIT PRODUCT USAGE WHEN FULFILLING GROWTH NEEDS

Needs according to Alderfer's ERG theory	Credit product group						Total
	Informal, unsecured, short-term loans	Informal, secured, short-term loans	Informal, unsecured, long- and short-term loans	Formal, unsecured, short-term loans	Formal, unsecured, long-term loans	Formal, secured, long-term loans	
Growth needs	**32%**	**6%**	**9%**	**15%**	**29%**	**9%**	**100%**
Personal use	32%	5%	6%	19%	26%	12%	100%
Education	35%	7%	14%	4%	40%	-	100%
Pay debt, bills	32%	6%	12%	20%	19%	11%	100%
Business expenses	24%	-	9%	10%	52%	5%	100%

As indicated in table 6.8, there is no clear financing method to satisfy growth needs, however, formal, unsecured, long-term loans have the highest credit usage when satisfying business expense needs. Loans in this credit product group include store and personal loans, which might indicate that individuals use personal loans to pay for their business expenses. It is also interesting to note that informal, unsecured, short-term loans and formal, unsecured, long-term loans are mostly used to satisfy educational needs.

6.4.3 Conclusion

This section presented the data and findings to indicate which credit products are used to fulfil the needs of individuals. Credit usage analysis was based on the high levels of needs, namely existence, relatedness and growth needs and their subcomponents according to the main credit product groups identified.

Analysis of credit usage to satisfy existence needs indicated that formal, secured, long-term loans are mainly used to finance housing and transport needs. Most basic needs are satisfied using informal, unsecured loans. As previously mentioned, this might be because high poverty levels or over-indebtedness do not allow individuals to borrow from formal institutions, which leaves them with no choice but to use informal credit products.

At the relatedness needs level, informal credit products are mainly used to satisfy needs pertaining to friends and family and telecommunication, while entertainment and personal use needs are mainly satisfied using formal credit products. The need to pay for existing debt and bills is financed equally by both formal and informal credit products.

A notable credit usage pattern in the growth needs level is that educational needs are mainly fulfilled using formal, unsecured, long-term loans. However, when considering the bigger picture it seems as if informal credit products are mostly used to pay for education expenses. It was also interesting to see that individuals mainly use formal, unsecured, long-term loans to fulfil business needs.

6.5 CONCLUSION

The four phases in the process of selecting credit products to satisfy financial needs were identified in the literature to help answer the research question and achieving the research objectives of this study (see section 1.3.3). This study was conducted in two phases, namely conducting a literature review and then analysing the data. This chapter formed part of the second phase, aimed at addressing the third research objective, namely:

- Analyse the actual needs satisfied by individuals when using different liabilities.

The third research objective was addressed following two different approaches, firstly, by identifying and analysing the financial needs which are satisfied when using liabilities and secondly by identifying and analysing the credit products used to fulfil certain financial needs. The first approach was dealt with in chapter 5. This chapter addressed the second approach of the third research objective and presented the findings to indicate which credit products are used by South Africans when fulfilling their needs.

Most respondents indicated that they use informal, unsecured, short-term loans, especially loans from friends, family or colleagues, when satisfying their needs. The overall trend indicates that credit is mainly used to satisfy existence needs according to Alderfer's ERG theory. This indicates that South Africans often make use of credit when paying for their basic daily living needs which might be because of a lack of enough income and over-indebtedness or living above their means and not managing their money effectively.

This chapter concluded the empirical analysis of data in this study. Chapter 7 discusses the significant findings of the study and draws the final conclusion by answering the research question.

CHAPTER 7
SUMMARY AND CONCLUSION

7.1 INTRODUCTION

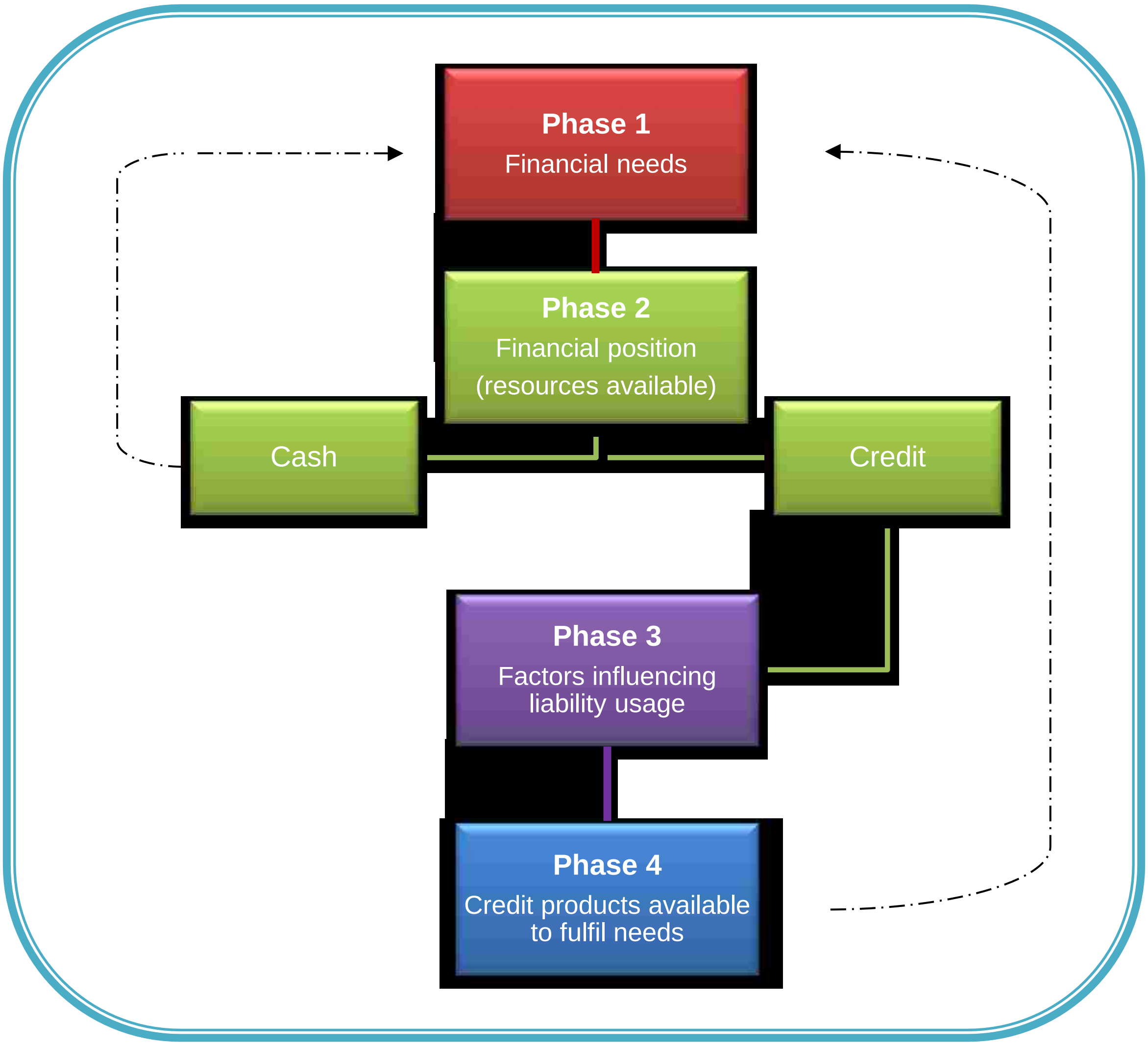
The individual's decision to use or not to use liabilities is influenced by many factors. One of the principal factors driving liability usage in modern societies is consumerism or the need for instant gratification of needs (Muther 2013). When attempting to satisfy as many of their needs as quickly as possible, individuals have to decide how they will use their scarce financial resources. If they do not possess the necessary cash to satisfy their needs, the alternative is to obtain liabilities using different credit products. This study explained the individual's decision to use liabilities in a process comprising four phases (see section 1.3 and figure 7.1). In order to better comprehend the reasons why liabilities are used in South Africa and which types of liabilities are used for which needs, the study investigated the following research question:

"Do South Africans use liabilities to address the financial needs they were intended for?"

The research question was answered by evaluating empirical data for a theoretical model developed from the literature. The theoretical model applied in the study is summarised in figure 7.1 as the four phases in the process of selecting credit products to satisfy the individual's financial needs.

FIGURE 7.1

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

Figure 7.1 indicates that before individuals decide which credit products to use to fulfil their needs, they first have to identify their human needs which develop into financial needs (phase 1). Once a financial need has been identified, they have to analyse their financial position to determine whether they will use cash or credit to satisfy their needs (phase 2). If they determine that they do not possess the necessary cash to fulfil their needs, they consider using credit. The use of credit products, however, is influenced by certain factors which should be taken into account before a decision is made (phase 3). Lastly, after identifying these factors, individuals are able to determine which credit products should be used when satisfying their identified financial needs (phase 4).

The next section discusses the research objectives that were formulated to answer the research question, as well as a number of significant findings of the study.

7.2 RESEARCH OBJECTIVES AND SIGNIFICANT FINDINGS OF THE STUDY

7.2.1 Introduction

The research question of this study was as follows: Do South Africans use liabilities to address the financial needs they were intended for? To answer this question, three research objectives were formulated (see section 1.1.2). The research objectives were addressed by referring to the process of selecting credit products to satisfy needs (see sections 1.3.3.2 and 7.1). In this section, each of the three research objectives and highlights of some of the findings in this study are discussed (see sections 7.2.2, 7.2.3 and 7.2.4).

7.2.2 Research objective 1

The first research objective of this study was to:

Develop a theoretical framework for the process of selecting credit products to satisfy financial needs of South Africans by

- identifying the individual's financial needs
- analysing the individual's financial position
- determining the factors that influence the individual's liabilities usage

This research objective was achieved by conducting a literature review referring to the first three phases of the process of selecting credit products to satisfy financial needs. The fourth phase in the process addressed the second research objective (see section 7.2.3).

In the first phase of the process namely, identifying the individual's financial needs (see section 2.2), it was identified that human needs usually develop into financial needs. This means that human needs are fulfilled by using financial resources such as cash or credit. Two seminal human need theories, namely Maslow's theory of human motivation and Alderfer's ERG theory were analysed. Maslow was the first to develop a human needs theory, but because of a number of limitations, Alderfer developed the ERG theory in an effort to improve the practical application of the human needs theory. A framework of financial needs was developed considering both theories and both these frameworks were tested in this study (see section 5.2). The findings suggested that the practical problems identified in applying Maslow's theory also applied to South Africa in 2010 and that the application of Alderfer's ERG theory describes the South African environment the best – hence the use of Alderfer's theory for analysis purposes in the remainder of the study. After identifying the financial needs of individuals, the next phase in the literature review was to analyse the financial position of individuals to determine how they can satisfy their needs using their financial resources.

The second component of the first objective is to analyse the individual's financial position (phase 2) (see section 2.3). Use of the fundamental accounting equation (E = A – L) shows that there are two options available to satisfy the individual's financial needs. The individual must decide whether he has enough assets available to draw from to satisfy his needs. In such cases, the individual's assets (A) will decrease. However, if an individual does not have the necessary assets, the alternative option is to use credit to satisfy the financial needs resulting in an increase in liabilities (L). If individuals do not have sufficient assets or access to liabilities, their financial needs will remain unsatisfied and they might become dependent on others to satisfy their needs. This study focused on individuals who decide to use liabilities.

According to the framework, the next phase in the process of selecting credit products to satisfy financial needs was to investigate the factors that have an influence on the individual's liability usage (phase 3). When investigating the third phase, the literature review identified numerous factors that affect liability usage (see section 2.4). After investigation of all the factors in the literature, two main groups of factors were identified and these became the focus of this study. The two groups include access to credit and demographic characteristics (such as life stage, income, race, gender, marital status, family size, employment status and educational status).

The first research objective was achieved by developing a theoretical framework for the first three phases in the process of selecting credit products to satisfy financial needs. The fourth phase in the process was dealt with when addressing the second research objective (see section 7.2.3).

7.2.3 Research objective 2

The second research objective of this study was as follows:

Analyse the different credit products available to develop a debt classification framework which can be used to indicate which credit products were developed to satisfy different types of needs.

The second research objective was achieved by performing a literature review referring to the fourth phase in the process of selecting credit products to satisfy financial needs (chapter 3).

In phase 4 of the process of selecting credit products, the individual should determine which types of credit products can be used to satisfy financial needs. Before different credit products were identified, a literature study was conducted to enable the author to determine who the users of credit products are. South Africans can be divided in two groups, namely financially excluded or included individuals (see section 3.2). This means that individuals in the financially excluded group usually do not have access to credit other than credit obtained from friends, family or colleagues. Financially included individuals, however, do have access to credit and may decide to use informal credit products (section 3.3.2) or formal credit products (section 3.3.3). The main difference between informal or formal credit products is that informal credit products (such as payday loans) are provided by non-regulated financial institutions, whereas formal credit products (such as property mortgage loans) are provided by regulated bank and non-bank financial institutions which are governed by the National Credit Act 34 of 2005. Owing to the broad variety of credit products available in South Africa, this study did not discuss all of the individual credit products, but grouped them into main groups of products which were then discussed. To gain a better understanding of the main groups of products, the characteristics and intended use of the products were analysed (see section 3.3). A debt classification framework was developed by referring to each of the main product's characteristics and the different debt classifications of important role players (see section 3.4). Table 7.1 depicts the debt classification framework that was developed in the literature (chapter 3).

TABLE 7.1

DEBT CLASSIFICATION FRAMEWORK

Type of credit product	Informal or formal credit	Secured or unsecured credit	Long- or short-term credit
Friends, family or colleagues	Informal	Unsecured	Short term
Payday loans	Informal	Secured	Short term
Loans from mashonisas	Informal	Unsecured	Long or short term
Loans from societies	Informal	Unsecured	Long or short term
Loans from pawnbrokers	Informal	Secured	Short term
Loans from spaza shops	Informal	Unsecured	Short term
Micro-loans	Formal	Unsecured	Short term
Store cards	Formal	Unsecured	Short term
Store loans	Formal	Unsecured	Long term
Credit cards	Formal	Unsecured	Short term
Overdraft facilities	Formal	Unsecured	Short term
Personal loans	Formal	Unsecured	Long term
Loans against policies	Formal	Secured	Long term
Instalment or lease agreements	Formal	Secured	Long term

Type of credit product	Informal or formal credit	Secured or unsecured credit	Long- or short-term credit
Property mortgage loans	Formal	Secured	Long term
Garage cards	Formal	Unsecured	Short term
Educational loans	Formal	Unsecured	Long term
Emergency loans	Formal	Unsecured	Short term
Loans from other banks	Formal	Secured or unsecured	Long or short term

Source: Compiled by the author

Each informal and formal credit product that was identified in the study was classified as secured or unsecured credit and as a long- or short-term credit product (table 7.1). These credit products were then further classified according to Alderfer's ERG theory to indicate which types of needs are satisfied using each credit product. Alderfer's ERG theory divides human needs into three levels, namely: existence needs, which include basic needs such as the need for food; relatedness needs, which include the need to feel recognised and form part of relationships, such as the needs relating to family and friends; and lastly, growth needs, which include the need to develop one's own potential in life such as educational needs. Based on the characteristics of each credit product (see section 3.3) and by using the debt classification framework that was developed in this study (see table 7.1), each credit product was classified according to Alderfer's three levels of needs (see table 7.2).

TABLE 7.2

DEBT CLASSIFICATION FRAMEWORK ACCORDING TO NEEDS

Type of credit product	**Debt classifications**			**Type of needs**
	Informal or formal credit	**Secured or unsecured credit**	**Long- or short-term credit**	
Friends, family or colleagues	Informal	Unsecured	Short term	Existence
Payday loans	Informal	Secured	Short term	Existence
Loans from mashonisas	Informal	Unsecured	Long or short term	Existence Relatedness Growth
Loans from societies	Informal	Unsecured	Long or short term	Existence Relatedness Growth
Loans from pawnbrokers	Informal	Secured	Short term	Existence
Loans from spaza shops	Informal	Unsecured	Short term	Existence
Micro-loans	Formal	Unsecured	Short term	Existence Growth
Store cards	Formal	Unsecured	Short term	Existence
Store loans	Formal	Unsecured	Long term	Existence Relatedness Growth
Credit cards	Formal	Unsecured	Short term	Existence
Overdraft facilities	Formal	Unsecured	Short term	Existence Relatedness Growth
Personal loans	Formal	Unsecured	Long term	Existence Relatedness Growth
Loans against policies	Formal	Secured	Long term	Existence Relatedness Growth
Instalment or lease agreements	Formal	Secured	Long term	Existence
Property mortgage loans	Formal	Secured	Long term	Existence
Garage cards	Formal	Unsecured	Short term	Existence
Educational loans	Formal	Unsecured	Long term	Growth
Emergency loans	Formal	Unsecured	Short term	Existence Relatedness Growth
Loans from other banks	Formal	Secured or unsecured	Long or short term	Existence Relatedness Growth

Source: Compiled by the author

Table 7.2 indicates which types of needs are satisfied when using different credit products. Most credit products can be used to satisfy existence needs, although a number of products can be used to satisfy all three levels of needs in Alderfer's ERG theory. This debt classification framework according to needs can be used by South Africans when determining which financial needs should be satisfied by using the different credit products (phase 4 in the process of selecting credit products to satisfy financial needs). To test whether or not South Africans use the products as they are intended for, the third research objective was to analyse how the actual needs are satisfied when using the different credit products (section 7.2.4).

7.2.4 Research objective 3

The third research objective of the study was as follows:

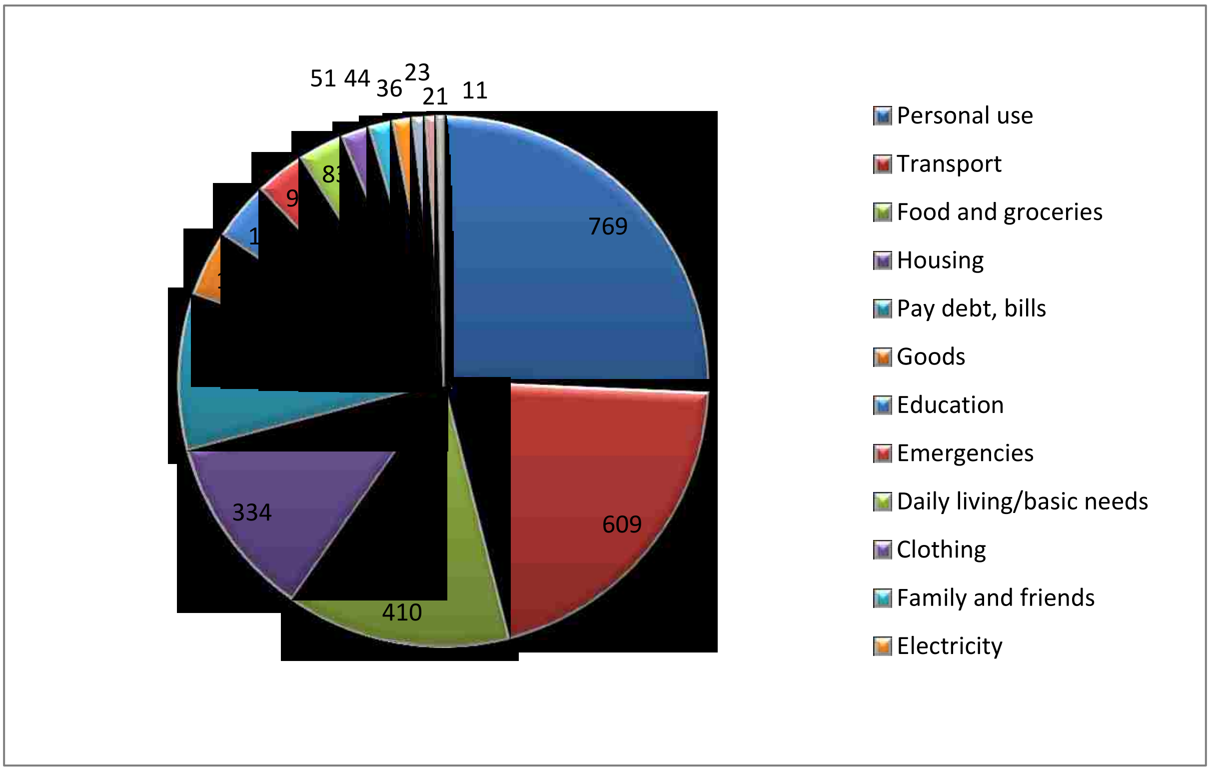
Analyse the actual needs satisfied by individuals when using different liabilities.

The third research objective was achieved by analysing empirical data obtained in the Finscope 2010 survey (chapters 5 and 6) (Finmark Trust 2010). This research objective was addressed following two different approaches. Firstly, the different financial needs that are fulfilled when using liabilities were identified and analysed according to Alderfer's ERG theory, and the factors that influence the use of liabilities were analysed. Secondly, the use of different liability products was analysed to provide an indication of the financial needs that are satisfied when using each credit product.

In the first approach, the different financial needs fulfilled when using liabilities were identified by analysing data obtained in the survey. In the survey, respondents were required to provide an indication of the needs satisfied when using each credit product. To facilitate the process of analysis, needs that relate to each other were grouped together into main groups of financial needs (see section 5.2). Figure 7.2 provides the main groups of financial needs identified in the study.

FIGURE 7.2

MAIN GROUPS OF FINANCIAL NEEDS SATISFIED WHEN USING LIABILITIES



The financial needs satisfied when using liability products included gratification of personal, transport, food and groceries and housing needs. The main groups of financial needs were further categorised according to Alderfer's three levels of needs (see section 5.2).

The data indicated that respondents mostly use credit products to satisfy existence needs (2 084 respondents). Needs are also not necessarily satisfied in a hierarchical order because the usage of credit to satisfy upper-level needs (growth needs: 481 respondents) exceeded the use of credit when fulfilling some of the lower-level needs (relatedness needs: 427 respondents). One of the reasons explaining the higher credit usage when satisfying growth needs is the need for education that is included in growth needs, which indicates that South Africans feel that it is more important to build their future through education instead of using credit for social development. However, in order to build their futures, some South Africans use credit to satisfy their educational needs because they do not have the necessary cash resources.

By using the identified main groups of financial needs and their classification according to Alderfer's ERG theory, liability usage to satisfy needs was further analysed according to the factors that influence liability usage, namely access to credit and demographic characteristics as identified in chapter 2 (see chapter 5). Some of the significant findings are summarised below.

- ***Access to credit***

The results indicated that access to credit, from a physical point of view, between different geographical areas and provinces does have an influence on liability usage (see section 5.3.2.2). Respondents living in informal urban areas have a slightly different credit usage pattern when satisfying their needs, compared to respondents living in other geographical areas. They have the highest credit usage when satisfying their existence needs, specifically food and grocery needs. Furthermore, among all the geographical areas, the results also indicated that respondents in informal urban areas have the highest credit usage to pay for existing debt and bills and for educational needs. The high credit usage to pay for existing debt and bills is worrisome because individuals might accumulate multiple debts which expose them to over-indebtedness. All of these findings correspond with the fact that individuals living in the informal settlements usually receive low incomes, if any income at all, which might not be sufficient to provide for their need requirements and therefore they have to make use of credit. Urbanisation might also be a contributing factor because individuals move to urban areas searching for employment, but end up having no support structures to help them meet their needs, therefore leaving them with no other option but to make use of credit.

Despite a few exceptions, the majority of credit usage patterns between the different provinces were the same. Generally, there seems to be a correlation between the LSM ratings and credit usage between the provinces in that the higher the credit usage to satisfy existence needs, the lower the LSM rating is.

The results also indicated that regulated access to credit does affect liability usage (see section 5.3.2.3). Respondents who indicated that they do not use credit provided several reasons for not using credit. Among these reasons, respondents indicated that they are not currently using credit because they do not qualify for loans in terms of affordability assessments performed by financial institutions as required in terms of the National Credit Act 34 of 2005. Some reasons demonstrate resistance to taking up of loans because many respondents indicated that they do not wish to have debt. Lastly, the cost of credit also seems to influence the decision to take up loans since a number of respondents indicated that the cost of credit is too high.

- ***Life stages***

The findings indicated that life stages do have an influence on liability usage (see section 5.3.3.2). Most of the credit usage patterns across the different life stages were similar, with a few exceptions. Single-parent families had a different credit usage pattern than most of the other life stages, especially when satisfying existence needs. These families consist of one parent with children, but only receive a single income which might not be sufficient to fulfil all their needs. One of the more notable findings was that mature couples (individuals of 50 years of age and older) indicated that they use most of their credit to satisfy existence needs. This indicates a lack of financial planning for retirement because individuals in this life stage do not seem to have enough cash resources to satisfy their needs and therefore have to make use of credit. Mature couples also had a high credit usage when paying for existing debt and bills.

- ***Income***

This study indicated that income does influence liability usage (see section 5.3.3.3). Across all of the income groups, income is generally used to satisfy existence needs, specifically transport, housing and food and grocery needs. Some of the credit usage patterns could be explained by referring to affordability assessments in terms of the National Credit Act 34 of 2005 when obtaining loans, because individuals in higher-income groups might qualify for larger loans, whereas individuals receiving no income might find it difficult. For example, most of the higher-income groups had the highest credit usage to satisfy transport needs because these individuals qualify for loans to buy expensive cars. As expected, the no income group had the lowest credit usage to satisfy housing needs because these individuals might not be able to qualify for mortgage loans. Although all income groups have a high credit usage to pay for existing debt and bills, it was worrying to see that some of the high-income groups have a high credit usage to pay for existing debt and bills while it is expected that high income earners should have enough cash available to settle their debts. This might be a result of poor money management which could lead to over-indebtedness.

- ***Race and gender***

Although some minor differences in credit usage were found between different racial (see section 5.3.3.4) and gender (see section 5.3.3.5) groups, race and gender did not seem to have an influence on liability usage when individuals satisfy their needs.

- ***Marital status***

Even though minor differences were evident between the credit usages of the different marital status groups, the results of this study indicated that marital status does seem to influence liability usage of individuals (see section 5.3.3.6). One of the more notable differences was that separated or divorced individuals have a different credit usage pattern when satisfying Alderfer's three levels of needs. The aforementioned group has a higher gratification of existence needs indicating that this group might struggle to meet basic family needs because individuals might not receive income to cover all their expenses.

- ***Family size***

Consistent with other studies, family size seems to influence liability usage (see section 5.3.3.7). The findings of this study indicate that there are some differences between smaller and larger families. As can be expected, credit usage to satisfy food and grocery needs and emergency needs seems to increase as the number of family members increases. Credit usage to satisfy electricity, entertainment and telecommunication needs was also higher for larger families. However, it was interesting to see that credit usage to satisfy housing needs, educational needs and the need to pay for existing debt and bills was much lower in the larger family groups.

- ***Employment status***

The results indicated that numerous variances in credit usage patterns exist between the different employment status groups. This confirms that the liability usage of individuals is influenced by their employment status (see section 5.3.3.8). Employment status is also an indicator of the income that an individual receives which explains some of the credit usage patterns of individuals in the different employment status groups. For example, unemployed and self-employed individuals had higher credit usage to satisfy existence needs. These individuals do not receive stable incomes, if any, to satisfy their needs, leaving them with no other option but to obtain credit in order to fulfil their needs – hence the high credit usage when satisfying their food and grocery needs. However, the credit usage of employed individuals was lower when satisfying existence needs. The opposite might be true for these individuals who do receive income having cash resources available to satisfy some of their needs, which explains lower credit usage in some instances. Some of the credit usage among the employment status groups could also be explained by referring to affordability assessments performed in terms of the National Credit Act 34 of 2005, where some individuals might be granted loans. Employed individuals, for instance, had the highest credit usage to satisfy transport loans, perhaps finding it easier to obtain car financing in terms of affordability, while others might find it difficult to obtain loans, for example, self-employed individuals who had the lowest credit usage to satisfy housing needs since they might not qualify for mortgage loans. Once again, it would seem that pensioners or retired individuals did not save enough during their working careers because they had a higher credit usage than other groups to pay for emergency expenses. Interestingly, part-time employees had a much higher credit usage to fulfil educational needs, possibly to enable them to obtain a better position in the employment market.

- ***Educational status***

Analysis of credit usage indicated that individuals with some educational background have a completely different credit pattern when compared to the credit usage of the group with no formal education. This indicates that educational status influences the liability usage of individuals (see section 5.3.3.9).

From the discussion above it is clear that access to credit and demographic characteristics such as life stage, income, marital status, family size, employment status and educational status have an influence on the liability usage of individuals, while race and gender do not seem to influence it.

After identifying the needs, the second approach when addressing the third research objective was to determine which credit products were used to satisfy each of the financial needs that were identified in the survey (chapter 6). Figure 7.3 indicates the credit products used by respondents in the survey to fulfil their needs.

FIGURE 7.3

CREDIT PRODUCTS USED BY RESPONDENTS IN THE SURVEY

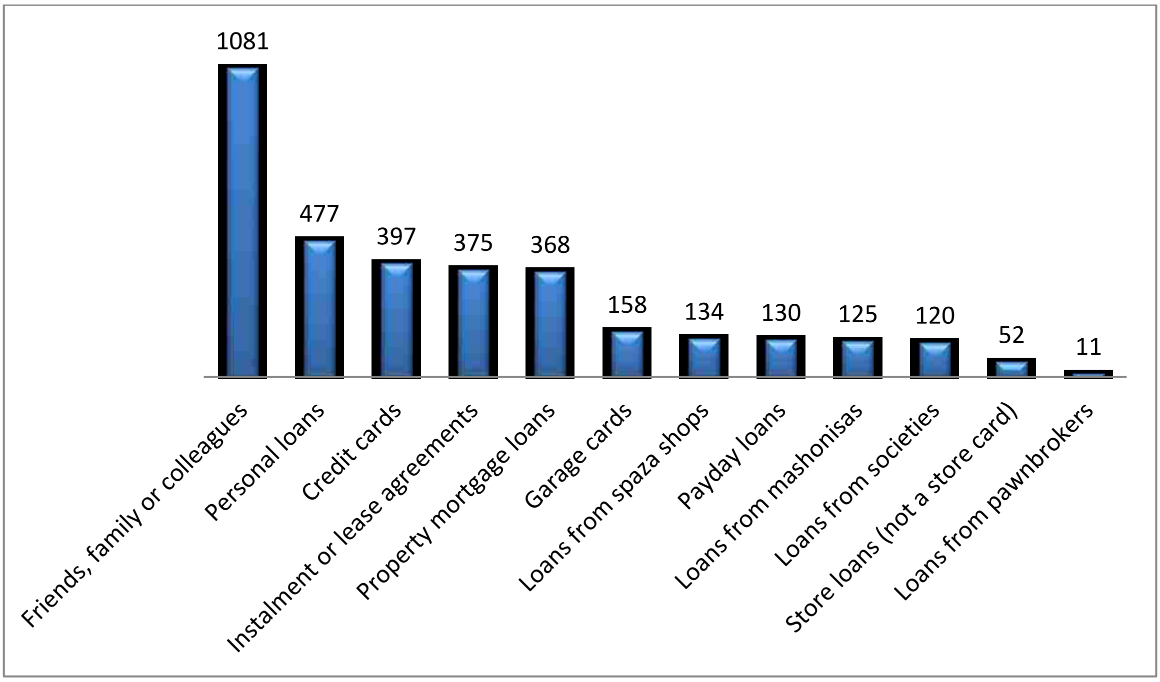
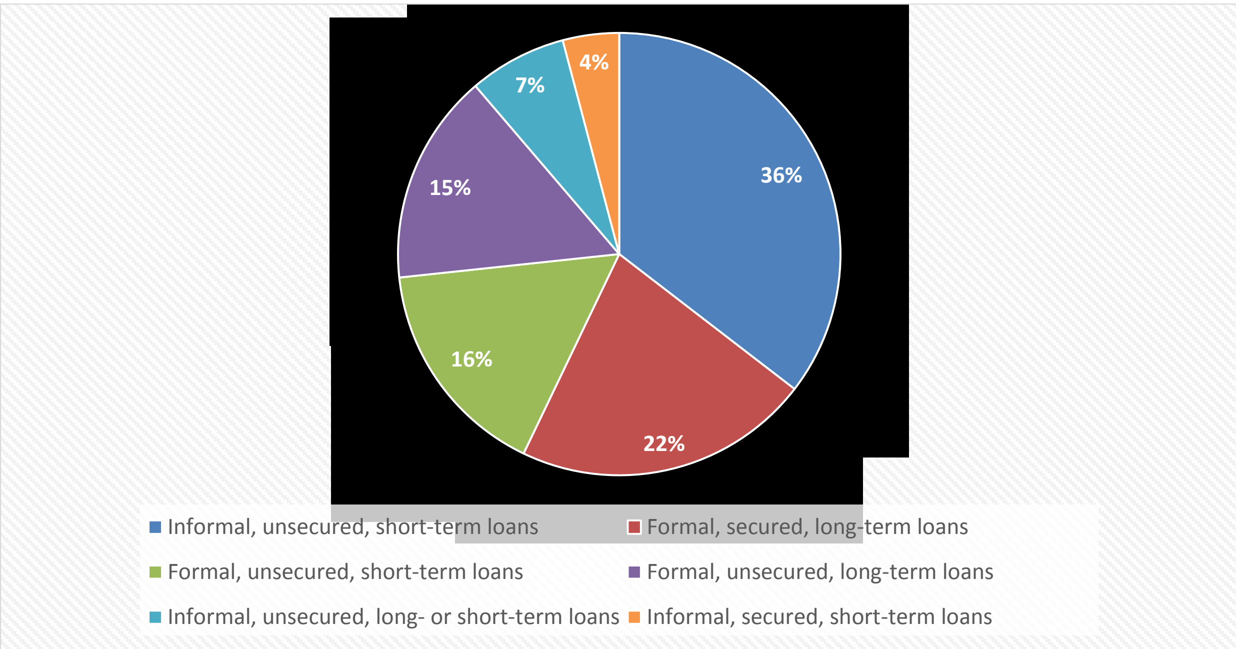


Figure 7.3 indicates that respondents mainly obtain loans from friends, family or colleagues to satisfy their needs. To conduct an analysis, the credit products used in the survey were first classified into main groups using the debt classification framework developed in this study (see section 3.4.3). Figure 7.4 indicates the main groups of credit products used when fulfilling their needs.

FIGURE 7.4

MAIN CREDIT PRODUCT GROUPS USED



Respondents indicated that they mainly use informal, unsecured, short-term loans to satisfy their needs (figure 7.4). These main credit product groups were then further classified according to the three levels of needs in Alderfer's ERG theory (see section 6.2.3). The classification of credit products into main groups according to Alderfer's ERG theory is summarised in table 7.3.

TABLE 7.3

MAIN CREDIT PRODUCT GROUPS ACCORDING TO ALDERFER'S ERG THEORY

Main credit product group component	Credit product group according to Alderfer's ERG theory
Group 1 Informal, unsecured, short-term loans	Existence needs
Group 2 Informal, secured, short-term loans	Existence needs
Group 3 Informal, unsecured, long- or short-term loans	Existence needs Relatedness needs Growth needs
Group 4 Formal, unsecured, short-term loans	Existence needs
Group 5 Formal, unsecured, long-term loans	Existence needs Relatedness needs Growth needs
Group 6 Formal, secured, long-term loans	Existence needs

Source: Compiled by the author

From the classification of main groups of credit products according to Alderfer's ERG theory it is clear that most products can be used to satisfy existence needs and some products can be used to fulfil needs at all three need levels (see table 7.3). To determine whether individuals do in fact use these products as intended, the use of credit products in the survey was analysed according to Alderfer's ERG theory by using the classification provided in table 7.3 (see section 6.3). The analysis indicated that products in all of the groups are used to satisfy all three levels of needs with the spread of credit usage between the levels differing from each credit product group to the other. This is in contradiction to the expectation that certain products should be used to satisfy only certain needs. Most liabilities are used to satisfy existence needs. In some credit product groups, credit usage to satisfy growth needs is higher than relatedness needs, which indicates that those products are used to satisfy educational needs. In order to understand the different credit usage patterns between the groups and to indicate which needs are satisfied by the credit products in the group, each group was analysed further (section 6.3). When analysing the subcomponents in each credit product group, some notable credit usage differences were identified, which indicated that even though subcomponents in the group have the same characteristics, each product is unique and was developed to fulfil a certain purpose and is therefore used to satisfy needs differently.

Credit usage analysis was also provided to indicate how Alderfer's three levels of needs are fulfilled by using different credit products (see section 6.4 and figure 7.5).

FIGURE 7.5

CREDIT PRODUCTS USED TO SATISFY ALDERFER'S LEVELS OF NEEDS

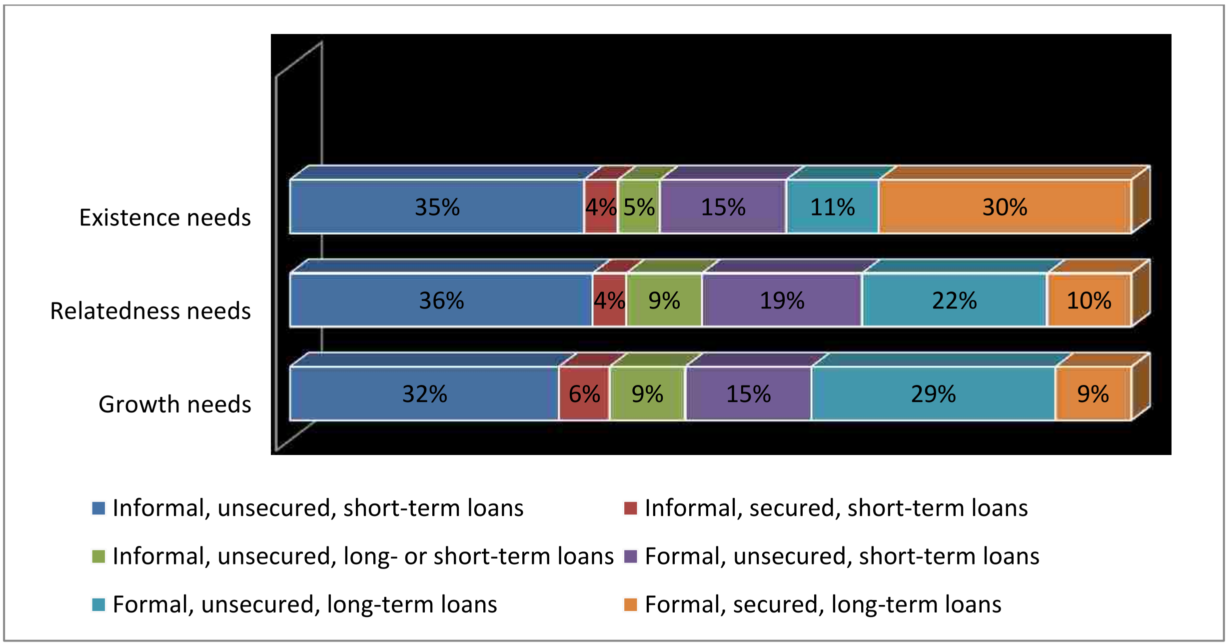


Figure 7.5 indicates that respondents mainly use unsecured credit to satisfy needs. To understand how each need is satisfied using the different products, the subcomponents of needs were analysed.

When analysing existence needs, the findings indicated that housing and transport needs were fulfilled by using formal, secured, long-term loans, which is consistent with the product's intended use. The results show that informal, unsecured loans were mostly used to satisfy basic needs which might suggest that most individuals do not have access to formal products to satisfy their needs. The findings also indicated that the credit products used for the fulfilment of relatedness and growth needs mainly depend on the type of need fulfilled.

The third research objective was achieved by performing an analysis of the actual needs satisfied when using credit products. This was done by following two approaches. Firstly, the different financial needs that are fulfilled when using liabilities were identified and then analysed according to Alderfer's ERG theory and the factors that influence the use of liabilities (chapter 5). Secondly, credit product usage was analysed to provide insight into which financial needs are satisfied when using the different credit products (chapter 6).

7.2.5 Conclusion

To assist in answering the research question in this study, namely, "Do South Africans use liabilities to address the financial needs they were intended for?", three research objectives were formulated (see section 1.1.2). In this section, each of the three research objectives were discussed to answer the research question, and a number of highlights of the findings were provided.

7.3 FUTURE RESEARCH

This study was conducted using data from 2010 because this was the latest data available for academic purposes at the time. In 2010, there was an economic crisis in South Africa, the National Credit Act 34 of 2005 had recently been implemented enforcing strict lending practices, interest rates were high and electricity prices were materially increased. It can be expected that liability usage patterns have changed over the past few years if data from a subsequent period could be analysed and compared to the findings in this study, especially in a lower interest rates environment. Some valuable research outputs could also be found if a longitudinal study could be performed to ascertain the reasons for credit usage across different age groups and life stages.

Another possibility for research would be to investigate the effect of macro-economic changes on the use of different credit products. Unemployment rates, inflation or saving rates in relation to liability usage are some of the factors that could be investigated. It would also be interesting to see whether the newly imposed e-toll system has had any effect on liability usage of individuals living in Gauteng.

Research could also be conducted to see whether there has been a shift in credit product usage from informal to formal credit products because more South Africans are supposed to have improved access to formal financial institutions.

Finally, changes in the National Credit Regulations on affordability test criteria and the case law applying penalties to reckless credit providers and the influence this has on liability usage could also be investigated.

7.4 CONCLUSION

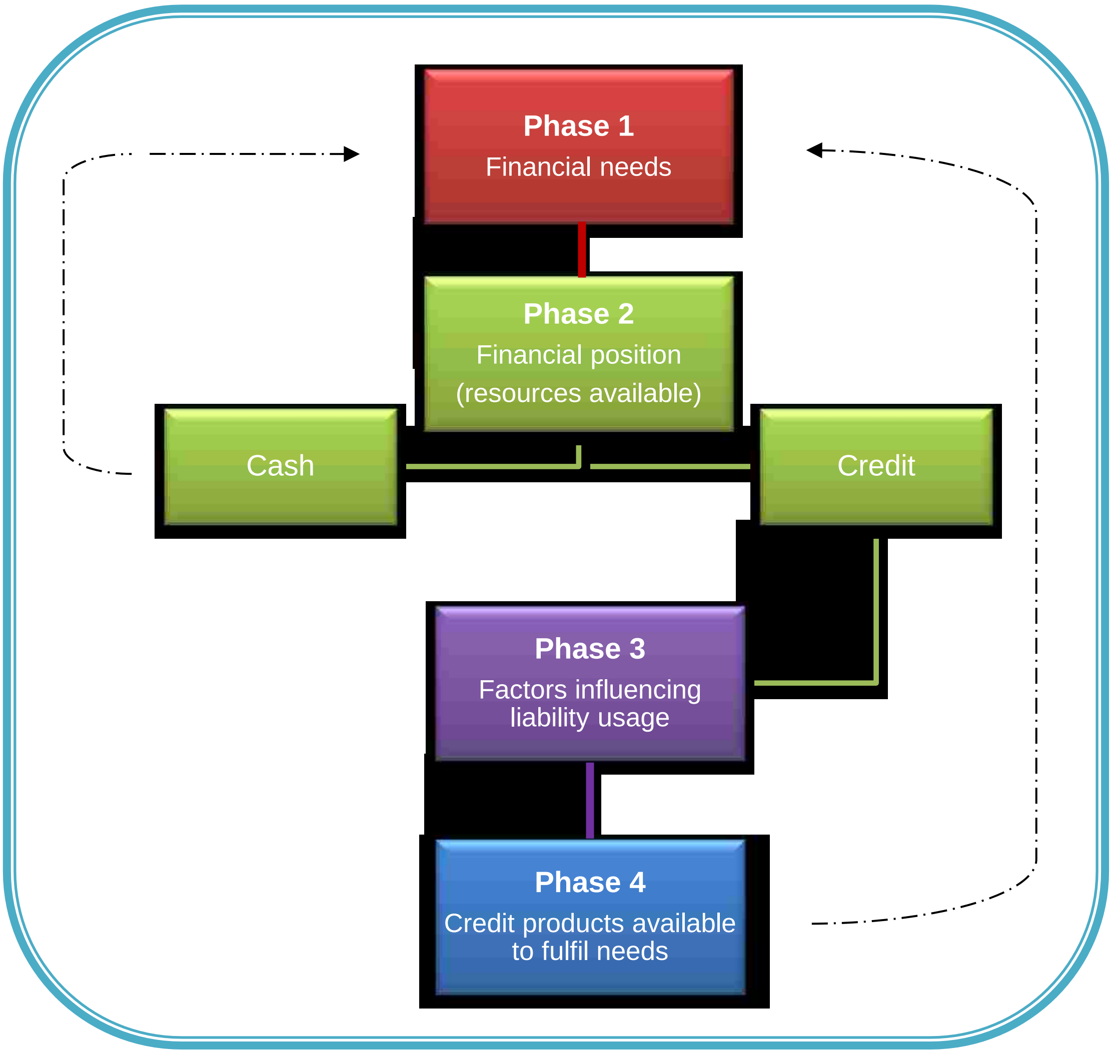
This study investigated the behaviour pertaining to the liability usages of South African individuals. To gain an understanding of liability usages of South Africans, the following research question was formulated:

"Do South Africans use liabilities to address the financial needs they were intended for?"

In order to answer the research question, three research objectives were formulated (see section 7.2) and addressed by conducting a literature review and analysing empirical data according to a theoretical model developed in the literature. The developed theoretical model is presented in figure 7.6 as the four phases in the process of selecting credit products when satisfying financial needs.

FIGURE 7.6

PROCESS OF SELECTING CREDIT PRODUCTS TO SATISFY FINANCIAL NEEDS



Source: Compiled by the author

Before the individual takes up credit to satisfy financial needs, he should firstly identify his financial needs (phase 1), after which he should refer to his financial position in order to decide whether his financial needs will be fulfilled using cash or credit (phase 2). If the individual does not have sufficient cash available to satisfy his financial needs, he should have the option to use credit. However, the use of credit products can be influenced by many factors, including access to credit and certain demographic characteristics which should be taken into account (phase 3) before the final decision is made of which credit products to obtain (phase 4).

The data obtained in the Finscope 2010 survey were analysed according to the theoretical model provided in figure 7.6, firstly, by identifying and analysing the financial needs that are satisfied when using credit products, and secondly, by identifying and analysing the credit products used when fulfilling financial needs.

The findings presented in this study suggest that individuals do not use liabilities to address appropriate financial needs. While the findings indicate that a large portion of credit, when using most credit product groups, is used to satisfy appropriate needs, some of the credit, according to the credit product's characteristics, is used to satisfy needs for which it was not intended. It is quite worrying to see that most credit products are used to satisfy existence needs, consisting of basic needs, which indicates that individuals do not have the necessary financial means to satisfy their basic needs. This is possibly attributable to the high unemployment or poverty rates in South Africa. This could easily lead to over-indebtedness and bankruptcy.

The data used in this study further indicated that factors such as access to credit and certain demographic characteristics such as life stages, income, marital status, family size, employment status and educational status do seem to influence the liability usage behaviour of individuals.

South Africans also indicated that they mainly use informal, unsecured loans, which might suggest that they are unable to access formal credit products. This might be due to difficulty in physically accessing formal financial facilities because of transport challenges, electricity challenges limiting them from accessing electronic banking facilities or even because they are uninformed about the use of formal credit products because of a lack of education on formal banking solutions. Individuals might also not qualify to take up formal credit because they do not qualify in terms of the affordability assessments which should be performed by formal financial institutions as imposed on them by the National Credit Regulator. If individuals do not possess the necessary financial means to satisfy their needs and then also do not have access to credit enabling them to satisfy their needs, it is possible that they might become more dependent on their families or government grants to satisfy their needs or it might even lead to higher crime rates in South Africa.

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