A consumer credit education framework to manage credit risk in the unsecured lending market of a South African commercial bank

Motlatsi Thomas September

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Today there are three kinds of people: the haves, the have-nots,
and the have-not-paid-what-they-haves.
Earl Wilson

DECLARATION

By submitting this dissertation electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the sole author thereof (save to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

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ABSTRACT

This study demonstrates the importance of ensuring that financial education becomes part of the solution in dealing with the scourge of over-indebtedness (credit risk) in the unsecured lending market of South Africa. This is because financial education, when used effectively, can play a pivotal role in ensuring that lending in the unsecured market is sustainable.

In South Africa, financial education is being advocated as part of developing the overall nation's skills. However, lack of financial literacy and distorted financial information has largely disadvantaged consumers, where most consumers were found to lack adequate skills to understand, negotiate and manage financial agreements. Although many financial literacy methods and models have been put in place, there seems to be a greater focus on financial literacy awareness instead of a formal financial literacy program that can be taught in schools, universities, community groups, community organizations and by employers. The argument that financial literacy can be one of the most crucial solutions to curb the credit risk of over-indebtedness was studied with the following objectives underpinning the study: discerning over-indebtedness; analysing the unsecured lending sector in South Africa; providing an outline of the role of legislation in the unsecured lending sector in South Africa; providing a synopsis of a consumer education frameworks for the unsecured lending sector; ascertaining areas where South African consumers need to be educated in order for credit providers to lend more sustainably in the unsecured lending industry; analysing the perception of industry participants on the impact of consumer education on over-indebtedness; ascertaining the perceived impact of consumer credit education in reducing over-indebtedness; and designing a financial education framework in the unsecured lending market.

Consumer education methods and some of the many financial education initiatives that have been adopted throughout the world are also highlighted. Behavioural finance, which forms important theoretical contribution of this study, goes into a detailed analysis of consumer credit behaviour, political and economic perspectives and economic anthropology, highlighting the importance of designing financial education programs after considering how people think and perceive finance. Whichever method is used, it is imperative to deliver financial education in a language that the customer understands, helping consumers proceed based on their level of knowledge and understanding, drawing from behavioural change theories. The use of AI to provide financial education online and voice and the study recommended personal cash flow manager will make a significant contribution in making sure that customers are aware of their financial situations and improving healthy financial choices. The study adds value by adding to the body of knowledge on

this topic in South Africa. Its recommendations can also be useful for financial institutions, policymakers, and consumers who rely on the unsecured lending market.

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LIST OF ACRONYMS AND ABBREVIATIONS

ABSIL	African Bank
BASA	Banking Association of South Africa
CBA	Credit Bureau Association
CGAP	Consultative Group to Assist the Poor
CPA	Consumer Protection Act
DFID	The Department of International Development (United Kingdom)
EAPs	Employment assistance programs
EMF	Efficient market framework
EMH	Efficient market hypothesis
FAIS	Financial Advisory and Intermediary Services
FinTech	Financial Technology
FSCA	Financial Sector Council Authority
FSOC	Financial Stability Oversight Committee
GAF	Get Ahead Foundation
GMBH	Gesellschaft Mit Beschränkter Haftung
INFE	International Network of Financial Literacy
LSM	Living standard measure
MFRC	Micro Finance Regulatory Council
MFSA	Micro Finance South Africa
NASASA	National Association of Stokvels of South Africa
NCA	National Credit Act
NCR	National Credit Regulator
NCT	National Credit Tribunal
NPLs	Non-performing loans
OECD	Organisation for Economic Cooperation and Development
ROSCA	Rotating Savings and Credit Associations
SARB	South African Reserve Bank
SEF	Small Enterprise Foundation
SMMEs	Small- and medium-sized enterprises
VBS	Venda Mutual Bank

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

During the past 30 years unsecured lending under the banner of the concept ‘microfinance’ has emerged as one of the highest profile strategies to eradicate poverty and underdevelopment in Southern African countries (Guérin, 2012). The international development community was overwhelmed with excitement, as they thought they finally located the perfect solution to poverty, unemployment, inequality and the low economic growth in developing countries (Bateman, 2015). Unsecured lending was described as an ‘effective strategy’ to enhance economic growth in developing countries (Ademola & Arogundade, 2014). It was perceived as an instrument to improve the poor’s access to financial services (Janse van Vuuren, 2011).

In recent years, however, unsecured lending has faced growing criticism and its days of glory seem to be over; its impact is becoming increasingly controversial and evidence suggests that it may do more harm than good (Bateman, 2015). Unsecured lending has been blamed by many as a major cause of consumer over-indebtedness in South Africa (IMF, 2013). The impact on poverty alleviation seems to be an illusion and the social microfinance sector faces growing criticism for exploiting and, in the worst case, over-indebting the already poor (Bateman, 2015). What further exacerbates this conundrum is that unsecured lending is being used by consumers to pay for essential expenses such as food, utility and medical bills. Income is not increasing in tandem with consumers’ household requirements, which poses a significant threat to consumers’ ability to repay their debt and to their general welfare (Cairns, 2014).

This significant threat to consumers’ ability to repay their debt was highlighted in the year 2014, which will be remembered for the collapse of the African Bank (ABIL) – one of the major events that marred the financial services sector. This event put the risks associated with unsecured lending in South Africa in the spotlight; raised several questions about the financial health of the South African consumer and the prudent management of risks in the unsecured lending market by some financial institutions (Hassan, 2014); and whether the fundamentals of the unsecured credit market have been misread (Cairns, 2014). For many years, when the growth in the unsecured lending market was extraordinary, there were various questions about the rationale or business model of the fast-growing, highly profitable unsecured lending market. These concerns were primarily driven by three key issues (Hassan, 2014):

- Consumer indebtedness as a result of excessive credit growth;

- Seemingly loose credit-granting criteria (driven by loan consolidations that lead to large loan sizes and a long term duration); and
- Seemingly deteriorating balance sheets of banks owing to impairments.

Many commercial banks including Absa, Standard Bank, Nedbank, FNB as well as Capitec have suffered significant losses in the unsecured lending market but none of them collapsed like ABIL did (Sguazzin, 2019). Another bank that also made headlines when it collapsed in 2018 was the Venda Mutual Bank (VBS), where collapse was mainly due to corporate governance issues not solely related to unsecured lending. The investigation into VBS by Motau and Werkmans attorneys revealed that the business was conducted on a fraudulent manner and that the business was involved in reckless business practices (Nkemele, 2019)

Many of the problems plaguing the credit market were exacerbated by the 2008/2009 global financial crisis that plunged millions of consumers across the world into unemployment, plundering savings, causing over-indebtedness (De Clercq, Van Tonder & Van Aardt, 2015). The global financial crisis was a reminder of the disastrous impact that severe market disruptions and calamities can cause. In recent decades, severe market disruptions that caused calamities included the 1987 market crash (also known as 'Black Monday'); the 1998 reckless lending and currency manipulation, resulting in the Asian crisis; and the dotcom crash that led to a mini-recession in the early 2000s (Botha, 2010). The 2008/2009 global financial crisis put consumer debt in the spotlight, especially unsecured lending (Rose & Hudgins, 2013).

Consumer debt has become one of the fastest growing forms of credit worldwide, reaching nearly $14 trillion in the United States (US) as the 21st century unfolded (Rose & Hudgins, 2013) and R1.9 trillion in South Africa during the same period (NCR, 2020). Unsecured lending, in particular, forms part of consumer debt, which reached R216 billion in South Africa in 2020 (see Table 1.1).

Table 1.1: Gross debtor's book: Unsecured credit

Agreements	2016-Q4	2017-Q4	2018-Q4	2019-Q4	2020-Q4	% Change (2020/2017)	% Change (Y/Y)
Gross debtors book (R000)	164,640,467	169,795,735	194,823,887	220,311,786	216,411,669	01.31%	31.44%
Number of accounts	5,728,153	5,134,866	5,216,735	5,281,905	4,917,501	0.86%	-14.15%

Source: (NCR, 2020)

The credit risk in unsecured lending was the major cause of ABIL's demise. The uncertainty this created in the unsecured lending market made it necessary that the major causes of problems in this market be researched and understood. Promoters of unsecured lending, regulators, and donors have responded mainly by introducing credit bureaus and consumer protection measures. Consumer protection measures include disclosure requirements, prohibiting certain practices by lenders, and mechanisms for complaints handling, enforced by consumer legislation (Kelly-Louw, 2008). Banking regulation was heralded during the 2008/2009 global financial crisis when South Africa's banking sector remained resilient, despite several banks throughout the world that either collapsed or were bailed out by their governments (De Wet, Botha & Booyens, 2015). Consumer protection has also included financial education, which the Consultative Group to Assist the Poor (CGAP) has described as a 'critical strategy' (Guérin, 2012). Financial literacy can definitely be a worthwhile objective, but this depends on the context and method of its delivery. Behavioural finance, which forms the important theoretical contribution for this study, has examined financial literacy in some depth and highlights its scope and limitations. Lawyers and political economists have strongly criticised financial literacy on the premise that it involves excessively moving the responsibility of indebtedness to individuals at the expense of regulation and state intervention (Guérin, 2012).

Overall, this study outlines the importance of effectively managing credit risk in the unsecured lending market and suggests that one of the methods that can be used to manage this risk is financial education. This study offers an analysis of the current state of the unsecured lending market. Important economic issues facing the majority of people in South Africa, such as poverty, unemployment and inequality are highlighted as major concerns. These concerns can also be seen as opportunities given the fact that unsecured lending has no need for assets, security or collateral, when applied for, and can thus play a critical role in resolving these issues. The solutions offered in the study are comprehensive and include employee assistant programs (EAPs), adjusted school curricula, and the involvement of financial institutions and the National Credit Regulator (NCR). The issue of over-indebtedness is also emphasised as a key concern with South Africa's political and economic history and consumer behaviour outlined as the major contributors.

The remainder of the study is structured as follows: the first chapter outlines the problem statement, followed by the study's aim and objectives and the contextualisation of the study. Chapter 2 provides a detailed literature review on the unsecured lending sector in South Africa. Chapter 3 continues with the literature review, focusing on the impact of regulation on the unsecured lending market and Chapter 4 ends the literature review by presenting financial education methods and possible solutions to curb over-indebtedness. This discussion is followed by the research methods,

ethical considerations and the limitations of the study in Chapter 5. Chapter 6 presents the research results and findings, while Chapter 7 completes the study with conclusions and recommendations.

1.2 PROBLEM STATEMENT

The downfall of ABIL in 2014 raised serious concerns about the over-indebtedness of the South African consumer in the unsecured credit market. The NCR (2015a) indicates that the number of consumers who are unable to repay their loans and who are registered as over-indebted and having adverse listings at credit bureaus are a source of concern from a consumer credit health perspective. Consumer credit is considered as one of the most risky and costly financial products as the financial positions of individuals and families can change overnight because of illness, loss of employment or other family tragedies. Over-indebtedness is thus a considerable risk to the unsecured lending industry. It completely contradicts the sector's social mission. In the first place over-indebtedness can intensify the poverty of consumers, threaten their social positions and lead to psychological disorders and health problems. Secondly, it represents a threat to the institutional stability of the unsecured lending market, because of over-indebted consumers defaulting. Lastly, over-indebtedness can damage the image of the unsecured lending market and its spill over effects affecting otherwise healthy institutions and their customers.

The rapid expansion of unsecured lending and the resultant over-indebtedness poses a systemic risk not just to the unsecured lending sector, but also to the broader financial system. A culture of responsible lending needs to be proactively developed and fostered. This should be done through consumer education initiatives, legislation and product-specific support. Consumer education is important, because consumers who are financially illiterate typically have higher debts and incur higher financial costs; they are exposed further to exploitation by unscrupulous financial service providers; consumers are less likely to look for financial advice and, as a result, they are more likely to make mistakes in managing finances, and to report credit arrears. Owing to the extensive occurrence of financial illiteracy among consumers in South Africa, most of them are disadvantaged when it comes to effectively using credit to improve their overall well-being. It is therefore important that organisations planning to provide financial education to consumers need to persuade these customers first that they need financial education. Although the level of financial literacy of individuals usually varies according to income levels and education, highly educated consumers with high incomes can just be as ignorant on financial matters as lower income, less educated consumers. Financial education can therefore benefit all consumers, even those who are highly educated in other fields but lack financial education.

Inadequate financial education has caused many South African consumers to fail in their planning for a healthy financial future and to rather opt for taking on debt that they cannot afford, especially unsecured lending. This has caused rampant over-indebtedness among consumers, which in turn has caused the collapse of many unsecured lenders including one of the biggest in the country, namely ABIL in 2014. This has threatened the viability of the unsecured lending market. For many poor people unsecured lending is one of the few gateways and sometimes the only gateway to accessing loans. The importance of having an established and efficient unsecured lending sector can therefore not be underestimated. The unsecured lending sector can contribute towards ensuring that all segments of society, especially the low income segment, are serviced, which can contribute to economic growth, reduced unemployment and lower poverty levels. The need for financial education in the unsecured lending market is thus crucial and should be urgently addressed. This study considers a framework that can address this urgent need.

1.3 CONTEXTUALISATION OF THE STUDY

The South African financial sector is known to be been complicated. This is so because it consists of two distinct sectors. Firstly a formal financial sector, well-developed, is at play that primarily services the middle- and high- income groups. They are known as the historically privileged consumers and large enterprises that are serviced by commercial banks and other financial institutions. Secondly, a large informal financial sector exists, which services low-income and mainly historically disadvantaged consumers as well as small- and medium-sized enterprises, which are mainly serviced by micro lenders, loan sharks, and pawnbrokers (Mashigo, 2012). Dallimore (2013) also agrees with this characterisation, indicating that the South African financial services industry exists in two worlds: the first offers well-regulated and highly sophisticated products and services to the minority of the population, while the second consists of informal, sub-standard and limited options of financial intermediation to the majority of the population (Wentzel, 2016. Former President Thabo Mbeki best summed up this characterisation in his 1998 '*Two nations' speech'* when he described South Africa as a country consisting of two nations: one that is extremely prosperous according to global standards, and the other 'nation' that finds herself in deep poverty (Hassan, 2014). Accordingly, South Africa has one of the most unequal societies in the world. South Africa's Gini coefficient in 2015 demonstrated this inequality with the high score of 0.65 (Stats SA, 2019).

The South African financial sector is highly regarded globally, has a globally competitive infrastructure and has been rated as financially sound by the World Economic Forum's Global Competiveness Index (Schwab & Zahidi, 2020). South Africa is characterised by a persistent dichotomy in social, economic and financial domains. The poor still do not have comprehensive

access to financial services (Schwab & Zahidi, 2020). The aftermath of apartheid has left salient features on the financial services industry in South Africa that are impossible to ignore. The National Party, which was in government from 1948 to 1994, ensured that the white population had priority access to economic opportunities, infrastructure and services but the governing party denied these to the majority of the population. The legacy left by apartheid has thus left the most salient features of poverty and unemployment, inequality, a high rate of labour migration, gender bias in both the economy and in social spheres, high crime levels and the endemic HIV/AIDS (Dallimore, 2013).

A critical change in the financial landscape since 1994 has been the increasingly important role played by foreign capital, companies, and banks that were previously not allowed in South Africa. This, together with new sets of regulatory and structural changes introduced to re-align domestic practices with international standards, has led to important changes in the financial landscape. The transformation of the financial services industry to align with the new regulations also took effect. The transformation was based on the Financial Services Charter (FSC) of 2004, which refers to financial services in three tiers. The first tier entails the traditional commercial banks that are governed by the Banks Act and require a minimum of R250 million to start-up. Second-tier banks have more relaxed requirements and are allowed to accept deposits and disburse loans, but are limited in participating in certain high-end transactions such as foreign exchange or capital market trading. A few examples of these in South Africa are the Post Bank, Ithala Bank and Teba Bank. The third tier refers to member-based institutions, such as burial societies, village banks, credit/saving unions, credit cooperatives and other developmental non-governmental organisations (NGOs) (Dallimore, 2013).

Factors that have influenced growth in the unsecured lending market include the relative ease and speed at which these loans can be obtained, aggressive marketing by banks and lax credit assessment methods (Anderssen, 2013). This phenomenon has been perpetuated by the political promotion of easy access to consumer credit (Schraten, 2012). This growth was accompanied by over-indebtedness in the target market as most of the unsecured lending was for consumption reasons, not for increasing assets. One of the biggest problems in South Africa is the use of unsecured lending to supplement consumption spending, because consumption spending takes resources away from the critical and much-needed investment spending (Hoosain, 2012). Where unsecured loans are used to supplement income, this normally causes a debt spiral and consumers struggle to keep up with payments and fall behind, resulting in over-indebtedness (BER, 2014a).

Unsecured loans can play a pivotal role when used to alleviate temporary financial challenges that a consumer may face (Dilotsotlhe, 2013). As mentioned earlier, the risk in unsecured lending has been increased by the phenomenon of consumer over-indebtedness, which is a cause for concern in South Africa (BER, 2014a). On a macroeconomic level, the evidence points to a high level of consumer financial vulnerability, characterised by high debt-to-income ratios, consumption expenditure exceeding disposable income and a decline in net worth, indicating poor financial planning by South African households (De Clercq et al., 2015). Millions of South Africans have inadequate knowledge of money matters (Reenen, 2013). This has resulted in a tidal wave of consumers asking for relief from their debt obligations (Armstrong, 2014).

During the 1990s, people aspiring to progress to the middle class and those already in the middle class became heavily indebted (Alexander Forbes, 2015). Loans became an integral part of the middle class as these loans provided them with the means to pay for other things beyond home loans (Shefrin & Statman, 2011). This had to do with the swift political transition that South Africa experienced in 1994 and the desire for economic well-being and a better life. It would be hard to imagine how the aspiration of a better life in the post-apartheid era could have been achieved without the use of credit. Access to education would also have been difficult without credit, even to those who did not like the idea of credit, universities and schools became their *de facto* creditors (Alexander Forbes, 2015). A further reason for consumer over-indebtedness in South Africa is that there is an upward mobility from consumers, which is much aspired but seldom earned. Households usually spend money that they have not yet earned. Borrowing from both formal and informal institutions, legal or illegal, has had a debilitating impact on the consumer in that most consumers have over-indebted themselves, trying to keep up with the upward mobility of their neighbours, family or friends (James, 2014). This has resulted in a phenomenon in South Africa where some members of the new middle class are in the grip of status anxiety and competition, spending money on expensive items (Alexander Forbes, 2015). The lack of saving in South Africa is in contrast to other developing countries such as China and India (Cronje, 2011). Evidence shows that South Africa's savings have shown a downward trend over the past two decades (from the year 2000 to the year 2020) despite the fact that savings have a significant impact on economic growth. For example, for the economy to grow by four per cent, savings should at least be 23 per cent of the growth domestic product (GDP). However, household savings have not exceeded two per cent over the past decade (since 2010). This factor is a source of concern as it is one of the underlying reasons for the widespread unemployment and the sluggish economic growth (SARB, 2021).

Behavioural finance, which forms a significant theoretical part of this study, refers to a heuristic called ‘herding’. Herding happens when individuals seek strength in numbers in following financial trends created by others instead of making their own judgements (McMahon, 2005). Herding in financial markets means a mutual imitation that leads to a convergence of action. It is the most common mistake during which individuals follow the investment decisions taken by the majority (Subash, 2012). This heuristic happens for a number of reasons, the first one being that individuals like to think they are prudent, meaning that when a decision made has a negative outcome, individuals normally care less about the loss when they think that any sensible individual would have made the same decision. The second reason is that individuals place too much emphasis on recent data when making decisions and not enough on prior probabilities or base rates. Therefore, in the context of herding, trends play a key role when consumers make decisions. The third reason is that the difficulty and cost of gathering and processing information means that observing the choices of others is often free and a satisfactory alternative (Kartini & Nahda, 2021).

The biggest challenge in herding is that the consensus view is not necessarily correct, because all in the group may be subject to the same judgement errors (Kartini & Nahda, 2021). It is possible that the growth in the unsecured lending market in South Africa is because of consumer herding behaviour, on both the lending side (credit providers) and the consumers’ side. Credit providers including the so-called ‘big four banks’ increased their participation in the unsecured lending market to compete with ABIL and Capitec Bank, both of which appeared to be doing well at the time (NCR, 2012), while consumers tried to keep up with their neighbours, family and friends (the ‘herd’) and over-indebting themselves (James, 2014). This ‘herding’ phenomenon will be explored further in the current study using the behavioural finance theory.

A further factor that exacerbates unsecured lending is the role of the so-called shadow banking sector. Klaus (2016) of the United Kingdom Financial Services Board defines shadow banking as credit intermediation that involves entities and activities outside the normal banking system. These include but are not limited to money market mutual funds, asset-backed securities, asset-backed commercial paper conduits, non-agency mortgage-backed securities, repurchase agreements (‘repos’), collateralised debt obligations, securities lending, and agency mortgage-backed securities (Reenen, 2013). The more than 4 500 registered financial entities in South Africa profoundly influence the size and shape of the shadow banking sector. The high levels of household debt in South Africa have brought shadow banking into sharper focus, especially the exponential growth of unsecured lending in recent years. Shadow banking has not been really quantified in South Africa, but it is estimated to follow global trends (Reenen, 2013).

1.4 RESEARCH OBJECTIVES

1.4.1 Primary research objective

The primary objective of the study was to develop a consumer education framework as a means to prevent the credit risk of over-indebtedness by financial institutions in the unsecured lending market in central South Africa, focusing on a commercial bank.

1.4.2 Secondary research objectives

The secondary objectives of the study were to:

- Discern the concept/term ‘over-indebtedness’;
- Analyse the unsecured lending sector in South Africa;
- Review the role of legislation in the unsecured lending sector in South Africa;
- Provide a synopsis of consumer education frameworks for the unsecured lending sector;
- Ascertain areas where South African consumers need to be educated in order for credit providers to lend more sustainably in the unsecured lending sector;
- Analyse the perception of market participants on the impact of consumer education on over-indebtedness;
- Ascertain the impact of behavioural finance on consumer credit education;
- Ascertain the perceived impact of consumer credit education in reducing over-indebtedness; and
- Design a financial education framework in the unsecured lending market for central South Africa.

1.4.3 Brief overview of the research methodology

1.4.3.1 Research design

The study followed an interpretivist philosophy and a deductive approach as it wanted to decipher the perceptions, experiences and expectations of employees of a commercial bank in the Free State, Northern and North West provinces of South Africa (referred to as ‘central South Africa’) about preventing the credit risk of over-indebtedness by financial institutions in the unsecured lending market (Saunders, Lewis & Thornbull, 2009). Furthermore, an explanatory case study method was employed – a method that seeks to obtain a detailed understanding of a specific phenomenon. Descriptive quantitative research methods were used to achieve this (Kumar, 2014). Descriptive research focuses on the study of a problem or situation in order to reveal the important features about its nature. The current study revealed the phenomenon of over-indebtedness in the unsecured lending market and that financial education can be one of the effective tools to manage

the risk (Jansen van Vuuren, 2011). Quantitative research has many definitions in the literature, but for the purpose of this study, Bryman et al.'s (2014) definition of quantitative methods was used, which comprises the following:

- Placing more emphasis on quantification in data analysis and collection;
- Employing a deductive approach to the relationship between research and theory, emphasising the testing of theories;
- Incorporating the norms and practices of the natural sciences especially positivism; and
- Making provision for the social reality view as an external, objective reality.

1.4.3.2 Sample design

A case can be a single organisation, a single location, or a single event. In this study the unsecured lending department of a single organisation (a commercial bank in South Africa) was used to conduct a detailed and in-depth analysis of the perceptions of consumer education on over-indebtedness and to quantify the perceived impact of educating consumers in the unsecured lending market in central South Africa (Dilotsotlhe, 2013). The population of the study was employees of a commercial bank working in the unsecured lending market in central South Africa. The sampling frame used was the list of bank employees as per the bank's human resources database. The central South African area was selected because it forms part of the area where the researcher worked at the time of the study. The research was thus manageable from a cost and data collection point of view. The total population was 588 bank employees and 100 per cent was sampled, due to the manageable number of the sample (Leedy & Ormrod, 2010).

1.4.3.3 Data collection

The data were collected using self-administered questionnaires. Self-administered questionnaires are described as structured questionnaires that are sent to a target population when personal interviews are not required (Tustin, Ligthelm, Martins & Van Wyk, 2005). The questionnaire included both closed and open-ended questions, which assisted the researcher in obtaining concise answers and detailed explanations where required.

1.4.3.4 Data analysis

A multivariate data analysis method was used. This method analyses the structure of simultaneous relationships between three or more variables (Bryman et al., 2014). This technique represents the basic analysis of survey data (Leedy & Ormrod, 2010). The types of variable that were used were dichotomous variables (i.e. only two categories of 'yes' or 'no'), ordinal variables (i.e. categories that can be rank-ordered), and interval variables (i.e. identical distances between variables). Missing data were coded as zero. Outliers were also considered during the data analysis process

to ensure they do not result in a negative bias on the data analysis and that outliers brings out the the behaviours being studied in the data analysis (Bryman et al., 2014). Inferential analysis was used to estimate the population parameters. This implies utilising a particular sample statistic to estimate the corresponding population parameters (Tustin et al., 2005).

1.5 ETHICAL CONSIDERATIONS

The research adhered to a set of ethical guidelines, acceptable behaviour and data privacy regulations. The guidelines prescribed by Bryman and Bell (2007) were followed in the study, which include voluntary participation and ensuring that respondents were not harmed in any way by doing so. This entailed ensuring that information received from them was treated confidentially and that their individual anonymity was protected. The service provider (the commercial bank) was thoroughly briefed regarding the study to ensure they made an informed decision on whether to participate in the study. The study ensured that none of the respondents' privacy was invaded by treating each respondent sensitively and ensuring that they understood their rights to withdraw from providing information they deemed invading their privacy. The name of the commercial bank was not used in this study and where it appeared it was amended to "the commercial bank or bank" to preserve its anonymity. The research was conducted in good faith, no deception of the service provider or the respondents was allowed. The Data Protection Act of South Africa of 2013, published in the Government Gazette (2013) was followed in ensuring personal data were handled according to the law. The research was conducted on the principle of reciprocity and trust, ensuring that the commercial bank can benefit from including the findings in its processes and systems. Finally, there were no funders of the research; the researcher was a bank employee during the study period and was not associated with any other funder where conflict of interest may arise.

1.6 CONCLUSION

The demise of ABIL highlighted the underlying problem of over-indebtedness being experienced by South African consumers. There has been a systemic risk in the unsecured lending market, but it was not seen as a real concern before ABIL's demise, thanks to the strict regulations in the banking sector in South Africa. Banking regulations, especially a proactive approach to bank credit risk, as well the introduction of the NCA in 2006 that aimed to protect consumers from reckless lending to mention a few measures were heralded during the 2008/2009 global financial crisis when South Africa's banking sector remained resilient while several banks throughout the world collapsed or were bailed out by their governments. This perceived strength of the South African financial sector through robust capital adequacy and conservative leverage ratio's requirements through banking regulation resulted in further growth in recent decades in unsecured lending even though the South African consumer remained vulnerable due to muted economic growth,

unemployment and low levels of literacy. The growth in unsecured lending resulted in over-indebtedness, which partly contributed to the ABIL collapsing when borrowers could not afford to repay their loans. Many financial institutions institutions in South Africa suffered significant losses in the unsecured lending market but none of them collapsed like ABIL did. The collapse of VBS bank in 2018 was investigated and found to be due to mismanagement and fraud.

The majority of South Africans remain poor and therefore have no assets to offer as collateral when applying for loans. Owing to many banks asking for collateral when granting loans, unsecured loans are used to close the gap where consumers have no collateral. The poor in South Africa also have a further obstacle in that many of them are financially illiterate and have no knowledge of the workings of a financial system. Financial illiteracy has been cited as one of the reasons consumers become over-indebted and, if not attended to, can result in over-indebteness for consumers. This will have a devastating impact on unsecured lending consumers, as they will struggle to obtain this form of credit legitimately and under the protection of regulation. The study is therefore critical in underscoring the importance of consumer credit education in curbing the risk of over-indebtedness in the unsecured lending market.

In this chapter, the financial state of the South African consumer was discussed in the literature review, together with the impact of regulations and practical methods or models to educate consumers. The behavioural finance theory, especially the impact of heuristics and biases were used to underpin the theoretical arguments of the study. This study went into the very heart of the unsecured lending market by collecting data from banking employees who market, interact with clients, and administer unsecured lending on a daily basis. The aim was to gain a deeper understanding of the challenges, positive factors and recommendations to improve credit risk management. The study contributes to the body of knowledge on this topic in South Africa and will also be useful for financial institutions, policymakers and consumers who rely on the unsecured lending market. It is envisaged that the framework developed in this study will assist in ensuring that lending in this market remains sustainable.

CHAPTER 2:
CONSUMER OVER-INDEBTEDNESS IN SOUTH AFRICA

2.1 INTRODUCTION

It is well documented that the unsecured lending model was mostly linked with Dr. Muhammad Yunus, for his work in the 1970s in the village of Jobra in Bangladesh. Dr Yunus is the United States educated Bangladeshi economist and the 2006 Nobel Peace Prize winner. In 1983, Dr Yunus was eventually able to use international funding and established his own Bank for the Poor, known as the Grameen Bank (meaning 'Rural Bank'), and he claimed that the bank would make an immense contribution to poverty lessening in Bangladesh (Bateman, 2014). The concept became a remarkable success, gaining momentum throughout the world with Latin America and South East Asia taking the lead (Magorombe & Maswe, 2019). This success and momentum occurred only after many failed attempts to prove sustainability in lending money to the poor, and gave the development sector a successful model from one of the world's poorest countries (Dallimore, 2013). The mission of many unsecured lenders (also referred to as 'micro-lenders'), which is true for Grameen Bank, is to be both financially sustainable and to service the poor, with their main products being lending, investing and insurance. Micro-lending is a combination of two concepts, namely 'micro[1]' (meaning small in capability or scale) and 'lend' (meaning to temporarily give or allow having for a limited time period) (Janse van Vuuren, 2011).

With the dawn of unsecured lending developments, which includes Grameen Bank, unsecured lending received a new identity, a new meaning and a place in the academic literature. Unsecured lending was no longer just a concept but a worldwide movement, to the extent that it became tapped as one of the critical strategies to achieve the Millennium Development Goals (Ademola & Arogundade, 2014). What was also unique about Grameen Bank was the focus on women and setting interest rates at near market levels. Initial reports showed low default rates, wide outreach and financial sustainability, which helped the Grameen Bank and the idea of lending sustainably to the poor to spread throughout the world. Most Grameen clones received positive evaluations, even though there were some failures. Some of these failures, notably in Malawi, Sri Lanka and Malaysia, were argued to be attributed to a lack of management and organisational structure rather than lending policies (Dallimore, 2013).

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[1] In this study the concepts 'micro lending' and 'unsecured lending' are used interchangeably and are assumed as being synonymous.

In South Africa, just before apartheid was ended, a number of internationally funded unsecured lending programs were established, which included the Small Enterprise Foundation (SEF) and the Get Ahead Foundation (GAF). These international funders gave the incoming government strong encouragement to support the private unsecured lending programs (Bateman, 2015). The unsecured lending sector was also fuelled by the promulgation of the 1992 exemption to the Usury Act. This promulgation removed the interest rate ceilings on loans that amounted to less than R6 000. This was referred to as an almost 'overnight' creation of the unsecured lending sector when the then Minister of Trade and Industry signed the exemption of the Usury Act on 31 December 1992 (Dallimore, 2013). An additional exemption was issued in 1999, excluding loans up to R10 000 from interest rate ceilings. These exemptions were accompanied by the formation of the Micro Finance Regulatory Council (MFRC). Since 1990, the liberalisation of the finance sector had led to strong growth in the microfinance market, especially unsecured debt (Ward, 2008).

The ABIL debacle on the other hand illustrated the paradox of balancing financial inclusion while avoiding reckless lending. Financial institutions are normally criticised for not extending lending to the poor segments of society, but when they do, they are criticised by some quarters of reckless lending and over-indebting the poor. While financial inclusion is critical, a fine balance is needed between protecting consumers from exploitation and ensuring that credit is extended in a manner that increases the stability and the soundness of the financial system (Groepe, 2016). The ABIL collapse was said to be a result of unsecured lending consumers being bombarded with credit that they simply could not repay, high consumer debt-to-income ratios, and the poor being caught in a debt trap of unimaginable proportions. South Africa's unsecured lending industry and the majority of its customers and their families were plunged into a deeper crisis of over-indebtedness (Bateman, 2015).

This chapter highlights the scourge of over-indebtedness that has been plaguing the South African consumer and the argument that financial education can be one of the most important solutions to curb this phenomenon. First, an overview of the banking sector in South Africa is given followed by an in-depth analysis of over-indebtedness. The methods of financial education that can be used to ensure lending remains sustainable in the unsecured lending market are the examined and presented. The chapter concludes by analysing the impact of the credit assessment process and the costs associated with credit on over-indebtedness.

2.2 OVERVIEW OF THE SOUTH AFRICAN FINANCIAL SECTOR

There are various types of financial institution in South Africa. They can be divided into a few broad categories, namely the South African Reserve Bank, (SARB) insurers, banks, securities trading and fund managers (Carrim, Fubbs & Wicomb, 2017). The SARB is unique in that it is the sole issuer of money. The SARB ensures that rules are adhered to when transactions are settled through the national payment system that works not only in South Africa, but also links the country to other countries in the world (Groepe, 2016). The SARB implements monetary policy through banks to keep inflation under control by adjusting interest rates and controlling money supply in the economy. Banks facilitate transactions and payments, insurers provide protection to their customers at a fee against certain events such as death, theft and retirement. Fund managers offer management services to their customers by investing customers' money in the most attractive financial assets (after taking account of the risk), and securities trading institutions invest their own funds or act as agents for customers. In South Africa, one finds that some financial institutions offer some of these services, while others offer all four types of financial service (banking, insurance, trading, and fund management) (Rose & Hudgins, 2013).

Financial institutions are the custodians of the nation's savings; they play an important part in ensuring that people, companies and nations can transact among one another and ensure that major infrastructure projects can be financed, among other things (Carrim et al., 2017). Financing can be generally defined as the manner in which humans allocate scarce resources and how these resources are acquired, invested over time and are managed (Subash, 2012). Banks are a crucial part of a prosperous economy and make an important contribution to the economy and society at large by mobilising capital and facilitating payments and transactions (Carrim et al., 2017). Recently, there have been fewer unsecured lending entities in the sector compared to the 1990s, but the entities have become bigger. In practice, banks and other financial institutions accept deposits from all sectors of society and use these funds to finance (usually through loans) different activities with an expectation to earn income. This income is used to compensate deposit providers and cover costs of providing this important function (Carrim et al., 2017).

Credit is usually facilitated through a financial system (Fatoki, 2015). A financial system is defined as a framework of complex procedures and arrangements, which arises from innumerable, inevitable, and diverse acts of monetary payments occurring increasingly all over the economic system (André, 2016). Overall, a bank can be defined according to the following services and functions (Rose & Hudgins, 2013):

- *The economic role it performs* – transmitting from investors to borrowers (financial intermediation) and paying for goods and services;

- *The services offered to customers* – banks have expanded their offerings to be general financial service providers, starting historically from arranging savings plans, cheque and debit accounts, credit cards, to providing credit for consumers, governments and businesses. More recently, their services have been expanded further to insurance protection, investment banking, advice for company mergers and acquisitions, financial planning, risk management services as well as many other innovative products and services. Many other institutions such as retailers, furniture stores and cellular companies are also offering services similar to banks; or
- *The legal basis for its existence* – according to the law, a bank is defined as any institution that qualifies and is registered by the government agency that insures its deposits.

In general, South African banks collectively belong to a body called the Banking Association of South Africa (BASA). The role of BASA is to ensure a conducive environment for banks to conduct their business in South Africa through robust interactions with governments and relevant stakeholders (BASA, 2017).

Entities that are part of the unsecured lending sector are present in both the formal and informal sectors (Legadima, 2012). A regulatory body, called the National Credit Regulator (NCR), was created to regulate the National Credit Act (NCA) and to bring about the required transparency, accountability, discipline and fairness in what was getting out of control in the unsecured lending sector. The mandate of the NCR is thus to regulate consumer credit (Hoosain, 2012). According to the Government Gazette (2005), the NCA of 2005 stipulates that entities that provide loans and advances to the South African public must be registered with the NCR (Reenen, 2013). The entities registered with the NCR include credit bureaus, credit providers and debt counsellors (NCR, 2016b). The NCA of 2005 makes provision for the registration of credit bureaus and are described as a library of credit information, which provides a central database of the consumer credit information. Credit providers use consumer credit behaviour information held by credit bureaus along with their own credit granting policies to determine whether a client can be allowed credit, and to what extent. Credit bureaus thus play a critical role in centralising consumer credit information. This information must be accurate to enable credit providers to make informed, responsible and appropriate credit-granting decisions (Dilotsotlhe, 2013). Improved information-sharing and judicial enforcement among credit providers through the credit bureaus reduce credit risk associated with larger credit markets (Phang, 2017).

Dominant in the unsecured lending industry are African Bank and Capitec Bank. Other role players in this industry include clothing, cellular, and furniture retailers (NCR, 2015a). The so-called ‘big

four' in the South African credit market, namely Standard Bank, First National Bank, Absa, and Nedbank, have aggressively increased their unsecured lending products to challenge the established unsecured lenders such as Capitec Bank, African Bank and furniture retailers (NCR, 2015d). Other South African commercial banks have also started to provide unsecured lending either directly to consumers through their branch networks, or by providing wholesale funding to the main unsecured lenders to lend directly to the community. Unsecured lending in South Africa is not only arranged through banks and other formal financial intermediaries but it is also organised through a number of organisations in the formal pro-poor sector. Prominent in the pro-poor sector are NGOs and state-sponsored programs, usually initiated and reinforced by the Department of Trade and Industry (Mokoaleli-Mokoteli, 2010).

2.3 DEFINING CONSUMER OVER-INDEBTEDNESS

The NCR (2005) provides this definition of over-indebtedness:

> A consumer is over-indebted if the majority of available information at the point when the determination is made indicates that the consumer is or will be unable to satisfy in a timely fashion all obligations under all credit agreement(s) to which a consumer is a party to, having regard to that consumers (Government Gazette, 2005):
>
> a) Financial means, obligations and prospects;
> b) Probable propensity to fulfil all obligations on all credit agreements in a timely fashion, to which an individual is a part of, as indicated by that individual's history of loan repayment.

There is no agreement in the literature on the description of over-indebtedness and how to quantify it (Fatoki, 2015). Haupt and Coetzee (2008) describe over-indebtedness as the consumer's failure to meet their financial commitments in a timeous manner. Schicks (2010) adds that, to be over-indebted, the consumer's credit problems should be at least fundamental and persistent over a particular time horizon, meaning that the consumer consistently battles to meet repayment commitments and continually has to make disproportionately great sacrifices to meet debt commitments. Although the term over-indebtedness is challenging to define, the following characteristics are typically associated with over-indebtedness (Fatoki, 2015):

- The inability of a consumer to meet their expenditure associated with the contracted financial commitment – the consumer is over-indebted if they are unable to afford their recurring expenses (Schicks, 2010);
- This inability, as indicated by Schicks (2010), should be structural, persistent and on-going financial problems and should exclude 'once off' events;

- The household's minimum norm of living reduces while the consumer is not able to meet contracted debt obligations;
- The consumer should be illiquid, meaning that they are unable to rectify the situation through any financial or non-financial means such as selling assets or obtaining more credit; and
- This liquidity includes all agreed or arranged financial obligations such as home loans, individual credit obligations, telephone municipal and municipal bills together with rent payments, where applicable.

It is therefore clear that a consumer is over-indebted when he or she is unable pay debt obligations in a timely manner (Fatoki, 2015). The determination of over-indebtedness is done on the multitude of all existing information at the time of the assessment, which include consumers' financial status, financial possibilities, financial commitments and possible disposition to meet all debt commitments under all credit arrangements in view of the individual's history of loan repayment (Lombard & Renke, 2009).

Consumer debt can be classified in the following categories (Hoosain, 2012):

- *Personal loans* – can be described as a precise amount borrowed at a fixed interest rate and at a fixed time period;
- *Credit cards and revolving credit* – can be described as a form of credit that puts in place a specific limit to the debtor, but does not stipulate the amount the debtor is liable for; and
- *Mortgage and other secured credit* – can be described as credit that has been collaterised by the assets of the borrower.

Credit is defined as a financial liability regardless of how it is incurred, it incorporates all forms of debt commitments including hire purchase agreements and leasing finance, among others (Hoosain, 2012). Consumer credit is described as the amount of household debts provided by financial institutions and those offered by credit card and other finance companies (Min, 2014). Debt, on the other hand, is based on whether it is secured or unsecured. Secured debt is characterised by a credit agreement whereby assets are held by an institution as part of the security for debt disbursed while unsecured debt is the type of debt that has no collateral. Consumer debt is described as an obligation or liability caused by taking money or goods and services on debt with the promise to pay in future. The credit contract usually entails the principal repayments along with the interest rate payable on the obligation or liability (Hoosain, 2012). Interest refers to the cost of borrowing money, which is typically calculated as a percentage of the money payable. The more and the longer money is borrowed the more interest is paid. Regardless

of how the debt is incurred, it is regarded as a financial liability (Hoosain, 2012). It is therefore critical that, before money is borrowed, consumers should have a sound knowledge and understanding of the cost and impact of borrowing (Walker & Walker, 2013).

2.4 CAUSES OF OVER-INDEBTEDNESS

The over-indebtedness levels have been stubbornly high in South Africa in recent years (SARB, 2021). There are numerous external and internal factors that can cause consumers to be over-indebted (Schicks, 2010). Causes of over-indebtedness should be viewed from both sides, namely the consumer of credit and the lender of credit. There is an invariable inequity between the credit provider and the borrower in a normal credit agreement. As a result of the imbalances, many South African consumers have agreed to unaffordable credit agreements that have led to them being over-indebted (Mutsonziwa & Fanta, 2019). Yet, the unsecured lending sector is rife with reckless and predatory lending prevailing along with high interest rates, excessive fee collection, and abusive behaviour from both debt collectors and credit providers, who often overcharge the already over-indebted and distressed consumer (Schicks, 2010). It is also well documented that since the dawn of democracy in 1994, historically underprivileged consumers who did not have access to credit swiftly had such access. This resulted in an increasing demand for loans, irresponsible lending, overspending and numerous individuals becoming over-indebted (Swartz, 2012). Over-indebtedness is an undesired result for both financial institutions and borrowers (Schicks, 2010). There seems to be an ineffective method by lenders to minimise defaults in order to ensure that liquidity is not constrained. Defaults are primarily driven by lenders' inability to educate borrowers and reckless lending in order to maximise their profits. The US financial crisis has shown that lenders caused borrowers' financial woes by adjusting credit scores so that loans that were otherwise unaffordable could be approved. This was done with little or no regard for financial illiteracy concerns (Moss, 2012). Over-indebtedness in the unsecured lending market therefore demonstrates predatory behaviour of certain credit providers, especially unsecured lenders and, at times, the complicity of public authorities. The non-payment attitude of consumers can often be ascribed to a deficiency of grasping of the workings of the financial system and credit contracts because of financial illiteracy (Fanta, Mutsonziwa, & Naidoo, 2016).

Normally, when unforeseen adverse external shocks happen to an already highly indebted consumer it has the potential to push them over the cliff to over-indebtedness. These adverse external industry shocks can be seen as unfavourable changes in the macroeconomic situation and can include adverse interest rate changes, income changes, asset price fluctuations, and joblessness shocks, among other factors (De Wet, Botha & Booyens, 2015). In the absence of liquidity and the irreversible nature of the assets of the poor and the most vulnerable, these adverse

shocks and their uncertainty can result in consumers becoming over-indebted (Mashigo & Schoeman, 2012). As part of the adverse shocks, funerals are highlighted to be driving many South Africans to over-indebtedness – not only the funeral costs, but also the costs of looking after those left behind should a breadwinner pass away (Dallimore, 2013). Other shocks include fire or loss of a home or property, injury, violent crimes, theft, and illness. These emergencies create additional funding needs for South African households due to their notorious lack of saving. Emergency loans introduced by unsecured lenders have proved to be popular and sometimes even serve as a lifesaver to the poor, but it has also caused them to be over-indebted (Janse van Vuuren, 2011).

From the perspective of the poor and using the behavioural finance theory, Guérin (2012) reveals the cognitive effects of perpetually living in a perilous situation. Daily financial struggles change people's relationships with the concept of time so that the short term takes up a disproportionate prominence. Poor consumers may lose the capacity to plan over the long term and thus device more short-sighted choices than their richer counterparts. There is empirical evidence that consumers with inadequate information tend to sometimes depend on rather weak alternatives for their decision-making. Studies by Soman and Cheema (2002) found that a consumer who is not experienced with credit and who depends the bank's opinion sees the debt limit as an indication for earnings in the future and prospective affordability. Empirical evidence by Fatoki (2015) further suggests that consumers make badly informed financial choices by, for example, not understanding the terms and conditions of credit agreements and not contrasting other credit providers' offerings. The empirical evidence by Monticone (2010) shows that richer consumers are more likely to acquire the relevant financial education, while poorer and not so educated individuals might find it too expensive or hard to do so. It is therefore imperative for lenders who grant credit to previously excluded low-income groups to ensure that these communities are empowered through sufficient financial education in order for them to understand the functioning of the financial system. This will not only amplify the positive effects of financial education in general, but will also help these individuals to become responsible borrowers (Moss, 2012).

Lusardi and Tufano (2009) indicate that those who are not sufficiently financially educated bear a disproportionately big brunt of preventable costs such as penalty charges for late payments, which increase their vulnerability to be over-indebted. Understanding different loan offers and making sensible borrowing judgements is quite a challenge to the focus market of unsecured lenders. This is so because the profiles of these consumers usually reflect low levels of education and limited experience with formal lending institutions. Two additional factors are important, namely self-discipline and the borrower's attitude towards credit. Some borrowers struggle to balance the inter-temporal use of credit and their locus of control. Unsecured lenders should identify these high risk

customers and be careful when lending to them, and may want to counter resultant risks by means of awareness promotions and training (Fatoki, 2015). It can be further argued that the willingness of the borrower to repay plays a role in determining over-indebtedness, because if a borrower defaults because of unwillingness to repay, it does not automatically indicate that they are over-indebted (Schicks, 2010). As mentioned earlier, high debt-to-income ratios of a country's population result in over-indebtedness and non-performing loans (NPLs). The determinants of a high-debt-to-income ratio are as follows (Phang, 2017):

- *Demand-side effects:* these encompass population, demography, urbanisation, income, interest rate and inflation;
- *Supply-side effects:* these encompass a credit provider's risk management practices, competition among credit providers and loan tenors available;
- *Institutional effects:* these encompass financial sector regulations, micro and macro prudential regulations, judicial enforcement, bankruptcy regulation, home-ownership charges, housing credit schemes, information-sharing among lenders, and welfare organizations; and
- *Behavioural and cultural effects and norms* on debt and insolvency.

2.5 THE IMPACT OF OVER-INDEBTEDNESS ON UNSECURED LENDING

The over-extension of credit (which results in reckless lending) creates a shift in equilibrium; a move from low-credit usage (low sensitivity) to high indebtedness (high sensitivity), which is adverse to external shocks (De Wet et al., 2015). Over-indebtedness tends to surface from credit booms or prolonged phases of depressed growth in fundamentally weak financial structures. When NPLs are high and affect a large number of banks they become systemic and affect the banking system's ability to function normally, providing lower credit to the economy. There is usually poor coordination among banks to resolve the issue of NPLs during a credit crisis and normally authorities will step in to lead in solving the problem, deploying a multiplicity of resolution mechanisms, which normally requires a huge quantity of resources and period to produce results. Write-offs and write-downs drain the capital cushions as NPLs need greater risk weights. In addition, NPLs crowd out loans and reduces capacity to increase lending. Therefore, the financial systems with an extraordinary number of NPLs have little profitability, little growth and the NPLs can required an elongated time to be resolved (Baudino & Yun, 2017). This was the case in the US and, in the aftermath of the downfall of the Lehman Brothers in 2008, market participants were anxious about credit exposures of their own trading counterparties. There was less tolerance for unsecured exposure and the phenomenon of demanding additional amounts of collateral against existing exposures was evident. The nature of collateral offered was also scrutinised depending on the type of the collateral and also who was offering it, that is, the credit standing of the

counterparty (Allen & Moessner, 2011). Normally, the high levels of over-indebtedness and the resultant NPLs are preceded by a poor credit decisions, and it is typically appropriate to assess loan restructuring options. When the NPL problem is systemic the level of coordination required moves further than the singular bank level. The possible alternatives are described in Table 2.1.

Table 2.1: Policy options to resolve systemic NPLs

Debtors (non-financial companies)	
Policy instruments	*How it works*
Debt restructuring, including out-of-court workouts	Either corporate or loan restructuring, involving the banks that are creditors to the same customer
Banks	
Policy instruments	*How it works*
Write-off	Loans are written off from banks' balance sheets
Direct sale	Banks or AMCs sell NPLs in dedicated markets
Securitisation	Banks, special purpose vehicles or AMCs pool and tranche loans and sell the securitised products in dedicated markets
Asset protection schemes	State-backed entities offer insurance on loss on NPLs in order to restart banks' credit provision
Centralised asset management company (AMC)	Dedicated companies buy bad assets from the problem bank(s)

Source: Baudino & Yun (2017)

Table 2.1 illustrates that once the NPLs turn out to be systemic, a centralised and coordinated reaction becomes essential and authorities, especially central bankers, usually lead the response. This is because system-wide NPLs' dilemmas cannot be fixed through a bank by bank tactic, and a decentralised method can be tough to execute or be counterproductive because single banks' strategies may impact their competitors. Sometimes public resources have to be used to support banks, namely to get rid of NPLs (Baudino & Yun, 2017).

Since the 2008/2009 global economic crisis, monetary policy and macro prudential policy have been widely accepted to have different objectives and instruments (Marcus, 2012). During a credit crisis, the impact on unsecured lending can be severe in that the tolerance levels decline for unsecured exposure – a phenomenon which was also evident in the US from September to November 2008 when the Lehman Brothers failed. In 2008, Morgan Stanley experienced a massive withdrawal of funding for unsecured lending. There was a $203 billion withdrawal of accounts payable, which indicates that unsecured lending can be severely affected when financial crises occur and banks want more collateral to compensate for their losses, abandoning funding that is not secured (Allen & Moessner, 2011).

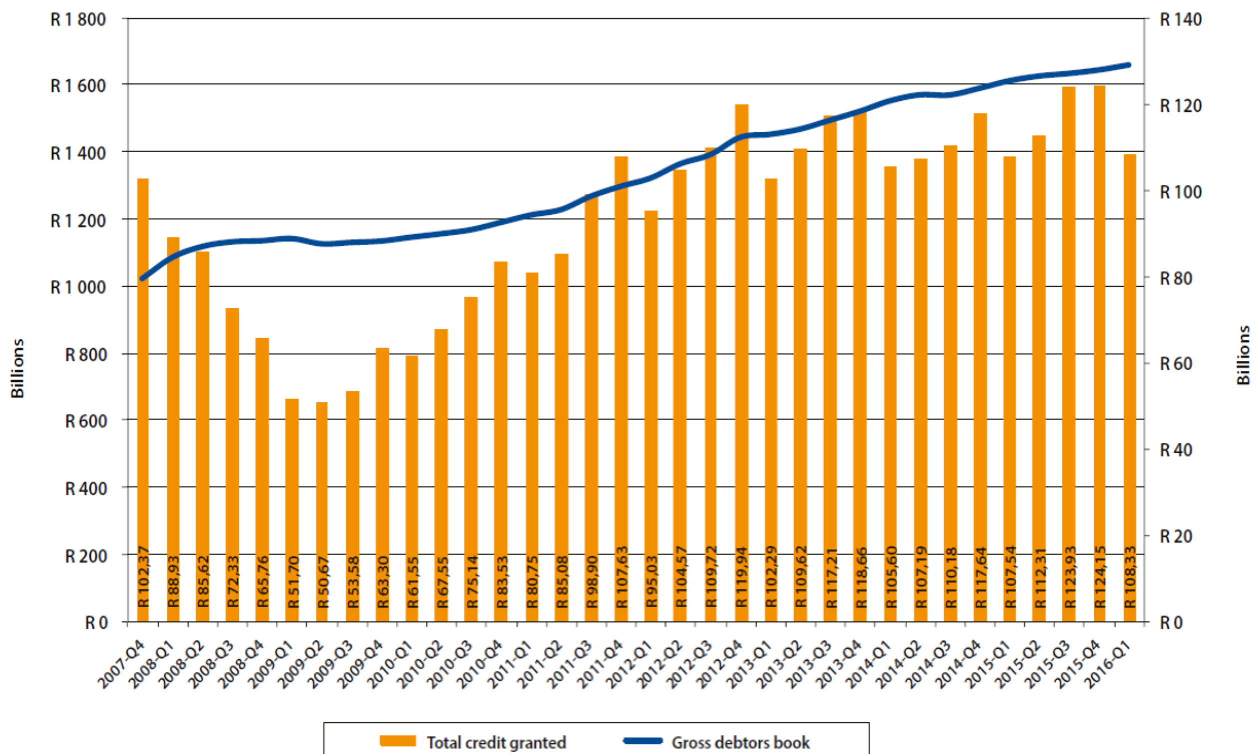

Figure 2.1: Disbursements versus credit granted in South Africa

Source: NCR (2016c, p.3)

This also happened in South Africa when consumer credit granted reduced drastically during the 2008/2009 credit crisis as can be seen in Figure 2.1.

A lender is prohibited by law (NCA) to become part of a reckless credit agreement with a consumer (Lombard & Renke, 2009). A credit agreement is deemed reckless if, during the time it was entered into, the lender failed to do a correct credit assessment based on section 81 of the NCA of 2005 or provided credit to a consumer while the majority of the facts available to the lender showed that the consumer's affordability of the debt was in question. Also, if the consumer did not comprehend the risks, obligations, costs, or that being party to the agreement can result in the consumer being over-indebted (*Government Gazette,* 2005). Inadequate financial management skills can result in over-indebtedness and an inability to repay debt (i.e. NPLs). The main reason for the consumer over-indebtedness is not that consumers are in debt; it is because they are in too much debt. Increasing personal debt is not automatically a problem unless it is unsustainable. Debt is one of the ways to build personal wealth and smooth expenditure over an individual's lifetime (Fatoki, 2015). Unsecured NPLs typically do not have complex structures in that they are usually small in size and have shorter maturities, therefore resolution can generally be more straightforward. This

means that many unsecured loans are sustained, because they are easier to resolve when consumers cannot repay (Baudino & Yun, 2017). If credit allocation is used correctly it is a powerful method to reduce poverty, increase production and lead to economic growth (Ademola & Arogundade, 2014).

From a statistical model point of view, Cunliffe (2015) indicates that when an integrated dataset of debt-to-income and a probability of default (PD) is used; a loan service ratio that estimates the loss to credit providers in the occurrence of default indicates that default is highly probable in individuals with loan service ratios higher than sixty per cent for low income earners. For higher income earners the debt service ratio of more than eighty per cent represents a likely default (Phang, 2017). The South African loan-to-income ratio stated earlier in the study is high based on these statistical studies and models. This is also high in many countries around the world; for example, in the UK the aggregate debt-to-income ratio was around 135 per cent in 2015, below the 160 per cent peak during the 2008/2009 financial crisis. This level was very high by international standards as the aggregate global household debt-to-income ratio between 1990 and 2006 was 110 per cent. In Germany, the 2006 aggregate household debt-to-income was approximately 85 per cent, 100 per cent in the US and 120 per cent in Spain (Cunliffe, 2015). These high debt-to-income ratios confirm that debt management processes such as restructuring and juggling can make the debt issue manageable and conceal the systemic debt problem (Guérin, 2012). Contingent on different inherent factors, the loan to income ratio that is unmanageable for one individual may be sustainable for another (Schicks, 2010).

2.6 THE IMPACT OF CONSUMPTION SPENDING ON OVER-INDEBTEDNESS

One of the basic problems that was realised by many unsecured lending advocates, although essentially disregarded out of alarm of ruining the idea, was that unsecured lending was provided to already employed consumers to meet their consumption spending needs. For unsecured lending to be more effective, it should be used mainly by those with an income-generating idea. Unsecured lending was thus meant to spur growth of microenterprises, but most of the lending in South Africa was used for consumption instead (Dallimore, 2013). Profit-driven unsecured lenders have managed to persuade South African consumers to take out far too much debt. The social promise of unsecured lending to lessen global poverty has been supplemented by significant returns for some unsecured lenders and their shareholders (Schicks, 2010). Even with the well-developed and world class financial system of South Africa it has been difficult to curb over-indebtedness. The culture of consumption spending has been a major concern (Ward, 2008). The highly competitive personal banking market in South Africa was depressed in the aftermath of the 2008/2009 credit crisis. South African banks embarked on a more focused approach within the

current credit regulation, some savvy lenders using credit legislation loopholes to increase revenue. The aim was clearly to increase the high-risk high-return unsecured lending market and complement the interest revenue with other income fees (BANKSETA, 2016). This is so because credit in South Africa is normally used for consumption at the detriment of investing, which is damaging to long-term development and growth. It means that South Africans have missed the opportunity to use the scarce financial resources to boost production; instead they recycled them back into unproductive consumption spending (Ward, 2008).

The typical customers in the South African unsecured lending market are private sector and government employees, while in some developing nations the typical customers are the rural, the less educated, and women. Providing loans to self-employed individuals for their small businesses has been minimal (Dallimore, 2013). A survey of employers and self-employed conducted by Statistics SA in 2017 also indicates that over 90% of self-employed and small businesses had no credit facility, business debt, asset finance or mortgage loan (Stats SA, 2017). In 2015 this crucial category of lending that unsecured credit is supposed to be used for (i.e. the income-generating category) is estimated to be about six per cent in South Africa, which emphasises its marginality (Bateman, 2015). The estimated six per cent of consumers who use unsecured loans are mainly those who live in low-income households or who are shack dwellers. They use unsecured loans to mostly improve their lives by renovating their houses, building backrooms for rental income purposes or expanding their houses and, in some cases, including a business room in the household such as tuck-shops or hairdressing salons. This indicates that unsecured loans can be used beneficially to improve people's lives (Mutsonziwa & Fanta, 2019).

Unsecured lending has been expanded to ensure that impoverished households impacted by the deficiency of access to and insufficient availability of financial services gain such access. Credit and debt make it probable for individuals to spend further than they can afford and these practices have spurred unsecured lending (Ndari & Mukura, 2012).

While debt is believed to form an integral part of many peoples' lives, over-indebtedness is experienced by debtors who adopt a behavioural pattern of transferring spending away from future consumption towards present consumption. Individual debt is a rational answer of forward-looking individuals to consume now and pay over the long term (Hoosain, 2012). The household debt to income ratio has a real impact on the financial market, because household debt is utilised to fund consumption and asset accumulation. This has an impact on cumulative consumption and investing, especially investment in real estate. Trends of consumer loan to financial and non-financial ratios are also useful statistics to keep an eye on (Phang, 2017). A study by Beck,

Buyukkarabacak, Rioja and Valev (2012) making use of time-series data from 1994 to 2005 on 45 countries found that corporate loans are positively linked to income per capita growth and with decreases in income inequality, while household debt does not carry the same effect. Unsecured credit that empowers consumers to build assets and generate income can also translate into the expansion of the economy (De Wet et al., 2015).

The practicality of unsecured lending to reduce poverty has attracted considerable attention from several researchers. Studies have discovered a positive correlation between credit and the borrower's level of income. This positive relationship between income and credit is more effective in the case of middle and upper middle income consumers rather than the lower income consumers. Credit has been found to reduce moderate but not extreme poverty (De Clercq, Van Tonder & Van Aardt, 2015). The lower income consumers are classified as living standard measure (LSM)[2] groups one to six. The requirement for loans in these sectors is due to the reality that commercial banks, through their traditional banking models, have failed to effectively engage this market segment as their credit models do not make provision for great volumes in a minor scale. This failure of commercial banks is, however, changing as more commercial banks are seeking innovative ways to service this sector, including opening loan centres near the local community (Janse van Vuuren, 2011). Ndari and Mukura (2012) also contend that unsecured lending is more advantageous to borrowers living over the poverty line, because these borrowers are more likely to be educated or financially literate, wanting to get into risks such as spending in new technologies, fixed capital or hiring new labour which can significantly increase their income compared to their counterparts living below the poverty line.

2.7 STUDIES ON OVER-INDEBTEDNESS, INCOME AND CONSUMPTION

According to Ezuho (2011), there are numerous theories to decipher over-indebtedness. One of them is by Fisher (1930) which remarks that there is a powerful correlation between over-indebtedness and consumption. The rationale behind this theory is that if the current consumer income is not enough to support present consumption, consumers will borrow to supplement and transfer future consumption into the present. Another theory in over-indebtedness was written by Modigliani in 1954, contending that consumer savings and consumption indicate the life-cycle stage of society (Ezuho, 2011). The life-cycle hypothesis supports the understanding that consumption by a rational individual is influenced by available resources and income allocation

[2] Living standard measure (LSM) is a widely used market segmentation tool in South Africa to categorise the standard of living and available income. It divides the population into groups of 10 LSM with 1 being the lowest and 10 being the highest. Individuals are ranked on the basis of ownership of the elements of a standard basket of goods (which varies over time). For example, the individuals that own a television set would rank higher in the LSM than those who do not own a television set (Janse van Vuuren, 2011).

over a long period. Modigliani affirms that individuals contemplate their life spans when formulating spending judgements (Hoosain, 2012). Another theory by Friedman written in 1957 argues that the consumers' present consumption is not just determined by their income at present but also by their future anticipated earnings, confirming the postulation that debt is generally used to smooth out consumption over time. A large number of unsecured loans are granted to smooth out consumption temporarily (i.e. to soften the blow of poverty), instead of increasing the receiving incomers' income permanently. This approach results in unsecured lending critics indicating that it does not significantly alleviate poverty, but actually makes the lives of the poor worse in most instances (Ndari & Mukura, 2012).

The traditional theory of finance focuses on the rationality of the individuals in the economic system. The traditional model is appealingly simple and would be satisfactory if there were data that could confirm its predictions; however, it is apparent that the fundamental facts about the cumulative financial markets, cumulative returns, and individual transacting conduct are not consistent with this paradigm (Barberis & Thaler, 2003). Behavioural finance is a fairly new domain that strives to elucidate individual's economic choices. Behavioural finance brings together the behavioural and cognitive psychology theories with the traditional economic theories of finance. The failure to maximise the expected utility (EU) of rational individuals has made it possible for behavioural finance research to grow in the context of the efficient market framework (EMF) (Kent & Nofsinger, 2010).

The postulation of the traditional finance theory that individuals make sensible decisions has been questioned and received criticism since its inception. The critique is that human beings are social beings with distinctive beliefs and are inclined to make choices on the basis of their emotions and behaviour. Therefore, humans do not make decisions based solely on objective factors but also on human feelings and emotions. This is the reason that the behavioural finance theory gained prominence; it endeavours to offer the perspective that analyses those areas of human behaviour that traditional finance had difficulty in explaining (Kiyilar & Acar, 2009). The behavioural finance research attempts to resolve the inconsistency of the traditional EU maximisation of rational investors in an efficient market, by explaining the influence of human behaviour. Behavioural finance research describes why and how markets could be ineffective. This inefficiency is also seen when loans result in NPLs, instead of healthy creditworthy consumers (Kent & Nofsinger, 2010). The behavioural finance emergence has brought to the table a new way of looking at methods used by investors when making decisions. These new ways include psychological factors and also new ways of challenging conventional methods of modelling the behaviour of investors. Behavioural finance thus challenges the efficient market hypothesis (EMH) specifically by showing

that the exclusion of psychological and value- expressive preferences in the EMH has resulted in inefficient markets (Statman, 1999).

The traditional EMH hypothesis does not take into account the misleading emotions or cognitive errors when financial crises are assessed. It was assumed that investors would only be hampered by inability of asset values to appropriately aggregate evidence accessible to determine their intrinsic values (Kıyılar & Acar, 2009). Shefrin and Statman (2014) built an asset pricing model which shows that individuals can be hindered by such emotions and errors. Based on this model, it was found that some investors are excessively optimistic, others excessively pessimistic, while other group are said to be 'smart money' investors who do not have cognitive errors and misleading emotions. These smart money investors are patient, they steer values to rational levels in the long term, even though there are investors with cognitive errors. What normally happens in the market is that money will move from those investors deceived by cognitive errors to those who are error free. In the short term, prices are usually not rational even in the company of smart money investors, because they do not possess enough capital to counterbalance the effect on prices from investors with cognitive errors. Smart money investors are known to be wise enough not to take undue risk in an attempt to take advantage of disparities between asset prices and their inherent values. This carefulness acts to restrain arbitrage, therefore restraining the level to which these deals by smart money investors propel values to be at the same level to intrinsic prices (Shefrin & Statman, 2011). It is not to say that smart money investors do not make mistakes; it means that they understand the impact of emotions on their decision-making processes. They therefore train their minds to separate their emotions from their decisions through the following two steps (Kıyılar & Acar, 2009):

- Understanding their own emotional weaknesses and studying various anomalies or biases identified in their past decision-making and the tendency to repeat them in the future; and
- Understanding the irrational behaviour of others to benefit from their mistakes.

Researchers and scholars were therefore prompted to examine psychology when trying to describe illogical and irrational behaviour. Advocates of behavioural finance have questioned the existing literature on investors' rationality decision making process and denounced the rational investors and efficient markets (Jain et.al, 2021). Human behaviour is powerfully shaped by finely tuned affective (emotion) systems. When they are disturbed or damaged they cannot regulate behaviour appropriately. Traditionally, economists assumed that humans make choices in a cognitively regulated process. In reality, however, choices are regularly made through an involuntary process that is subjected to prejudices produced by mental shortcuts or a sentimental process shaped by emotions. Developments in neuroscience formulate close assessments of

probable thoughts and feelings and offer the possibility to understand the anomalies in decision-making (Byrne et al., 2008).

Therefore, feelings and the related human unconscious wishes, fears and fantasies are the drivers of most decisions made by human beings. The behavioural finance theory acknowledges Keynes' animal spirit' theory in explaining individual financial choices. The underlying premise is that individual consumer financial choices are shaped by their feelings and their psychological stance at the time the judgement or choice is made (Barberis & Thaler, 2005). According to Shefrin & Statman (2011), Keynes also highlighted the role psychology plays in economics. In his theory written in 1936, Keynes argued that evidence showed that sentiment, excessive optimism or pessimism, result in market busts and booms, and that asset values deviate from their intrinsic values. Keynes discovered this when studying the Great Depression of the 1930s. This theory can also be used to analyse the 2008/2009 financial crisis. During this crisis it was evident that financial innovation (behaviour) created economic euphoria for some time, destabilising the economy and hurling into the crisis that rivalled the Great Depression. It was clear that the impact of innovations on mortgages and mortgage securities caused the 2008/2009 financial crisis. Financial institutions suffer from these biases by increasing the employment of innovative financial products when the economic cycle grows, increasing their funding and leverage these innovative endeavours with the ever-increasing risk. Shortcomings of the innovative ways of doing things and new innovative products are exposed when the economic downturn happens (Shefrin & Statman, 2011).

Keynes also developed a theory of consumption, called the absolute income hypothesis in 1936, which incorporated the marginal propensity to consume. Keynes deduced that, in the short term, if consumers have a high tendency to consume it will stimulate economic growth but will have a negative impact on personal finances as individuals will be using their income to fund these expenditures or loans from credit providers (Santos, 2013). The income hypothesis theory suggests that consumption is a function of earnings, but Ando and Modigliani (2005) deduced through the life cycle hypothesis theory in 1954 that consumption is smoothed over the life cycle of the consumer with younger individuals taking on debt to fund consumption, with the expectation of future income. When they get older they start saving with the expectation of a lower income during retirement (Angus, 2005). Friedman developed a permanent income hypothesis theory in 1957 and purported that individuals are more concerned with long-term consumption rather than current income. Therefore, whether people consume more or less is a function of future anticipated earnings rather than current income (De Clercq et al., 2015).

Keynes's general theory of money, interest and employment, states that expenditure is a function of earnings, and therefore when earnings increases so does expenditure. This is a critical matter when consumer debt is evaluated. Consumers' choices are also motivated by consumption trends of their contemporaries and may result in greater than expected consumption and resultant debt (Emmenis, 2014). Therefore, according to Keynesian theory, existing household consumption trends are a function of existing household earnings. This is the chief critique of the Keynesian theory as it focuses only on current income and neglects future potential income. It is possible that at the time (in 1936) when the Keynesian theory was developed consumption patterns were based on current income. A theory that concurs with Friedman's 1957 permanent income hypothesis is Duesenberry's 1948 theory, which also postulates that consumption is a function of income received (Hoosain, 2012). Duesenberry (1948) expands on this theory, adding that consumption is 'sticky downwards' as consumers will adjust their consumption upwards when earnings increases, but are averse to adjust it downwards when income decreases. He calls this the 'ratchet effect' (Hoosain, 2012).

This phenomenon of adjusting consumption based on income leads to individuals making forecasts, planning and allocating income according to these forecasts. According to the behavioural theory, these forecasts are believed to be mainly overly optimistic as individuals usually have a positive view of their future. This optimism results in overconfidence when making forecasts. Overconfidence has been argued to arise from a deficiency of meta-knowledge, implying that consumers are oblivious of their lack of skill in decision-making (or otherwise stated, they do not know what they do not know). Most people tend to display unrealistically rosy views of their prospects and abilities (Kartini & Nahda, 2021). Research by McMahon (2005) shows that some individuals are more overconfident than others and that this overconfidence is more prevalent in fields where individuals have a self-declared expertise of their own abilities and competence, even if there is objective concrete evidence to the contrary. Overconfidence and excessive optimism can have both harmful and beneficial consequences. The positive effects may be a great level of self-confidence that can reduce anxiety, resulting in individuals functioning optimally without being overcome by fear or trepidation. Conversely, the same overconfidence may cause risk perceptions to be lower, thereby discouraging individuals from being cautious to avoid adverse outcomes (Kartini & Nahda, 2021). Overconfidence can also be observed in studies by Barberis and Thaler (2003), who postulate that many individuals they had surveyed typically believe they are above average in areas such as people skills, driving skills, and sense of humour. These individuals also show a systemic planning fallacy in that they predict that tasks they are involved with will be completed sooner than they actually can. Overconfidence can have an impact on individual behaviour as those consumers displaying these characteristics can take on debt they cannot afford

thinking they actually can. The influence of overconfidence on consumer behaviour will be discussed later in the study under behavioural finance.

2.8 THE IMPACT OF CONSUMER CREDIT EDUCATION ON OVER-INDEBTEDNESS

2.8.1 Describing consumer financial education

There is no commonly agreed description of financial education. A number of descriptions have been proposed including the measuring of how good a person understands and make use of individual financial-related information (Shuttleworth, 2011). In countries like the UK, the US, Australia and Canada, financial education is normally called 'financial literacy' or 'financial counselling'. The words 'financial education' as well as 'financial literacy' are used interchangeably in literature (Moss, 2012). In a universal sense, literacy implies the skill to read and write (Shuttleworth, 2011). Financial literacy comprises the confidence and capability of individuals to employ their know-how to make financial decisions (Moss, 2012). The OECD (2013a, p.3) describes financial education as follows:

> The process by which financial consumers/investors improve their understanding of financial concepts and products, and through information, instruction and or objective advice are able to develop the skills and confidence to become more aware of financial risks and opportunities to make informed decisions and know where to go for assistance, and to take effective action to improve their financial well-being.

Other scholars define financial education as the practice where individuals enhance their comprehension of financial concepts and products through information, instruction and objective advice; developing their confidence and skills to develop better awareness of the opportunities and risks to make well informed financial decisions; knowing where to find assistance and to be in a position of taking efficient actions to better their financial conditions (Guérin, 2012). Financial education is a matter of information and skills: these include the comprehension of interest rates, gaining knowledge on how to compile a budget and to contrast credit offers, among other things. It is similarly about suitable financial conduct, such as planning, taking on adequate debt and prudence (OECD, 2013a). The ability to manage finances is one of the most important skills that anyone can acquire; it is a critical life skill and a key to recognising and ensuring the best use of the opportunities in today's fast-changing world (De Clercq, 2009).

According to Mutsonziwa and Fanta (2018), financial literacy comprises of five components, namely planning ahead, tracking of finances, staying informed, having financial control, and

selecting financial products. Financial education is therefore imperative for a number of reasons. It can ensure individuals are prepared for difficult financial times by helping them accumulate plans that will reduce risks, such as asset diversification, savings, and insurance. Being financially literate also contributes towards improved behaviour such as avoiding over-indebtedness and enabling consumers to make healthier financial choices to comprehend and manage risk. Financially educated individuals can put pressure on credit providers to provide more suitably priced and transparent services (Fatoki, 2015). There are numerous investment options and opportunities and basic financial literacy can assist a person to make the right choices. When advice is received from a certified financial planner or institution, basic financial literacy will help the individual to seek the right advice. The concept of financial literacy thus implies having sufficient knowledge to protect one's assets (Walker & Walker, 2013).

Behavioural finance research indicates that an individual's financial behaviour may depend primarily on their intrinsic psychological attributes instead of depending on information, education or skills. On the other hand, there is consensus among researchers that education has a helpful effect on financial decision-making. Researchers agree that cognitive ability has a part in explaining financial knowledge; however, education can advance financial knowledge (Shuttleworth, 2011).

Personal financial management entails applying sound financial principles when financial decisions are made in one's personal life, which include many decisions at a personal or household level regarding financial planning, budgeting, investing, insurance, record keeping, taxes, estate and retirement planning (Masilo & Marx, 2016). Financial education focuses on financial wellness of consumers. Within many generations financial wellness has meant being free from financial stress, loans, enjoying life and being prepared for emergencies (Allison & Harding, 2017). Financial wellness means a state where an individual has control over daily finances, has the capability to take on financial shocks, and is on trajectory to meet financial objectives such as having the ability to retire comfortably. In an attempt to reduce employees' financial stress employers are introducing financial wellness programs that focus on financial education in the workplace. Popular financial wellness components include financial classes, financial counselling sessions and a variety of resources to assist employees to manage debt, stay within their budget, and save for retirement (Conradie et al., 2016).

As financial planning is personal and unique to every individual and household, some describe personal financial education as the ability to constructively control financial resources (income, assets and liabilities) for the purpose of meeting short- and long-term goals and objectives (Swart,

2002). The following phrases are mainly used in the same way as financial literacy (Shuttleworth, 2011):

- *Financial knowledge*: implies that individuals have a comprehension of financial information and the capability to use the information to make sensible financial choices. Knowledge, on the other hand, is what they know; i.e. the expertise and experience of individuals.
- *Financial intelligence:* intelligence means a person's ability to think, utilise their mind, and to be rational. Financial intelligence speaks to the capability of individuals to analyse financial information and to employ this information to adapt in a changing economic environment. This means that the individual understands the difference between 'soft information' and 'hard information'. Soft information refers to information where judgement is required, while hard information refers to well-substantiated information based on facts. This means, for example, that individuals who are financially intelligent will know when to accept advice given at face value and when to question it.
- *Financial consciousness*: financially conscious individuals display financial understanding and consideration of the financial implications in their financial choices. It suggests that individuals have the mental capability to conceptualise financial figures (not to be mistaken with counting but rather as a complex mental process), and view the financial figures in context to infer meaningful relations from them.

Financial wellness is a multifaceted concept describing the general financial health of the individual and factors influencing financial wellness are summarised below (MMI Holdings, 2016):

- *Personal characteristics:* entail both societal status and personality aspects such as age or marital status;
- *Financial literacy:* refers to using the comprehension of financial tools and concepts to make the most beneficial financial choices;
- *Financial behaviour:* relate to financial activities such as, saving, investment and financial planning;
- *Financial situation:* refers to wealth that can be objectified such as salary, benefits, home ownership and amassed wealth; and
- *Financial stressors:* refer to incidents such as personal bankruptcy, losing a job or a home, and the individual's ability to withstand these stressors.

For employers financial wellness should have a variety of options that assist employees to choose what is important to them and will contribute to their financial well-being. This is so because financial wellness is defined differently and uniquely by each employee as households have different priorities and financial obligations. Broadly defined for employees, financial wellness

means the capacity to handle their finances for immediate needs while investing for mid-term and long-term goals (Bank of America Merryll Lynch, 2016). Financial wellness can also be defined as the continuous practice of ensuring a balance between living responsibly today and planning wisely for tomorrow (BB&T Bank, 2017). Financial plans generally revolve around three themes (Boone, Kurtz & Heath, 2006): maximising income and wealth (earning income); using money more effectively (saving and ensuring that consumption is effective); and monitoring expenditures (formulating a budget). The ability to control emotions is also a function of education (Fatoki, 2015). This view is supported by the behavioural finance theory that only when sound intellect and emotional discipline are combined can rational behaviour occur (Subash, 2012). Every successful person has *learned* how to live with their emotions, because financial decisions made on the basis of feelings instead of sound practical considerations can lead to ruin. Ensuring that money is saved and expenses are controlled is almost impossible without the psychological makeup that gives the steadiness to resist the urge to spend. Many people earning very low incomes are thus able to buy homes and send their children to school, while others with sizeable incomes have lost everything. This supports the belief that saving for an individual is less a function of income than that of temperament (Fatoki, 2015).

The notion of financial literacy is not new. Non-profit organisations have constantly considered ways to assist the poor to control their finances in a better manner. Financial literacy has come to be a common cry in both developing and developed countries. In an more and more financialised world where people have to use sophisticated financial instruments, financial literacy is believed to assist them to take advantage of market opportunities when these opportunities are at their best (OECD, 2013b). Financial literacy incorporates a financial plan. A holistic financial plan includes a budget, a future income plan, an investment plan, an insurance plan and an estate plan. A financial plan aligned to an individual's passion or a sense of purpose is usually successful and sustainable (Walker & Walker, 2013). It can therefore be strongly contended that empowerment through information (which includes financial literacy), contributes immensely to an individual's ability to make knowledgeable choices and to take efficient action concerning the use and management of finances. Information is a critical tool that can be used to advance the individual's knowledge, understanding and overall loyalty. There is a correlation between financial education and the ability to pay. Lenders always assume that consumers know more about financial literacy than they actually do and those with better income and education levels are considered more accountable (Dilotsotlhe, 2013).

According to Dilotsotlhe (2013), financial literacy encompasses three phases:

- *Economic literacy* entails an individual's general knowledge on how economies function;

- *Consumer literacy* encompasses a consumer's ability to understand and act in line with their rights and responsibilities as a consumer, coupled with the skill to assess and compare prices and quality when purchasing decisions are made; and
- *Financial literacy* encompasses an individual's capability to understand financial concepts and terms and their ability to transform this knowledge or comprehension into behaviour.

Financial education cannot be taken too lightly, it is pivotal in how communities and individuals generate and conserve their wealth (Dilotsotlhe, 2013). As much as financial institutions have to play a leading role in financial education employers at large also need to play a role to ensure employees are financially literate. The other critical role player is the government. There is a need for creative thinking by governments on financial education to develop programs that can appeal to consumers in different ways and to create a conducive environment for financial education to thrive. Policymakers, educators, and community leaders are faced with an interesting challenge on how to effectively bring financial education to their constituencies (Shuttleworth, 2011).

2.8.2 The impact of financial illiteracy on over-indebtedness

While access to credit is important, taking on debt should be seen as a serious decision, which should require a robust process of screening and regulation (Absa Bank, 2012). Not only do South Africans have to develop a robust culture of saving, consumers need to be educated about the pitfalls of giving in too easily to accessible credit they cannot afford (Govender, 2014a). The widespread consumer illiteracy in South Africa means that consumers do not always read and understand the credit agreements they are entering into and the provisions of the NCA (Armstrong, 2014). It is also imperative that individuals are aware of their rights when it comes to credit agreements; for instance they must know they cannot be charged excessive interest rates by lenders (Govender, 2014a). This results in consumers being misinformed regarding the ensuing of over-indebtedness, the debt review process and the relief they are entitled to (Armstrong, 2014). The state of illiteracy and inequality stems from decades of systematic racial discrimination, that has left the majority of South Africans in poverty and being financially illiterate (Bateman, 2015).

Financial literacy levels have been a major obstacle for a long time and in many countries. The 2014 Standard & Poor's (S&P) ratings services report on global financial literacy levels indicated that 33 per cent of consumers globally showed a basic comprehension of financial concepts (Klapper, Lusardi & Oudheusden, 2015). Financial literacy levels were reported to be especially low in most developing countries, where, for example, 27 per cent adult consumers in developing countries in South Asia were financially educated contrasted to 52 per cent in higher-income OECD countries. Only 32 per cent of adults, in sub-Saharan Africa, were reported to be financially literate

(Fanta, Mutsonziwa & Naidoo, 2016). In 2018 financial literacy levels had improved to 53% globally (Jonker & Kosser, 2020). Reports by the NCR indicate that South African consumers are still not adequately protected or educated against unsecured lending products. South Africa ranked the lowest among her BRICS counterparts on financial literacy and South Africans are generally considered to have low financial literacy levels (Dilotsotlhe, 2013). In fact, extensive illiteracy is still a worry, not just in developing countries, as well as in advanced economies such as the UK and the US where, many households are unaccustomed with even the most basic financial concepts required to make informed investment decisions (Lusardi & Mitchell, 2011),. This has a far-reaching effect on the financial wellness of individuals, because in the 21st century they are more and more responsible for management of their own retirement plans, which they are generally not equipped to handle. This further underscores the critical need for financial education as many people across the globe seem to be woefully under-informed, which has grave consequences for their retirement planning and saving and other important financial choices (Boston College, 2011).

As indicated above, most consumers in South Africa are still unskilled, under-earning and have high illiteracy levels, which leave them vulnerable in the highly sophisticated financial services industry. On the other hand, most of the literate and skilled consumers in South Africa also lack financial education skills and are struggling with over-indebtedness because of their inherent lifestyles and upbringing (Ping & Yan, 2014). The lack of financial education has robbed millions of consumers of their potential to prosper in spite of the many income-generating opportunities. Instead, the South African consumer has gravitated towards being materialistic; they are characterised by an attitude of instant gratification that has led many into over-indebtedness, little or no savings, and greed and limited prospects of sustainable future wealth. Financial decisions have a huge impact on family, social and spiritual lives, which underscore the importance of individuals actively managing their financial lifestyles as a critical aspect of living a successful life (Ping & Yan, 2014). It is further argued that financial education is one of the most important skills essential for economic expansion, equality and sustainable growth (Shuttleworth, 2011).

2.8.3 The impact of financial planning on over-indebtedness

Financial education and legislation are two methods that have been put in place in the unsecured lending market to manage credit risk, especially consumer over-indebtedness (IMF, 2013). The manner in which a consumer manages their finances is personal and depends on the individual's life stage and lifestyle. Financial literacy involves understanding how to earn, invest, spend, save, and control money in order to reach financial goals. Financial literacy is affected by the consumer's lifestyle and life's stage, which refer to aspects such as career choices, friends, family, community and possessions (Boone, Kurtz & Heath, 2006). Figure 2.2 shows the different decisions that an

individual are faced with depending on their life stage and which decisions are important at each life stage (Walker & Walker, 2013).

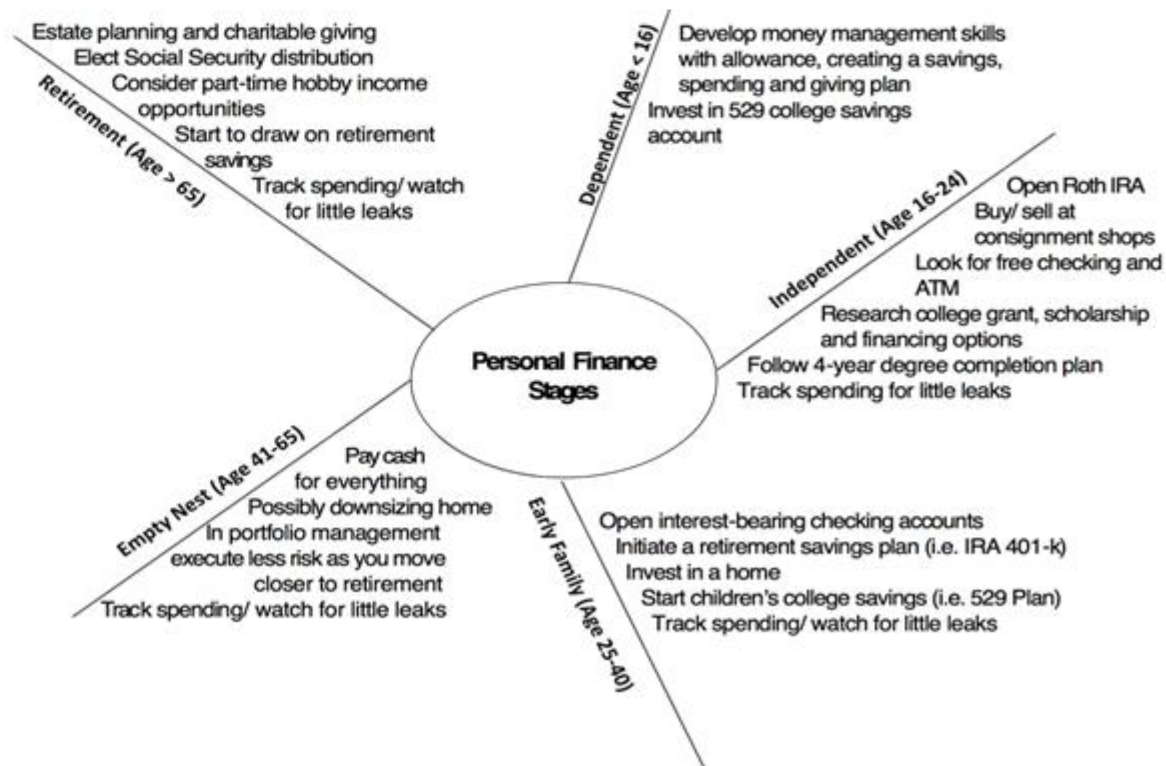

Figure 2.2: Personal finance life stages

Source: Walker & Walker (2013 p.10)

The personal life stages of individuals can be summarised as follows (Masilo & Marx, 2016):

- *Asset acquiring and wealth protection stage:* At this stage, individuals start a career, earn an income, build up assets and may start a family and use credit. At this stage, people are typically between the ages of 20 and 35 when they should start developing financial security.
- *Protect and conserve stage:* Individuals start having possessions that they deem are worth safeguarding. This stage is illustrated by a rise in cash flow or high debt levels or assets. As more possessions are added individuals start being risk averse, they become apprehensive about losing what they have by this time amassed, are more mindful of financial threats, such as unemployment, disability or death and are therefore concerned in saving for retirement and probably their children's education. At this stage individuals are usually between their late 30s throughout the 40s and the 50s.
- *Wealth distribution stage:* This stage encompasses the utilisation of wealth and allocating money or assets to the individuals' choices. Individuals at this stage usually have cash

available, having normally low or no debt, and they may be concerned about donations and estate taxes. They are typically in their late 50s and/or older than 60.

The literature indicates that to be able to manage one's finances properly a person needs to have a financial plan. A good financial plan ensures that individuals are in control of their finances and that they are proactive in making financial decisions, such as anticipating expected increases and/or decreases in income and expenses (Walker & Walker, 2013). Individuals with financial knowledge can make informed personal decisions about matters in their control, such as budgets, career choices, liabilities and assets, income and expenditure and whether to pay cash or credit for goods and services (Masilo & Marx, 2016). Financial education should be used by lenders to build and maintain a strong relationship with borrowers. When education is offered to the borrowers, lenders should ensure it empowers them to become better credit consumers and advise them to avoid being over-indebted (Moss, 2012).

Financial literacy affords individuals with a technique of putting together a financial future to plan for unforeseen circumstances. The ability to devise measurable, attainable goals is one of the initial things a person should to do in order to attain financial safety. Financial education is imperative at any life stage of consumer, as they are faced with needs and wants that may surpass their income or savings, such as buying a house or a car and having to incur debt. Debt can destroy or enhance wealth of an individual on the basis of the way it is used, consumer debt, in South Africa, has proven to be disastrous.

Financial literacy is critical throughout every life stage. This is because individuals need both long-term and short--term financial abilities to survive in today's unpredictable economic situation (Fatoki, 2014). Persons with more financial understanding are more prone to amass wealth (Masilo & Marx, 2016). The cardinal utility theory makes possible postulations regarding personal decision-making to accumulate wealth in times of uncertainty. The theory postulates that some individuals prefer acquiring more wealth. Individuals will therefore prefer to keep the maximum utility of wealth positive and ensure that it is optimised. The maximum utility of wealth is depicted in the following formula (McMahon, 2005):

$$E[U(W)] = \Sigma P_i U(W_i)$$

Where P_i = probability of wealth outcome W_i

Individuals normally use their objective function (meaning their objective will be to maximise their wealth) and determine the expected utility of wealth for all conceivable alternatives and then select the result that maximises their expected utility of wealth. According to the expected utility model, rational decision-making is made by multiplying the values of potential results by the known

objective probabilities of their occurrence. Owing to the fact that probabilities are hardly accurately known, the subjective expected utility model, developed by Leonard J. Savage in 1954, solves this by multiplying the values of the results by their probability of occurrence as predicted by the individual decision-makers. People are risk averse across all wealth levels, meaning that a risk premium is essential in order to entice financial agents to assume a risky alternative. The risk premium is the difference between the agent's estimated wealth, given the alternative that is risky and the amount of wealth that the agent will agree to with confidence if the risky alternative was taken away. This means that the risky alternative is judged on the basis of a wealth portfolio (McMahon, 2005).

A financial plan is a guide to assist individuals to reach targeted goals in future. These goals are generally based on the wealth maximising concept introduced above (Masilo & Marx, 2016). These goals could include buying a home, starting a business, school education or retiring comfortably. Financial planning includes developing a series of short- and long-term goals. These goals are influenced by individual values and the assessment of the current financial situation. A further step is to develop strategies to close the gaps from where the consumer is currently to where they want to be in the future. The last step is to implement and monitor the plan and to make adjustments that are necessary, considering the resources available (income and fringe benefits), and external factors (economy and government policy) (Boone, Kurtz & Heath, 2006). There are a myriad of choices in the financial planning process. Individuals should understand that these choices do not occur in a vacuum, but that they are influenced by the maximum utility model as discussed above (McMahon, 2005). Figure 2.3 shows the steps in the financial planning process.

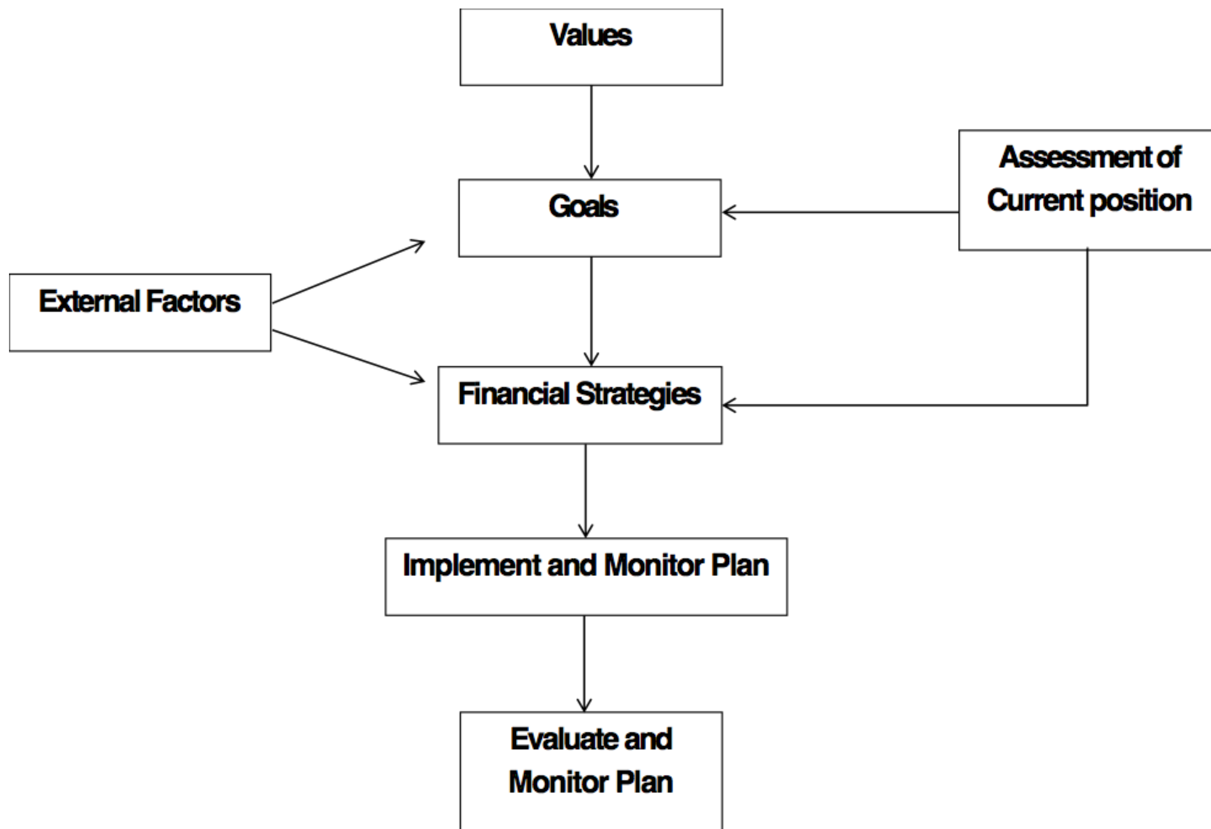

Figure 2.3: The Financial Planning Process

Source: Boone, Kurtz & Heath (2006, p.22)

The theory by West and Wood (1972) outlines four fundamental aspects of financial management: firstly, financial planning (i.e. analysing problems and goals, alternative solutions and different ways of achieving them); secondly, having sufficient income to sustain the plan (i.e. an on-going process throughout a consumer's life); thirdly, managing and/or controlling expenditure (i.e. until a satisfactory budget has been reached and living within the budget); and lastly, the ability to solve specific problems based on the plan. Financial management entails raising monies needed to fund an enterprise or an individual's assets and activities. These monies are then allocated to competing uses, which need to be effectively used if the enterprise or individual is to achieve their goals. Financial management entails being concerned about the future and looking for techniques to maximise the efficiency of financial means with the objective to ensure liquidity, profitability and growth (Dilotsotlhe, 2013).

From an individual's perspective, the planning and managing of finances to provide for current and future financial needs is vital (MMI Holdings, 2016). Spending more than one earns is a concern, aggravated by the opportunities available to do so. Normally, when debt difficulties are discussed with credit providers, little is said about credit providers being a major part of the problem even

though reckless lending and accompanying spiralling interest rates are also equally responsible. As much as borrowers must change their behaviour it has to be done in conjunction with credit providers who also need to reform their credit provision methods. In this manner becoming debt-free cannot be unnecessarily difficult (Swartz, 2012). Credit providers therefore need to understand individual consumer needs and support sustainable plans. Financially stable consumers, in turn, are instrumental in contributing to a resilient economy, job creation and creating financial wellness in communities (MMI Holdings, 2016).

Personal qualities are also important to ensure a successful financial future. It involves financial awareness and literacy, whether or not a person is able to control their emotions, and discipline. Of all three personal qualities referred to above, financial literacy is a cornerstone, because even if a consumer is over-indebted and has the ability to formulate a plan to become debt-free they need to have the knowledge (financial literacy) of how to realise the plan – knowledge such as learning how to increase income, control expenses or how to compile a budget (Fatoki, 2015). Financially educated individuals are more prone to look for expert guidance before reaching investment or financial decisions (Calcagno & Monticone, 2015). Financially educated individuals are also more prone to amass sufficient wealth for usage when the time for retirement comes (Jappelli & Padula, 2013); and to take part in the financial markets (Acquah-Sam & Salami, 2013; Klapper, Lusardi, & Panos, 2013). Financially educated people are also more successful in running their small enterprises (Dahmen & Rodríguez, 2014) and will normally set separately funds for the unexpected and will employ a number of sources of information when selecting financial products (Silgoner, Greimel-Fuhrmann, & Weber, 2015). Financially educated people can also save costs related to unsuitable financial product usage as they know the best products suitable to them. Financial education is also imperative for macro-economic stability as demonstrated in a study in Russia where financially educated individuals were able to endure income blows and showed higher spending ability, which is imperative for macro-economic steadiness the period of a financial crisis (Fanta et al., 2016).

2.8.4 Criticism of financial education

Not everyone is in favour of financial education and consumer financial literacy in particular has received some criticism. The argument is that consumers are unlikely to distinguish between the genuine costs of diverse credit products with various features terms and repayment even if precise disclosure is applied uniformly (Guérin, 2012). What normally happens is that brand loyalty or association and perceptions dictate where consumers shop for credit. The expectations from consumer credit education must be realistic (Kelly-Louw, 2008). Financial literacy has been said to be meaningless and the advantages illusionary owing to numerous reasons including the

argument that finances are too complex and diverse to be taught effectively. From the behavioural finance theory point of view, financial education will not succeed if it is founded on the assumption that financial choice-making falls within the deliberative thinking camp of individuals. This is because even if consumers are taught the power of compound interest and the wisdom of long-term investing and diversification, their knowledge will be undermined if anchoring or framing end-up short-circuiting the considered outcome (Guérin, 2012).

Understanding and making decisions on the most suitable financial products not only require complex skills, but it is also time-consuming. People naturally lack those skills and do not want to take the required steps and time to attain them. The proliferation and the pace at which financial products advance are an added reason to support this. Education is a policy instrument calling for individuals to regulate themselves in an area that even professional regulators have difficulty with. The basic premise that individuals with better financial knowledge make better choices does not hold, purely because wealth and income are more and more unpredictable, particularly in the long term (Guérin, 2012). The field of study that can further explain this impact is behavioural finance, because psychological elements such as compulsiveness, risk aversion, peer pressure, altruism and procrastination all play a part in consumer decision-making (Dilotsotlhe, 2013). Other studies have shown that financial literacy has a marginal or limited impact better financial management, that people pay less consideration to financial information and that their capability to handle it is inadequate (Loyalka, Wei, Zhong & Rozelle, 2013).

These contradictory results called for a reflection on the nature of financial education programs (OECD, 2013a). Financial education methods based on theoretical models with abstract modules are unlikely to succeed compared to practical lessons dealing with actual cases that make logical sense to consumers. This finding is supported by a study of micro-enterprises in the Dominican Republic of 2014, which stated that it was more effective to teach people to separate the own accounts from their trading accounts or to write everything down instead of delivering a complex accountancy formal training (Drexler, Fischer, & Schoar, 2014). Over and above the technical debate on the content of financial education, the existence of financial education is questioned in the literature, namely by behavioural finance and political economics. The former contends that financial behaviour is much more sophisticated than being simply a subject of information and the latter argues that it is unfair to excessively put the responsibility of financial savviness on the individual. This is because it can be reasonably assumed that a specific program can function in a particular framework with a particular population but not universally. Program duration and intensity are prone to have an influence on the impact. The content and the method of the program delivery are also critical (Guérin, 2012). This is because according to Panos & Wilson (2020), presentation

format of financial information has been found to impact decisions made by consumers with low financial literacy. It is recognised that the deficiency of understanding personal finance, the intricacies of financial management, a sense of being overwhelmed with numerous choices in making financial decisions and a deficiency of time to gain knowledge about personal finance regularly lead to consumers making ineffective financial choices (Pillay, 2008). When confronted with financial information that is difficult and complex, less financially literate individuals may feel overwhelmed and uncertain (Shuttleworth, 2011). Although some of the users of unsecured lending (mainly the poor) may be financially illiterate and may battle to comprehend the technical characteristics of financial products, empirical evidence proposes that users of unsecured lending do not make their choices thoughtlessly. They have methods of thinking, assessment principles and systems of interpretation that are explicit and entrenched in certain political, cultural and social frameworks. The stereotyping of financial literacy reveals the ignorance of the difficulty of the local calculation frameworks and financial thinking (Guérin, 2012).

The challenges a poor and uneducated consumer faces when making financial decisions are not only the intricacy of financial products, but also the opaqueness and the disproportionate power relationship between financial institutions and consumers (Swart, 2002). This distrust and gap between lenders and borrowers was supported by a 2008 research report by the US mortgage lender Fannie Mae, who found that 57 per cent of mortgage defaulters were unaware of the restructuring solutions provided by lenders. There seems to be a similarity between these US-based findings and the conclusions of the Social Survey conducted in 2003 in South Africa on borrower awareness and perceptions of options available to them. It appears that negative perceptions of lenders have reached unparalleled levels. Because of their distrust of lenders borrowers who have no other option but to negotiate with lenders still choose not to do so as they do not believe that lenders are honest and have the empathy or are genuinely interested in helping them (Moss, 2012).

This perception cannot be left in quandary with the belief that it will correct itself without active support or intervention; lenders need to play an active role in ensuring that they foster genuine relationships with their consumers, which are based on honesty and trust. Financial education offered by lenders can help in making sure that they care and that they can be trusted (Moss, 2012). Aspirations and culture are also powerful tools in explaining how societies embed certain practices. This was the case in the US where American homeowners for many decades received subsidies that were channelled through the Federal Housing Administration through the two lenders Freddie Mac and Fannie Mae. The subsidies represented a culture in the US that

associated home ownership with freedom while renting symbolised oppression by the landlord (Shefrin & Statman, 2011).

Despite decades of bad publicity, the formal banking system in South Africa seems to have had little response to try and better serve the large proportion of the population, especially the poor. This has made building trust with the banking system more difficult as indicated earlier (Dallimore, 2013). The concern in South Africa is that many consumers seem not to be interested in consumer education nor financial literacy; they seem to want a loan as quickly as possible without understanding the consequences. Thousands of people's lives in South Africa have been ruined in their attempts to repay expensive unsecured loans that they should not have taken out in the first place, and even though lenders were prohibited through legislation from granting loans to those who cannot afford paying it back (Crotty, 2016). Even when banks agree with regulators that they will facilitate financial education, in reality they perform dismally in educating consumers – the reason being that they are not in the business of education, but of facilitating the flow of capital between agents having access to funds and those needing funding (Dilotsotlhe, 2013). What has happened is that banks have been found spending a fortune on marketing credit, but spending less on educating their consumers in the possible dangers of over-indebtedness (Crotty, 2016).

2.8.5 Benefits of financial education

Financial education is linked with healthier financial and better life outcomes in general. Individuals make numerous choices about borrowing, saving, and investing. These financial choices sometimes require correct evaluations of economic elements such as inflation, interest rates, and loan agreements. Poor financial management can result in behaviour that leaves individuals vulnerable to acute financial crises (Fatoki, 2015). It is critical to advance the financial education of the youth early in their lives so that they can develop positive attitudes towards financial affairs before they join the job market. Furthermore, the current youth are the prospective entrepreneurs of tomorrow. Financial education has a positive impact on the success of business ventures. It is usually in the earlier stages of their lives where households are prone to over-indebtedness (Hoosain, 2012). Cull and Whitton (2011) indicate that the financial education of the youth is critical as they enter adult life when they will be discovering a myriad of financial services and products to choose from.

Financial literacy can assist to enhance debt management, saving behaviour and retirement planning as well as wealth accumulation (Fatoki, 2015). Bruhn and Zia (2011) found that entrepreneurs that have high levels of financial education show better sales and business performance. Financially literate owners of micro-enterprises have a crucial part to play in

explaining the use of financial services. A deficiency of personal financial management can have an adverse effect on the financial management of entrepreneurial ventures and can result in failures. A solid financial foundation of entrepreneurs is a critical indicator for the growth and success of their ventures. Financial education of individuals also has an impact on how banks/investors assess loans for new ventures. A high level of financial education is favoured as it is deemed to reduce default risk (Fatoki, 2015). Knowledge of individual financial management can help consumers to be independent and enable them to plan for and deal adequately with unforeseen events, such as shifts in the labour market, changes in personal income, and retirement. Planning for retirement has become critical in the 21st century with the changing nature of employment, while employment security and the idea of being employed keeps on transforming. Contractual employment and self-employment contractual employment are the norm for some employers. Therefore, an individual's financial knowledge is important to navigate a complex and turbulent world (Masilo & Marx, 2016).

From a policy point of view financial education anthropology provides two insights. Firstly, it is important to take into account how people understand and perceive finance locally in order to have a good result in terms of change in behaviour. Secondly, aligned with the political economic insights and ethnocentric biases that are criticised by economic anthropology it should also be taken into account that they are not neutral (Guérin, 2012). Particular kinds of knowledge are more associated with those groups or communities with more power and vice versa. Financial education programs should be connected to the local realities and should also communicate specific values, norms and conversations. Understanding the role played by social influence on social history and social context helps to explain the reason for many societies that remains in dysfunctional behaviour such as over-indebtedness, poverty, corruption and xenophobia. Through social context, communities derive social norms. These are powerful sets of beliefs that dictate how community members interact with one another and maintain group dynamics. The failure to understand social dynamics has led to many financial education programs failing to achieve the desired results. These social components are critical in influencing any change in societal behaviour (Ping & Yan, 2014).

Providers of financial education should ensure that there is a broader framework in which it should take place (OECD, 2011). It should also be noted that the existing economy is characterised by additional forms of financial manipulation, of which unsecured lending forms part. These unsecured lenders rarely seem to assist the poor and the financially illiterate to take advantage of prospects, but act as inferior substitutes for a deficiency of earnings and social security. It is important to ensure that the knowledge status of local communities on financial matters is taken into account when financial education models are designed and not to use education to conceal these forms of

exploitation (OECD, 2013a). Financial education and comprehension of financial variables are critical for low-income households. Variables such as the impact of changes in interest rates need to be understood by these households so that their financial behaviour responds adequately when changes in financial variables occur (Moss, 2012). Methods used to measure financial literacy are usually similar to questions ranging from interest rates to inflation and numeracy (Guérin, 2012). A number of studies have made an attempt to evaluate financial education programs by using measures such as retirement planning, debt reduction or repayment. It was found that financial training and counselling improve financial behaviour (Grohmann, Kouwenberg & Menkhoff, 2014). Consumers need to support the concept of financial literacy, adopt the program, and implement it in their lives. This can only materialise if financial education providers can ensure that the financial education needs at the various life stages of a consumer are understood. The delivery of these financial education programs is also important and education providers need to know how to attract the attention of consumers in a dualistic economy (two nations economy indicated earlier) like South Africa and tailor financial education programs to cater for both nations (Wentzel, 2016).

The critical role of financial education is illustrated by the research conducted by Boyland and Warren (2013), indicating that the average high school student in the US lacked the basic skills of managing their personal finance, to such an extent that they are unable to balance their current accounts. This situation has resulted in many young people performing dismally in managing their first credit affairs. It is an example of poor financial management of their own affairs as they lead their financial lives by trial and error. According to the behavioural finance theory, this behaviour is referred to as 'heuristics', whereby human beings use rules of thumb and trial and error in finding the best possible solutions based on the available choices. These heuristics seldom yield the correct answers (Subash, 2012). Panos & Wilson (2020) indicate that students lacking in financial literact were found to be more likely to underestimate future student loan payments. High financial literacy among students reduces the probability of massive payment underestimation by 17-18 percentage points. There was also a financial literacy wage gap where students that had low financial literacy were found to expect significantly lower starting salaries compared to their high financial literate counterparts. As a result students with lower financial literacy become much more vulnerable to unexpected, adverse shocks on payment-to-income ratios that impair their ability to service debts and creditworthiness post-graduating (Panos & Wilson, 2020).

Research conducted in Australia indicated that a lack of financial literacy and distorted financial information has left many consumers in a disadvantaged position. According to the research, most consumers were found to lack adequate skills to understand, negotiate and manage financial agreements (Griffiths, 2006). The outcome of the Australian study shows that there is a limited

exposure that individuals had to financial education. This situation has to be addressed urgently (Moss, 2012). Further studies in the US showed that the savings and wealth accumulation of children exposed to financial education earlier in their lives were higher. The US Department of the Treasury Office of Financial Education supported the need to expose learners at an early stage to financial education, reporting that school is the best place to reach as many people as possible (De Clercq, 2009). Subsequent studies by Fatoki (2015) showed a favourable relationship between the financial management of teenagers who took part in financial planning programs and how they managed their finances during adulthood. This finding is also supported by Lyons (2005), who states that supporting primary schools with a financial education curriculum will also curb the problem of financial exclusion (banking the unbanked). The youngest learners need to be introduced to the basics of financial management to help develop the foundation necessary for them to make informed and sound financial choices throughout their lives. Financial literacy is mainly about learning appropriate attitudes about finances, together with skills and confidence to apply them; it is not necessarily about learning about different products and services only (De Clercq, 2009).

Overall, consumer credit education is said to be vital as one of the solutions to prevent consumer over-indebtedness (OECD, 2013b). The role players such as credit providers, consumer organisations, consumers, legal academics and trade unions agree that educating consumers and empowering them is vital. They indicate that financial education enables individuals to have the comprehension of and take accountability for their credit affairs by ensuring that they read and understand before signing any credit-related contract. There is a definite need for consumer credit literacy, which should begin at low levels of schooling where the subject called Life Skills should include credit and financial education. Finance should be viewed as a life skill, which will help learners to become familiar with financial affairs at a young age (Guérin, 2012). The Department of Education and Training (DET) could in collaboration with the NCR incorporate a consumer financial management subject as part of the syllabus from foundation school level (Masilo & Marx, 2016). The DET incorporated financial education in the school syllabus through a subject called Economic and Management Sciencies (EMS). EMS is compulsory throughout South African schools for grades 7, 8 and 9. In grades 10, 11 and 12 less attention is paid to financial literacy. While students can choose to continue with Economics or Business Studies from grades 10-12 this is not compulsory. The only two compulsory subjects where some financial literacy is covered are Mathematics and Maths Literacy (Wentzel, 2016). Research suggests that the addition of financial education in the school programs and giving households the tools and encouraging them to instil financial management kills in their children will enhance the financial literacy of the youth (Fanta et al., 2016). When financial education is implemented the one-size-fits-all style to financial

literacy programs is unlikely to succeed; educators should understand the key aspects in the financial education sphere and the manner in which these can be effectively applied in different contexts with differing delivery models (Shuttleworth, 2011).

2.9 OVER-INDEBTEDNESS AND THE CREDIT ASSESSMENT PROCESS

2.9.1 Risks in assessing unsecured lending

Banks lend across the spectrum, ranging from individuals to the largest multinationals and governments of countries. Lenders are inevitably subjected to credit risk. Credit risk is the risk that a borrower might default on the loan granted (Rose & Hudgins, 2013). Risk refers to the possibility that a decision being made will result in a different outcome due to the decision being made under uncertainty and imperfect information (Janse van Vuuren, 2011). There is an absolute relationship between the level of risk and uncertainty (Dilotsotlhe, 2013). Poor households are unable to save or secure the much-needed loans from credit providers as they do not possess collateral that is normally required by banks. Unsecured lenders play an important role in filling this gap (Ndari & Mukura, 2012). Credit provided by lenders include overdrafts, credit cards, installment sales agreements (normally to purchase movable goods such as motor vehicles or furniture), home loans, lease financing and term loans (Rose & Hudgins, 2013).

Financial institutions also incur credit risk, not only in their normal lending activities, but also when engaging in transactions such as options or interest rates swaps with large non-bank corporations and other institutions. For individuals, lenders normally prefer to grant them credit to purchase durable goods and not for speculation or gambling. It is important for the lender to understand and verify the purpose of the loan to be able to provide the right type of loan to the borrower (Rose & Hudgins, 2013). The unsecured lending sector is regarded as a positive development in the financial services industry as it aims to gain access to lesser serviced market sectors in the economy, especially the poor (Dilotsotlhe, 2013). Information about a consumer plays a critical part in the provision of credit. A lack of collateral and asymmetric information usually result in elevated transaction costs in granting credit. Moral hazard and adverse selection therefore add to asymmetric information and hinder sensible decision-making. The lender's deficiency of information about the creditworthiness of these consumers and their capability to repay creates uncertainty in the provision of credit (Mashigo, 2012). Adverse selection ensues when credit providers are unable to differentiate between risky and safe consumers (Dilotsotlhe, 2013).

Lenders normally increase the interest rates for high-risk borrowers, which in turn attract mainly those borrowers who are a high risk, resulting in adverse selection (Moss, 2012). To reduce the risk of defaulting consumers the focus should be on quality loans. The loan quality is ascertained

by the accuracy of the credit decision when the credit is approved. When unsecured loans are disbursed their quality is affected by adverse selection. It is therefore critical for a credit provider to obtain as much information as possible about a borrower to improve the quality of a credit decision. Methods that can be used to improve the loan quality include rationing credit, screening applicants, monitoring borrowers and requiring collateral, the latter usually unavailable from unsecured borrowers (Janse van Vuuren, 2011). This is because information is opaque for individuals, especially the majority who are poor. Individuals do not normally have financial information that can be vetted except being registered with a credit bureau when participating in the formal banking sector, which makes it difficult to reliably show their trustworthiness which forms the basis of creditworthiness. A tailor-made financial approach, which considers the unique characteristics of individuals and groups, is needed to cater for this sector (Ndari & Mukura, 2012). Moral hazard on the other hand occurs when a consumer does not behave as promised on the loan agreement once the loan has been granted to him or her. For example, if people who are insured behave recklessly with the knowledge that they are insured and that the insurance will take care of any damage or loss that may result from their actions. Therefore, it is possible that people, once they get into debt, may not behave as they promised on the loan agreement, thereby causing a moral hazard. This conflict of interest between borrower and lender as a result of moral hazard means that many credit providers may lend less than they otherwise would, resulting in inefficiencies such that lending and investment become sub-optimal (Mashigo, 2012).

What has to be done prior to entering into a credit agreement, is that a lender has to take satisfactory steps to ensure that the individual has an appreciation and understanding of the costs and risks of the loan offered, and understands their obligations and rights under the debt contract. Also, that the payment history of the individual has been assessed and that the financial earnings, future obligations and prospects reasonably indicate that the individual will be in a position to pay back the loan (Lombard & Renke, 2009). Despite the desperate need for credit especially by poor households, South African banks have struggled to adequately provide credit to this market owing to the uncertainty (Mashigo, 2012). The problem of imperfect information or information uncertainty about poor households and irreducible uncertainty about their economic environment makes quantification of the risks under these circumstances very difficult (Mashigo & Schoeman, 2012). To try and provide some certainty in the unsecured lending industry the NCA has introduced affordability assessments and interest rate caps. This is because it was determined that poor and disadvantaged consumers suffer and become over-indebted because of external shocks such as interest rate changes (De Wet et al., 2015).

2.9.2 Costs associated with unsecured loans

When money is borrowed it usually is not for free, especially unsecured credit. Interest charged is normally determined by the cost of money. This is because banks attract deposits by paying interest (Walker & Walker, 2013). Interest is the cost of using money and what is earned when saving (Boone, Kurtz & Heath, 2006). Section 101 of the NCA (2006) describes interest rates as the value that the lender charges the borrower on the unpaid part of the loan granted, and that must be reflected on the credit agreement the consumer signs when the loan is granted (Dilotsotlhe, 2013). The most important monetary policy instrument is the SARB's repurchase (repo) rate. The SARB charges the repo rate to banks when it routinely provides short-term financing, ensuring there is no liquidity shortfall in the financial market. This critical role played by the repo rate dates earlier to the 1980s when authorities implemented a more market-oriented method to monetary policy and made a decision that pricing of loans should be a central element to monetary policy functioning. Before 1980, the authorities used credit ceilings as a key instrument for monetary policy execution. When the credit ceilings were eradicated in September 1980 the repo rate system came into comprehensive effect as the core instrument of monetary policy to curb inflation (Van den Heever & Meyer, 2016).

Interest rates have a profound impact on personal financial decisions and are closely related to inflation. From a consumer perspective, the consumer's risk profile has an impact on the interest rate charged on the loan granted. If the individual has a good credit record and is considered low risk, interest rates charged on their credit tends to be lower than those individuals considered high risk (Boone, Kurtz & Heath, 2006). If for example, the average interest rate paid to depositors is three per cent, the bank normally would have a margin/spread of between three and four per cent when granting loans to enable the bank to make money. Thus, a loan will usually be priced at an interest rate of around six or seven per cent[3] (SARB, 2021). This rate will be given to low-risk customers; however, if the borrower does not have a stellar credit record and is considered to have a higher risk of defaulting a higher interest will be charged to compensate for the risk. It is not uncommon for unsecured credit to be charged at between twelve and 18 per cent or higher,

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[3] In the final quarter of 2020, deposit rates offered by private sector banks were adjusted lower, with the weighted average interest rate on call deposits decreasing from 3.62 per cent in October 2020 to 3.51 per cent in December, before stabilising somewhat at 3.49 per cent in January 2021. Interest rates on 12-month fixed deposits decreased from 5.06 per cent to 4.77 per cent over the same period. The lending rates offered by private sector banks diverged somewhat as the weighted average interest rate charged on credit card advances decreased from 13.63 per cent in October 2020 to 13.46 per cent in January 2021, while the weighted average interest rate charged on overdrafts increased from 7.86 per cent to 8.07 per cent over the same period. Interest rates on asset-backed loans were more stable, with the flexible interest rate on instalment sale credit fluctuating between 9.26 per cent and 9.27 per cent and that on mortgage advances between 6.63 per cent and 6.65 per cent, from October 2020 to January 2021 (SARB, 2021).

depending on the risk profile assessed by the lender. The generally agreed rule is thus the higher the risk, the higher the interest rate (Walker & Walker, 2013). The prime lending rate is the benchmark used, as it is a reference rate of many credit agreements. What normally happens is that the most creditworthy consumers are charged a rate below the prime rate and higher-risk customers will be charged a rate above the prime rate. Most lending in South Africa is charged at flexible lending rates that are linked to prime resulting in a situation where if the prime rate changes then most of the banking sector's lending book changes with the same quantum (Van den Heever & Meyer, 2016). The banks will typically charge a higher rate on unsecured lending not only because of the greater risk, but also because unsecured loans require more capital (CGFS Papers No 54, 2015).

It is critical to educate consumers on the impact of interest rates on loan repayments. For example, if a simple formula is used from a home loan calculator a loan of R200 000 at an interest rate of twelve per cent over 20 years will have an installment of R2 202 (excluding other monthly fees charged by banks). The total interest payable will be R326 000, therefore the total loan amount will be R528 000. If the consumer pays an additional R200 per month on the loan a saving of R197 614 will be realised on the loan and the term will be reduced from 20 years to 13 years. This is vital information that consumers should be educated on. Financial education has an impact on all borrowing decisions, including the most complex ones, and can assist borrowers to manage their repayments effectively (Moss, 2012). In addition to interest charged, lenders also charge fees and other charges, therefore it is important for the borrower to be informed about all the applicable costs before entering into a credit agreement (Walker & Walker, 2013). The maximum rate on unsecured loans is capped as shown in the example in Table 2.2. In this example, an unsecured loan is charged at the repurchase rate (RR) plus 21 per cent and, as the repo rate was seven per cent on the 6 May 2016, the maximum rate that could be charged was 28 per cent (Van den Heever & Meyer, 2016).

Table 2.2: Maximum prescribed interest rates in South Africa in 2018

Sub-sector	Maximum prescribed interest rate
Mortgage agreements	RR + 12% per year
Credit facilities	RR + 14% per year
Unsecured credit transactions	RR + 21% per year
Developmental credit agreements	
For the development of a small business	RR + 27% per year
For low-income housing (unsecured)	RR + 27% per year
Short-term credit transactions	5% per month on the first loan and 3% per month on subsequent loans within a calendar year
Other credit agreements	RR +17% per year
Incidental credit agreements	2% per month

RR indicates the reference rate, being the ruling SA Reserve Bank repurchase rate

Source: Ombudsman for Banking Services South Africa (2018)

The SARB does not prescribe a rate that banks should charge above or below the repo rate. This is to ensure that there is no interference with the market-oriented approach that is in place to manage monetary policy. There are, however, constraints on maximum lending rates to safeguard susceptible consumers from exploitation. These maximum lending rates are relatively elevated – well ahead of the lending rates that are typically charged under the ordinary course of business in South Africa. Some banks' lending rates to households are charged at these maximum lending rates, especially risky unsecured loans. These unsecured loans are mostly small in value per loan compared to mortgage loans or instalment sale loans, but they are typically many in quantity (Van den Heever & Meyer, 2016).

The NCA also regulates the fees consumers can be charged. For example, a credit contract may not entail payment of any other monies other than an initiation fee, service fees, principal debt, interest, and cost of credit insurance, collection costs and default administrative charges. Initiation fees may not exceed a certain prescribed amount (15 per cent, for example, when the NCA was promulgated) of the loan granted, while service fees also may not exceed certain limits (R600 per annum or R50 per month, for example, when the NCA was promulgated). Initiation fees are charged to a consumer when entering into a credit agreement and they can either be paid up-front with no interest charged or they can be part of the instalment repaid by the consumer. Service fees are charged to a consumer for servicing the loan, for administering or maintaining a credit agreement and can be charged monthly or annually. If the loan is settled early and the annual fee has been paid the unused portion of the fee needs to be refunded to the consumer (Dilotsotlhe, 2013).

A further critical factor to consider in personal finance is taxes applicable and the time value of money. The time value of money is important for three basic reasons: firstly, the risk of not receiving

one's money back; secondly, inflation risk and lastly, opportunity cost. It is important to know the taxes applicable to an individual's income as well in order to handle finances efficiently and to plan properly for a financial future (Boone, Kurtz & Heath, 2006). Findings in the US in 2012 indicated that household borrowing at the time appeared to be relatively inelastic, meaning that consumers were usually more concerned with the size of monthly instalments rather than the level of the interest rates. These findings are relevant and should be considered when formulating a consumer education framework, because both education and income levels influence consumers' use of credit. Individuals with high incomes tend to borrow more relative to the size of their annual income and also where the levels of formal education are higher they tend to borrow more relative to their levels of income. In both these instances borrowing is seen as a vehicle to reach the desired standard of living instead of being used for emergencies (Rose & Hudgins, 2013). This approach is supported by the way in which lenders view individuals with regard to formal education. The general premise is that formal education enlightens people in all facets of life. These individuals are perceived to be more empowered to make better financial and credit decisions (Moss, 2012).

Other costs include credit insurance where the NCA is very clear on what can be charged. These costs are stipulated in section 101 of the NCA of 2005. The Act stipulates that the amount of insurance may not exceed the outstanding balance of the loan and the consumer cannot be forced to take credit insurance and can use insurance of his or her choice (Dilotsotlhe, 2013). Banking products and services are expensive due to an intricate mix of costs, transaction and withdrawals costs. It is critical for any financial institution to price a credit product to reflect its full cost. Unsecured loans are small, they have relatively small transaction sizes and specific customer characteristics and therefore require significantly higher rates than typical commercial loans. A lack of creditworthiness and collateral also result in elevated costs (Mashigo, 2012). Key causes of default are interest rates and loan sizes. High interest rates normally lead to high default rates, while loan size is inversely related to defaulting (Mashigo & Schoeman, 2012).

The standard practice in the credit industry before the promulgation of the NCA was to charge 30 per cent per month on short-term lending. According to section 101, the NCA has prescribed that this rate should be reduced to five per cent per month with the only other fees to be charged being the monthly fees (at a maximum of R50) and initiation fees (at a maximum of 15 per cent on the first R1 000 and 10 per cent thereafter) (Janse van Vuuren, 2011). The NCA also allows credit providers to charge for the following two administrative charges (Dilotsotlhe, 2013):

- *Default administrative charges:* The NCA allows credit providers to charge consumers a fee when consumers are in arrears with their credit agreements, subject to the charges not

exceeding what it actually costs to notify the consumer (for example, the cost of posting a registered letter) and excluding telephone costs to the consumer; and

- *Collection costs:* The costs a credit provider incurs when attempting to recover outstanding or overdue monies owed by the consumer. Section 101 of the NCA of 2005 stipulates that these costs may not be more than the tariff allowed by the courts.

2.10 CONCLUSION

While the global economic meltdown caused havoc throughout the world, South Africa's banking institutions remained resilient, mainly because of a well-regulated and robust financial sector. Legislation and regulation were heralded as being the cornerstone of the South African financial sector's success and stability (KPMG International, 2013). However, over-indebtedness (credit risk) makes the South African financial system vulnerable in the unsecured lending sector. This is because the household debt to disposable income ratio has increased, indicating that the ordinary South African consumer's financial position is very weak (IMF, 2013). The SARB's statistics indicate that a considerable number of individuals use more of their disposable earnings to repay loans than in the past and that unsecured credit is mainly causing the credit spiral (Cairns, 2014). Masilo (2014) also contends that a greater number of individuals use much of their disposable earnings to repay their debts and blames unsecured credit for causing the debt spiral. Unsecured loans have become the easiest way for South African households to fund the shortfall between their income and expenses (Anderssen, 2013).

The weak financial position of South African consumers is caused by the stubbornly high unemployment rate, which has not significantly lowered since the start of the millennium. The spending power of consumers in the country has been negatively affected by unemployment, soaring food and fuel prices, lost income during strikes and slow growth in social income grants from government. Where consumers' expenditure exceeds income they always resort to incurring debt to finance their current spending. The negative effects of unsecured lending have been criticised to worsen the poverty of unsecured lenders rather than to improve it. Easy gain access to debt exacerbates consumption spending as individuals gain access to funds they may not have had under ordinary circumstances.

The unsecured lending market has been applauded for its societal effect on poverty lessening and for its profitability. Evidence suggests that better access to funding is not only better for economic growth but it is also good for the poor and the vulnerable in society, meaning that it plays a role reduce poverty and income inequality. However, over-indebtedness among unsecured lending customers puts both these achievements at risk. Together with outside influences, it demonstrates

the accountability of unsecured credit providers in driving individuals into over-indebtedness and the role individuals unwillingly play in their own over-indebtedness. Over-indebtedness is therefore one of the severe risks facing the unsecured lending market, endangering both the good intended social impact and the stability of the unsecured lending industry. Over-indebtedness, along with the material, sociological and psychological consequences of debt, if not attended to, has the capability to push consumers more into impoverishment. The psychological impact of financial strain has been related to a host of health-related difficulties such as weight gain, smoking, alcohol and drug abuse (Funderburke, 2014). These consequences may have a spill over effect in that investors, donors and supporters of the unsecured lending market may be discouraged from focusing on the market.

When used effectively, unsecured lending can play a pivotal role in achieving higher levels of financial inclusion by empowering those individuals who would otherwise need collateral to participate in the economy to be incorporated into the main stream of the economy. The concept of financial inclusion ought not to mean reckless or irresponsible provision of credit to consumers who could not afford the loans. In the background of the global financial crisis of 2008/2009, it was the unconstrained delivery of inexpensive credit to consumers with no affordability that triggered the crisis. Even though researchers disagree about the role that unsecured lending plays in poverty reduction, there is still an argument to be made for unsecure lending being a powerful tool to ensure access to credit. Access to credit and general financial services has the ability to play a vital role in decreasing household vulnerability. Insurance, savings, and credit facilities can assist households to distribute different risks over a substantial number of individuals. Financial services can be employed to build individuals' assets and therefore decrease their vulnerability to external shocks. The need to educate consumers in managing their finances cannot be underestimated. This is because financially educated consumers can avoid becoming over-indebted. Financial education can also be instrumental in reducing information asymmetry and ensuring that adverse selection is minimised as more informed consumers will be trusted to manage their finances better. Financial education will also ensure that consumers understand their rights and obligations when they enter into a credit agreement; they will understand their legal rights when it comes to credit costs and repayment obligations. This fundamental role of legislation in the consumer credit market will be discussed in the next chapter.

CHAPTER 3:
THE ROLE OF CONSUMER CREDIT LEGISLATION

3.1 INTRODUCTION

Financial institutions are generally regulated by the Bank Act of 1990. This Act uses a functional instead of an institutional approach to bank regulation, meaning that each activity is regulated under similar set of rules irrespective of the institution that is involved, as long as it is a financial institution. The Act complies with the principles set by the Basel Committee on Banking Supervision, on global banking regulations and effective banking supervision and capital adequacy (Legadima, 2012). In South Africa, the key function of the South African Reserve Bank (SARB) is to safeguard depositors' funds at banks. The mandate is executed by monitoring everything the banks do, from approving directors who serve on their boards to the types of product offered by banks to the market. This is done by daily, weekly and monthly submissions to the SARB on all activities and operations of banks. The SARB further performs on-site supervision, engages regularly with senior bank management and boards and controls the capital adequacy of banks (Carrim, Fubbs & Wicomb, 2017). Regulation is aimed at influencing the behaviour of financial institutions to enhance their resilience and to promote financial stability. Banks and financial intermediaries interact with the SARB for monetary policy implementation, therefore shifts in the regulatory space are bound to affect the broader monitoring role of the SARB (CGFS Papers No. 54, 2015). The recent strain on macro-economic fundamentals as a result of credit mismanagement has resulted in more regulations being introduced to ensure an acceptable process of credit use (Adewale, 2014). Lenders are among the most regulated of all financial institutions; every loan granted is subject to examination and review and many lenders are restricted and prohibited by law (Rose & Hudgins, 2013).

Banks are subject to a number of regulations[4], given that they are responsible for the depositors' money. These regulations are aimed to safeguard funds entrusted to financial institutions by owners of capital, workers, households, and ordinary people, (Carrim et al., 2017). Regulation performed a significant part in the increase of the unsecured lending sector in South Africa. Previously, credit transactions were regulated by the Usury Act of 1968, which determined the maximum allowable rates, disclosures and conditions of loan granting. This resulted in lenders being reluctant to grant funds to low-income earners owing to the upper limit on interest rates that

[4] For example, there were approximately 244 pieces of legislation regulating the South African banks in 2017 (Carrim et al., 2017).

can be charged. The Act was amended in 1992 and 1999 to exclude unsecured loans from rate restrictions, which stimulated significant growth of the unsecured lending industry. Owing to this change in regulation, credit providers could charge any interest rate they desired on loans which created a sizeable unregulated and unsecured lending sector. In June 2007, the National Credit Act (NCA) became effective replacing the Usury Act and heralded a new era for interest rates on financial products. The NCA was another catalyst for explosive unsecured lending growth with credit providers taking risks in pursuit of attractive returns (Hassan, 2014). Evidence revealed that contestation was the only method to reduce both microcredit costs and interest rates as it was established that in competitive marketplaces, efficiency has increased and microcredit interest rates have declined. It is also argued that price controls were not an effective way of managing high credit costs (Schrader, 2009). Many organisations are in the credit market for profit, but unfortunately many of them provide a poor service at expensive charges, they do not necessarily adhere to legislation, they show a lack of understanding of their consumers, and have a general sense that consumers have no rights and are at their mercy (Swartz, 2012). The NCA provides for debt counsellors who also charge fees to the already over-indebted consumer. It is clear that even with the existence of the NCA, the industry is still not sufficiently regulated and malpractices are still rife, so the lender and the individual consumer are not on level footing. The NCA was implemented, because before its promulgation poor and low-income consumers with no collateral who could not obtain credit in the conventional financial industry obtained credit from lenders who charged high interest and other costs.

It is clear from the above argument that the NCA alone cannot sufficiently assist the over-indebted consumer. This chapter is divided in seven parts and starts with the evolution of consumer credit, followed by the impact of regulation on financial stability. The mechanism of consumer credit legislation and the impact of legislation on unsecured lending are presented, followed by the impact of legislation on consumer credit education, and other additional regulations governing the consumer credit market concludes the chapter.

3.2 THE EVOLUTION OF CONSUMER CREDIT LEGISLATION IN SA

The evolution of consumer credit legislation in South Africa in the 19th and the beginning of the 20th century can be summarised as follows:

- **Usury Act of 1926:** Before 1992, the Usury Act (Act No. 37 of 1926) and the Usury Act (Act No.73 of 1968) regulated the credit sector. The Usury Act (No. 37 of 1926) was only relevant to transactions where funds were disbursed in the form of credit. A downward scale of interest rates based on the magnitude of the loan was permitted under the Act. The loans that were below 10 pounds then were subject to a maximum of 30 per cent interest per

annum while those above 50 pounds were subject to an annual maximum interest of 12 per cent (Sewnunan, 2014).

- **Limitation and Disclosure of Financial Charges Act:** When the Usury Act of 1926 regulated the credit industry it resulted in a blossoming of an unregulated and informal credit sector and, in 1967, the Minister of Finance in South Africa put together a committee to probe and make the Act better. The result of the probe was the promulgation of the Limitation of Disclosure and Charges Act (Act No.73 of 1968). This Act abolished the Usury Act of 1926 and afterwards became the Usury Act of 1968 (Act No. 73 of 1968), which was applicable to transactions between R10 000 and R500 000, for both money lending transactions and leasing transactions (Sewnunan, 2014). The Act replaced the term 'interest' with 'finance charges'(Otto, 2010). The intention of the Act was to regulate the cost of loans and to ensure that appropriate disclosures were made on credit contracts. The enactment of the Usury Act was to regulate the cost of lending capital, particularly households' cost of debt by enforcing the disclosure of finance charges paid. The Act was distinguished for its efficiency and effectiveness in curbing the cost of lending capital, particularly to the desperate people that were vulnerable to exploitation (Adewale, 2014). The Act was criticised, however, for being too complex and challenging to comprehend (Sewnunan, 2014).
- **Credit Agreement Act of 1980:** The other Act that regulated consumer credit albeit to a particular degree was the Credit Agreement Act (Act No.75 of 1980). The main focus of this Act was on instalment-sale transactions and did not pertain to money lending transactions. Some of the critical aspects of this Act were (Kelly-Louw, 2008):
    - Dealing with the agreement (that is, the contract) itself, for instance with its written manner, and the deposit that was necessary.
    - A deposit was required to establish if a consumer could afford to part-take in the instalment-sale transaction. However, in an effort to side-step this prerequisite, it frequently occurred that the creditor (the seller) funded the deposit on the consumer's (the buyer) behalf.
    - Although the Credit Agreement Act was largely focused on the contractual factors of credit contracts, the Usury Act targeted to govern the financial factors of such agreements.
    - While the Credit Agreement Act did not regulate money-lending transactions as did the Usury Act, their scope intersected and anomalies between the two pieces of legislation existed.

- **First Exemption Notice:** The Usury Act was amended in 1992 to exclude microloans from rate restrictions. This happened when the first Exemption Notice was published on the Usury Act (section 15 A of Act No. 73 of 1968), which exempted credit under R6 000 from the requirements of the Act and thus uncapped interest rates could be charged on these loans (Kelly-Louw, 2008). This was made official in the Government Gazette of 31 December 1992, which published that loans with maturity at less than 36 months and less than R6 000 were exempted from the Usury Act of 1968 (Legadima, 2012). Because of this change in regulation, lenders could charge any interest they wished on loans under R6 000, which gave rise to a large unregulated micro-lending industry (Kelly-Louw, 2008). The notable impact was a new credit industry that opened with lenders taking advantage of this exemption to offer loans to the poor with the aim of increasing their own financial gain; it was an opportunity spotted by lenders to offer short-term consumption loans at high interest rates (Legadima, 2012). This opportunity was used because the Usury Act of 1968 was believed to have led to the insufficient access to loans for the bulk of the population, which produced many constraints in the financial industry (Sewnunan, 2014).
- **Exemption Notice of 1999:** Based on this notice, credit of up to R10 000 that were due in fewer than 36 monthly instalments and not provided through an overdraft or credit card were exempted from the requirements of the capped interest rates and the Usury Act (Kelly-Louw, 2008). This notice became effective on the 1 June 1999. The Usury Act of 1968 was revised by the Department of Trade and Industry and changed the previous R6 000 that was exempted from the interest rate caps to R10 000. The exemption notice included confidentiality rules whereby the lender was not allowed to disclose confidential borrower information without the expressed consent of the borrower (Legadima, 2012). However, there were also other conditions that micro-lenders had to obey in order to meet the criteria for the exemption. Some of the critical aspects of the Exemption Notice were:
    - Micro-lenders were required to register with the Micro Finance Regulatory Council (MFRC). The MFRC was established to create a conducive environment for micro-lenders to be part to and for the industry to be regulated under one body (Kelly-Louw, 2008). Its role was to advance, support and promote the common interests of microfinance members. The Minister of Trade and Industry published his authorisation of the MFRC as a regulatory body on 19 July 1999. The MFRC was mandated to carry out check-ups of all approved members on a consistent basis (Legadima, 2012).
    - However, these attempts to regulate the micro-lending industry offered limited regulation, because the MFRC could only control of those credit providers

registered with it. The Exemption Notice of 1999 (and the MFRC, to a certain extent) also made requirements for partial disclosures to individuals and for administrative penalties in the occurrence of non-compliance by registered micro-lenders. The tradition of these credit providers of collecting their loans by holding an individual's bank card and private identification number was explicitly eradicated in the Exemption Notice. This practice was also later outlawed under the Usury Act itself. One gap not closed by the Exemption Notice was that credit providers presented the same individual a number of loans of R10 000 or less, in order to provide large sums of credit outside the requirements of the Usury Act and thus at exorbitant interest rates (Kelly-Louw, 2008).

- **National Loans Register of 2000:** In November 2000, all registered credit providers had to report particular information concerning the credit they advanced to the MFRC (Kelly-Louw, 2008). This was a mandatory requirement for all credit providers registered with the MFRC and was used as a means to monitor the activities of micro-lenders and the overall status of consumer indebtedness (Sewnunan, 2014). In 2003, there was a further amendment to the Usury Act of 1968 to permit the MFRC to do assessments on both unregistered and registered credit providers. In the interest of creating a stable lending environment, there was a necessity to establish a more structured and less disjointed, unified credit regulation, namely the National Credit Act (NCA).
- ***In duplum* rule of 2001:** The *in duplum* rule directly translates to 'double amount'. The common law rule states that interest in arrears stops to accrue once the amount of the unpaid (accrued) interest matches the capital sum at the time (not the original capital initially approved and advanced) (Schicks, 2010). For decades in South Africa the public demanded control of interest rate charges. Initially, under the common or statutory law, there was no control over finance charges. The courts were allowed to use the *in duplum* rule since 2001 after the Supreme Court accepted the *in duplum* rule as part of the law. The courts were given powers to reduce excessive interest rates and permit the contracts to stay valid. The *in duplum* rule is contained in section 103(5) of the NCA and it is potentially a critical consumer protection measure to save the consumers from over-indebtedness. This rule restricts interest recoverable based in the loan granted preventing interest from accumulating further when it reaches the unpaid capital sum (Swartz, 2012).
- **National Credit Act of 2005:** This Act came into full implementation on 1 June 2007 (Lombard & Renke, 2009). The goal of this Act was to redress the inadequacies that were caused by the apartheid regime in South Africa by removing the imbalances in the cost and process of awarding credit under the regime (Adewale, 2014). The main goal of the NCA

was thus to promote socio-economic welfare of South Africans and to ensure transparent, fair, responsible, effective, sustainable, competitive and accessible credit markets (Armstrong, 2014) – and, in doing so, advance the socio-economic transformation of South Africans and protect consumers from being exploited (Dilotsotlhe, 2013). The NCA's promulgation was to repeal and replace the Usury and the Credit Agreements Act and subordinate legislation (Moss, 2012). The Act also aims to address consumer over-indebtedness by providing laws to resolve it. Section 86 provides for this by indicating that the consumer can send an application to a debt counsellor for debt review, who may apply to the magistrate to grant an order for re-arrangement of credit that falls under the domain of the NCA (Roestof, 2016).

The reason for the changes in the legislation to the NCA has its origins when the Department of Trade and Industry established a Credit Law Committee to investigate the consumer credit legislation that existed at the time. These changes were aimed at the Credit Agreement Act, the Usury Act, some requirements of the common law and the Magistrates' Courts Act. The committee also investigated the consumer lending reforms in Europe and a few other countries. They consulted extensively with role players and concluded that the Credit Agreement Act and the Usury Act (including the 1999 Exemption Notice), should be replaced by a single piece of legislation and administered by a legislative regulator. The recommendation from the committee was that this Act must only be applied to natural persons such that it does not impede the innovation and the flexibility of the small and medium enterprise finance. The main proposals included shifting the focus from price control to safeguard against individual over-indebtedness, legislating undesirable credit practices, paying special attention to credit bureau activities, and making sure that transparent credit-related fees and charges are disclosed (Government Gazette, 2005). The Act proposes requirements in terms of competence, qualifications and knowledge of the employees of credit bureaus so that credit bureaus can be registered and function legitimately. The other requirements is with regard to the relationship with credit providers as a credit bureau cannot be part or an owner of a debt collection agency, a credit provider, or a business engaged in disqualified business as prescribed by the Act (Dilotsotlhe, 2013). As indicated earlier, credit bureaus hold vital credit information of consumers, which according to section 70 of the NCA of 2005, include the following (Government Gazette, 2005):

- A consumer's credit history, credit application, repayment patterns, judgments and defaults;

- A consumer’s financial history including his or her income as well as their assets and liabilities;
- A consumer’s employment, education, profession or business history; and
- A consumer’s address, identity, marital status, and any other contact details.

Section 70 of the NCA allows consumers to receive one free credit report per annum. It is important that consumers are aware of this and consumer credit education can play an important part in ensuring that this awareness exists. This disclosure can assist consumers to ensure the correctness of credit data stored by the credit bureaus and, if found incorrect, the Act gives consumers a remedy to challenge and change credit information. The Act also prohibits credit bureaus from publishing information that is being challenged until the dispute is resolved and allows for removal of a consumer’s default judgment where that consumer was part of the debt rehabilitation process through debt counselling and has fulfilled such rehabilitation obligations. Failure to expunge the default record by the credit bureau constitutes an offence (Dilotsotlhe, 2013). Even in the Philippines, during 2009, when consumer credit was new to consumers, authorities who were concerned about the credit culture and familiarity of banks with consumer lending established a credit bureau (Tan, 2009). In Singapore, credit providers have been requested since June 2014 to do compulsory checks with credit bureaus and to take into account the total credit limits and outstanding balances of a borrower before a credit card, unsecured loan or any credit limit is increased. Since 2015, credit providers are not allowed to grant any additional credit to individuals who are 60 days or more overdue on any of their lending limits. These regulations have resulted in prudent management of household debt (Monetary Authority of Singapore, 2015). The Monetary Authority of Singapore has also introduced tighter credit standards to ensure that excessive borrowing is avoided.

In South Africa, the NCA facilitated the need to reform the credit industry as the Act is mainly aimed at promoting responsible credit lending and prohibiting the granting of reckless credit in a fair and non-discriminatory market place. The Credit Agreement Act and the Usury Act and its subordinate legislation were seen as outdated and not in tact with the changes in the consumer credit market. The NCA aims first and foremost to initiate a singular practical system of legislation applicable to all lending activities, in so doing ensuring that lenders and credit consumers are treated the same (Moss, 2012). The main objectives of the Act are to (Muller, 2014):

- Encourage responsible lending;

  - Avoid consumer over-indebtedness, and fulfilment of financial responsibilities by individuals;
  - Discourage reckless lending by lenders and contractual non-payment by individuals;
  - Promote fairness in the lending market by balancing the particular responsibilities and rights of lenders; and
  - Provide a harmonised and consistent system of debt enforcement, restructuring, and judgment.
- **National Credit Amendment Bill of 2014:** The National Credit Amendment Bill (No. 19 of 2014) provides stringent compliance regulations for credit providers and requires them to be very cautious when granting credit. This Bill seeks to close the gaps in the NCA and to address some of the practical difficulties that have emanated since the NCA's inception. Some of these aspects include (Armstrong, 2014):
  - Revised and standardised affordability assessment regulations;
  - Improved standards and training requirements for debt counsellors;
  - Provision for the automatic elimination of adverse consumer data;
  - Enhanced regulation of payment distribution agencies; and
  - A further clampdown on illegal credit providers.

It was found that under the NCA credit providers conducted inadequate credit assessments which could have resulted in unsecured credit being granted to consumers who could not afford them, while under the Amendment Bill credit providers are subject to stringent affordability assessments and they must ensure full compliance (Government Gazette, 2014). The stringent regulations for affordability assessments were introduced in September 2015. Before this date the only requirement was that a credit affordability method needed to be followed. Since the introduction of the Amendment Bill, a new, detailed approach has been outlined for credit providers, including prescribing norms for minimum living expenses based on income category; ensuring that there is sufficient surplus income to afford the proposed repayments; that all statutory deductions such as unemployment insurance (UIF) contributions, income tax, maintenance payments along with all other dedicated payments and debt service commitments covering the borrowers' total debt should be included in the credit assessment. After all these deductions have been taken into account the surplus amount left from the debtor's income should be enough to be able to repay the new debt being applied for or be enough to cover the stipulated regulatory expense norm (Van den Heever & Meyer, 2016). Theoretically, a tailored

regulatory framework is a suitable measure to reduce the high debt levels in South Africa; however, the literature appears to have little empirical evidence to support this theoretical assertion (De Wet et al., 2015). The Amendment Bill places ceilings on amounts that credit providers can charge on credit insurance and costs associated with the sales, reactivation, and collection of certain debts. This is a stark departure from the Usury Act whereby credit providers could determine their own codes of conduct and guidelines when granting credit. Furthermore, under the Amendment Bill the following activities have been strengthened (Government Gazette, 2014):

- The registration of debt counsellors is subject to 'fit and proper' standards, accompanied by investigations and probity tests. The NCR can disqualify someone as a debt counsellor, in spite of them having complied with other provisions of the Bill;
- All credit providers need to register, regardless of how many credit agreements they hold, to make sure that unscrupulous lenders do not remain unregistered and dilute the lending market; and
- The Amendment Bill also gives powers to the National Credit Tribunal to make rulings and adjudicate on reckless lending matters and to ensure cost-effective relief for consumers. Previously this was the function of the courts only.

This also means that the conduct and practices of debt counsellors will be closely regulated, government intervention will be increased, and there is also a provision for automatic removal of adverse consumer information (Government Gazette, 2014). Financial legislators can leverage their part as overseers in the financial sector to augment financial literacy efforts and can play a significant role in accelerating financial literacy. From a regulatory point of view, there is a need to identify best practices to enhance financial education, which in turn will make the regulation task easier and also avoiding exploitative behaviour (Fanta, Mutsonziwa & Naidoo, 2016). A credit agreement has to have two elements to qualify as a credit agreement. First, is the element of deferment of a payment (via instalments or a lump sum) and the second one is the fee that needs to be charged (Lombard & Renke, 2009). In addition to the credit relief methods outlined by the NCA, the Insolvency Act of 2002 provides administration orders in terms of section 74 of the Magistrates' Courts Act of 2010 and sequestration (Roestoff & Coetzee, 2012).

According to the Magistrates' Courts Act, employers are also required to administer emolument attachment orders (so-called 'garnishee' orders in South Africa). When an employee has defaulted a credit provider can issue a garnishee order to the employer, which requires amounts to be deducted from the employee's salary to repay the debt until such time full repayment is made

(Haupt & Coetzee, 2008). A garnishee order allows the creditor to take the property from the debtor or take a portion of the debtor's salary as soon as the salary is paid out to the debtor, meaning in essence that the debtor does not get that portion of their salary (Njobeni, 2016a). Failure to honour a garnishee order by the employer is a breach that an employee has a duty to sue an employer; the credit provider also has a right to sue an employer for not honouring the order. This places a huge administrative burden on the employer owing to the current over-indebtedness in South Africa (Haupt & Coetzee, 2008).

In July 2015, the constitutionality of garnishee orders was challenged on the basis of trampling on the rights of borrowers and not giving them fair treatment. Some of these orders were allowed to be issued by the officers of the court instead of a magistrate, which meant a judicial oversight was lacking. Oher orders were issued in jurisdictions far from the borrower making it impossible for the borrower to challenge the order. The constitutional court found that all 15 garnishee orders that were challenged in the case before them were unlawful, invalid and of no force and effect (Crotty, 2016). The constitutional court ruling in September 2016 eradicated these questionable practices and ensured that the magistrates themselves instead of the clerks of the court will be involved in the issuing of garnishee orders (Njobeni, 2016b).

3.3 THE FUNCTION OF CONSUMER CREDIT LEGISLATION

The introduction of the NCA represented a key departure from the prior lending legislation; was a product of a legal comparative task by the Department of Trade and Industry and its scope is much wider (Kelly-Louw, 2008). The NCA pertains primarily to instances where the debtor or borrower is a natural person. However, specific sections of the Act also apply to credit contracts where a consumer is deemed a close corporation, a partnership, company or a trust whereby there are fewer than three individual trustees or where a trustee itself is a juristic person or any association or body of persons, regardless of whether they are registered according to any Act – given that its annual turnover or asset value does not exceed one million rand at the time of the credit contract on a limited basis. If what is referred to as a large transaction is concluded (over R250 000 per transaction), the NCA will not be applicable even if the entity is below the R1 million turnover threshold (Government Gazette, 2005).

One of the regulations governing the financial industry is the financial sector charter that was signed on 17 October 2003 after intense negotiations at the National Economic Development and Labour Council (Nedlac) in 2002 (Carrim, Fubbs & Wicomb, 2017). Table 3.1 outlines the timeline process for the financial sector charter:

Table 3.1: Timeline process for the financial sector charter

Year	Event
2002	Financial Sector Summit convened Financial Sector Summit declaration signed on 20 August
2003	Financial Sector Charter signed on 17 October
2004	Financial Sector Charter comes into effect on 1 January
2005	Financial Sector Charter Council is established
2006	In September, the Financial Sector Council publishes its first annual review of transformation in the financial sector
2007	Codes of Good Practice promulgated February. Sector charters given 12 months transition period to align
2008	Financial Sector Charter is reviewed and discussions of revised targets begin
2009	Last report under voluntary charter published
2010	Impasse – October Finance Minister and Trade & Industry Minister provide a way forward
2011	Phase 1 draft aligned sector code (excluding ownership)
2012	November – new Financial Sector Code gazette under section 9(1) Empowerment Financing and Access to Finance targets are reviewed and new ones agreed.
2013	Revised Codes of Good Practice promulgated in October with a one-year transition period for sector codes
2014	Extension of transition period
2015	Draft revised sector code submitted to dti
2016	March – section 9(5) gazette of the revised Financial Sector Code for public comment Review of comments by dti and engagement with relevant stakeholders
2017	Further engagement with dti on deviations and agreement Awaiting gazetting of final code

Source: Carrim at al. (2017)

The previously unregistered credit providers belonged to an association called Micro Finance South Africa (MFSA). The MFSA acts for members registered with the NCR and is deemed to represent 30 per cent of the unsecured lending market (Njobeni, 2016b). The MFSA represents registered and legal microfinance lenders in South Africa. It is registered as a section 21 Company with a vision to ensure a sustainable microfinance industry (Legadima, 2012).

The NCA aimed to solve specific issues that existed in the individual lending market, which included firstly, the prevention of reckless lending by lenders; secondly, the prohibition and mitigation of over-indebtedness; and lastly, the deterrence of the exorbitant costs of lending (Kelly-Louw, 2008). Credit providers are obliged to grant credit in compliance with the NCA and to act within responsible and ethical guidelines. This eventually places a priority to ensure that all consumer obligations are satisfied responsibly under credit agreements (Armstrong, 2014). The introduction of the NCA sought to deal with these issues whereby not only the interest rates are capped, but the other fees related to credit are also capped. The NCA is therefore prescriptive on the type of charges and fees that can be billed to a consumer. The NCA also codified the Common Law's *in duplum* rule that the interest halts on a product when the unpaid interest matches the

unsettled capital amount. The aim is to prevent over-extension of the borrower's inadequate financial means (Government Gazette, 2005). The NCA and the *in duplum* rule, which are used as mechanisms to avert over-indebtedness in South Africa, seem to be inadequate in promoting consumer credit health. This is because even with the enactment of this law lower income groups are still over-indebted due to credit from retailers, unsecured credit providers and other financial organisations due to consumption spending on furniture or clothing for instance which attracts the highest interest rates, administration and collection fees (Mutsonziwa & Fanta, 2019).

Interventions such as the NCA and the *in duplum* rule are not able to avert the scourge of over-indebtedness. The availability of debt counsellors through the NCA has added costs to the already over-indebted consumer. The gap that still exists between debt counselling and financial advisory services (the insurance market) is not helpful to the over-indebted consumer. Each individual's level of debt is personal and for different reasons. Becoming debt-free should thus also be approached from this highly individual-specific perspective. That is why a close synergy between debt counselling and financial planning and advisory services is important (Alexander Forbes, 2015). Furthermore, financial institutions need to work hard to understand their customers, to encourage them to call on the institutions' assistance when needed. They should be committed to assist customers not only when they are doing well but also when they experience financial hardships. When customers cannot afford their existing instalments an assessment should be done on what they can afford and the debt needs to be restructured or payments extended so that a customer can afford. Tools and guidelines for budgeting, income and expenditure assessments need to be available at banks for customers to use. If all else fails, banks need to ensure that a customer is informed and encouraged about debt counselling (Absa Bank, 2012). This industry has proven to be the most difficult to control as lenders are able to find many opportunities to use the so-called 'fringe activities' to exploit regulatory arbitrage. This is because participants who adhere to regulations might find themselves at a disadvantage due to the actions of others in the industry who provide credit in a less responsible manner (Schicks, 2010).

In addressing these challenges, the NCA has established two consumer credit institutions, namely the National Credit Regulator (NCR) and the National Credit Tribunal (NCT). The NCA is managed by the Department of Trade and Industry through the National Credit Regulator (NCR). The NCR was established on 1 June 2006 and is accountable for regulating the South African lending market. The regulator is required to carry out credit literacy; consumer protection; policy and research development; complaints investigation; registration of industry players; and ensuring the execution of the Act (Kelly-Louw, 2008). The Regulator is required to advance and support the expansion of a transparent, fair, sustainable, accessible, and competitive lending market. It has

been tasked to specifically focus on the necessities of historically underprivileged individuals; lesser-income individuals and those from remote, isolated or low-density households. Lenders such as micro-lenders, financial institutions and retailers are required to register with the Regulator– not registering may lead to debt agreements with an unregistered credit provider being deemed null and void. The National Credit Tribunal is a distinct body autonomous from the National Credit Regulator. The members of the NCT are appointed by the President. Its functions can be summarised as follows (Government Gazette, 2005):

- Hearing and adjudicating on lawsuits against lenders who have breached the NCA;
- Issuing fines where it is deemed necessary;
- Issuing compliance notices even on cases that were resolved by alternative dispute resolution; and
- Acting as a forum for lenders and individuals to appeal to the Tribunal against verdicts of the National Credit Regulator.

The NCA provides that the lender must provide the consumer with a pre-agreement disclosure statement that contains the key elements of the recommended agreement and a cost quotation for the loan, which is binding to the lender for five days after presenting the quotation. The NCA provides that in terms of small loans, the lender must present the consumer with the quotation and an agreement in a stipulated format, while in a case of large credit, the lender must present the consumer with an agreement in another format that includes the quotation in a stipulated format, outlining the total cost of credit (i.e. principal debt, interest rate, and other credit costs). The copy of the loan agreement must also be provided to the consumer free of charge and must be printed or be in a printable format (Government Gazette, 2005). The Exemption Notice of 1999, which provided that interest rates for loans less than R10 000 be uncapped, resulted in lenders and other credit providers charging consumers exorbitant rates of over 100 per cent and, in some cases, over 200 per cent interest on these loans. In 2008, the Department of Trade and Industry investigated loans that were disbursed before the enactment of the NCA and found that despite the cap on the interest rates on these loans the rates charged by some credit providers were above the Usury cap rate. This emphasized the need to regulate the interest rates charged, as these may lead to NPLs and eventual over-indebtedness if the interest rates are excessive and unaffordable (Kelly-Louw, 2008).

The efficient management of over-indebtedness and subsequent NPLs depends on the legal and judicial framework in each country or jurisdiction. This is because loans and their collaterals normally lose worth during the long-drawn-out debt negotiations and associated legal proceedings. The longer it takes to calculate the eventual cost effect of NPLs the higher the uncertainty. This

uncertainty may result in increasing discount for any selling of the NPLs thereby discouraging prospective sellers from selling or getting rid of the asset. This discounting of NPLs results in increased losses and it has been contended that the financial calamity in Europe was elongated by the fundamental weaknesses in the domestic judicial and legal system. There are examples of countries that have reformed their legal structures in the after effects of the global financial crisis to improve their NPLs' resolutions. The following few examples highlight the reforms (Baudino & Yun, 2017):

- **Japan:** The Corporate Reorganisation Law was changed in 2002. Prior to 2002, an 'Assembly of Related Persons' was required to convene 3 times before debt might be restructured, even if no person demanded that such an assembly is convened. Since 2002, the Assembly can only be summoned by the courts or selected parties, so that the credit committees can speed up the bankruptcy process. What was also enhanced was that a restoration plan can be decided by a vote of a minimal majority instead of two thirds as was required previously. Furthermore, the 'Private Rearrangement Guidelines' were established in 2001 to put general principles in place for the out-of-court settlement process, to render out-of-court debt restructuring simpler to execute.
- **The United States:** In 2005, streamlined processes regarding insolvency regulations for small- and medium-sized enterprises (SMEs) were launched. The new Chapter 11 was produced for SMEs with exclusive provisions including simplified procedures, standardised forms, and no requirements for a credit committee to make a decision on debt restructuring.
- **Spain:** In 2013, a new legislation was launched that made possible an out-of- court settlement method, creating a stay of execution for up to three months. In 2013 to 2015, the insolvency legislation was also announced that gave companies permission to reach pre-insolvency agreements with their creditors. Included in the insolvency legislation is a credit exemption practice for borrowers as soon as their assets have been settled to benefit creditors. Further adjustments were introduced in 2014/2015 that lessened the restrictions on loan decreases for unsecured loans and postponement of settlement conditions. The amendment includes zero limit on write-downs and rearrangement being up to ten years. The class voting method was also amended to ensure that only a simple majority or 65 per cent of regular creditors are enough to grant a loan rearrangement proposal.
- **Italy:** Various reforms were announced in 2015, which included a new loan rearrangement tool. This tool compels all creditors on a debt restructuring plan when 75 per cent of the creditors agree to the plan. Further reforms were added in 2016, such as pledge without possession of movable assets, revisions to the code of civil procedure regarding the

implementation of the transfer of securities and primary transfer agreement as security for new financing.

- **Ireland:** In 2012, Ireland's Personal Insolvency Act of 2012 launched new amendments so that a loan payment arrangement that, if granted by 65 per cent of creditors, caters for an unsecured lending payment over five years; an insolvency arrangement for cash flow insolvent debtors to pay loans if granted by 65 per cent of all creditors. In 2015, the country introduced a judicial review of creditors' denial of a personal insolvency arrangement. The judicial review has the power to override creditors' objections.
- **Greece:** In 2014, a new law was announced that permitted momentary out-of-court settlements, as well as new procedures for SMEs and prepacks for bigger companies. In 2015, the insolvency legislation was amended to simplify and strengthen rehabilitation procedures by setting limits on the automatic stay of creditors. In 2016, the insolvency procedures were revised targeting to decrease the time required to complete it by eliminating ancillary proceedings. A personal insolvency regime was introduced in 2010 and renewed in 2015 to accomplish a quicker resolution process.

As discussed earlier, South Africa also followed these examples by empowering the National Credit Tribunal through the Amendment Bill to make rulings on consumer credit matters and the tribunal has also been given enforcement powers, which was previously only the function of the courts. This has been done to ensure efficiency and to speed up the resolution process as it was done in the countries mentioned above (Government Gazette, 2014).

3.4 THE IMPACT OF CONSUMER CREDIT LEGISLATION ON UNSECURED LENDING

The impact of the NCA on the financial market was that it started a new era for interest rates in financial products because the maximum interest rates that were permitted under the Usury Act of 1968 on a loan above R10 000 was 17 per cent, while for a similar transaction under the NCA the maximum interest is the repurchase rate (repo) multiplied by 2.2, and adding 20 per cent for unsecured loans (Hassan, 2014). The Department of Trade and Industry's 2008 research also found that even in instances where credit providers were complying with the Usury Act the additional credit-related costs were inflated by added charges over and above the finance charges. Insurance products, credit life insurance in particular, showed a major disparity between interest rate ceilings and the actual cost of debt. The research also found that the introduction of the Usury cap made many credit providers complacent when it came to their credit policy resulting in their consumers becoming over-indebted (Kelly-Louw, 2008).

What also exacerbate over-indebtedness in the unsecured lending sector in South Africa are lenders inundating consumers with offers of quick and easy loans. The National Credit Act Amendment Bill provides for various forms of restrictions on credit marketing and advertising methods (Govender, 2014a). Loan contracts cannot be advertised on the basis that the contract will inevitably come into effect except if the individual refuses the offer. In addition, any solicitation by a lender should include a statement with prescribed information depending on the product being advertised. Soliciting credit excluding home development credit at the person's work or home address is forbidden except if agreed with the individual. Certain advertising practices are prohibited, such as small print and special conditions are regulated: when advertising specific products the credit provider needs to provide full disclosure of the costs, interest rates, and instalments payable (Government Gazette, 2014). Credit providers cannot only rely on what consumers are presenting when applying for loans; they also need to ensure that they perform their own assessments regarding the economic affordability of the loans applied for (Armstrong, 2014). The amended regulation proposed more stringent affordability assessment for credit providers to undertake in order to better the quality of credit granted to consumers. This is because some lenders are exploitative and increase their credit offers to cash-strapped consumers (Government Gazette, 2014). In order to decrease the risk of NPLs the credit providers should focus on improving the quality of loans provided (Dilotsotlhe, 2013).

As a result of the 2008/2009 financial crisis and the undesirable consequences on the international credit markets, supply side law was launched in many nations in order to stem such consequences in the international market and to lessen the possibility of them happening again. South Africa was proactive in establishing a regulatory framework before the crisis hit the markets and the stability of the banking industry in South Africa was applauded for that proactivity (De Wet et al., 2015). The NCA specifically prohibits a lender from entering into a reckless loan contract in section 81 of the Act. This section also spells out penalties for credit providers who enter into such agreements. Anticipating the reckless lending provisions that came into effect on 1 June 2007 some credit providers started soliciting credit extensively to the general public, which resulted in consumers being bombarded with invitations from credit providers proposing pre-approved loans and credit cards. Several desperate individuals who were already in difficulty financially were victims to these offers, intensifying their degree of over-indebtedness. The NCA provides to either prohibit or strictly regulate this kind of solicitation with the intention to restraint irresponsible lending and over-indebtedness (Govender, 2014b). In addition, if the court pronounces a credit contract to be irresponsible, because entering in such an agreement made the consumer over-indebted, the following would happen (Government Gazette, 2005):

- The court should further take into account whether the individual is over-indebted during the court proceedings; and
- Should the court finds that the individual is definitely over-indebted, the court can issue an order putting on hold the effect and force of the loan contract until such time decided by the court. The court can also rearrange the individual's debt commitments under any other loan contract in accordance with the Act.

Before rendering such an order, the court should take into account the current ability and means of the consumer to be settle their commitments that existed at the time of the agreement. The court must also take into account the anticipated date of fully satisfying any such commitments under the loan contract, presuming that the individual makes all mandatory payments in accordance with any intended order. The NCA also determines the impact of suspending a credit agreement and stipulates that during the suspension the individual is not obliged to make any payment required under the agreement. However, after the suspension the agreement is enforceable except if determined otherwise by the order of court. To stop individuals from exploiting the irresponsible lending protection requirements, the Act has promulgated the following specific measures s (Government Gazette, 2005):

- Section 81(1) obliges the individual to respond to all questions asked by the lender truthfully when the consumer applies for credit; and
- Section 81(4) provides that if the lender is able to demonstrate that a consumer did not disclose all information as per section 81(1) when the credit application was considered and the information withheld materially affected the decision to grant credit, a consumer cannot claim reckless lending.

In an attempt to increase the capability of a lender to do a proper credit affordability assessment, the NCA has incorporated provisions to integrate and improve the credit information infrastructure. A National Credit Register has been created to help lenders specifically not to approve loans irresponsibly. The register contains relevant credit information about a consumer. Section 69 deals with the creation of such a register. In addition, the regulation of credit bureaus means that more accurate information is kept by these institutions and credit providers can rely on them (Government Gazette, 2005). Even with all these changes in place the desired results envisaged by promulgating the NCA have not been achieved; in fact, the increase in the consumer's accessibility to credit has resulted in the growth of consumer over-indebtedness.

The courts and tribunals are ready to impose penalties should credit providers overstep the boundaries of the Act and/or the Amendment Bill. The other significant change brought about by

the Amendment Bill is the uniformity in which credit providers need to conduct affordability assessments, while previously they were subject to their own determination, now they have been prescribed a uniform binding method and/or criteria. There are also caps on excessive credit costs, such as insurance, reactivation and collection of credit. The fact that all credit providers should be enlisted with the NCR helps to avoid loopholes in the Act that allowed unscrupulous credit providers to remain unregistered, diluting the credit market. Registered credit providers can be reviewed or additional conditions can be imposed on them under the Amendment Bill to ensure that they remain within the law to continue to be registered. They can face fines or penalties for registration that is not within the prescribed time periods. Section 73 (1) (c) provides for a registered auditor to monitor this process including automatic removal adverse consumer information from credit bureau. The Amendment Bill also empowers the National Credit Tribunal to make rulings and enforce them, which was previously only the courts that could do so (Government Gazette, 2014).

Two events in 2016 were instrumental and they both relate to the enforcement of the credit regulations, both were judgments from the Constitutional Court, filed with the involvement of Summit Financial Partners[5], which is adamant to clean up unsecured lending. The first was the tightening of the rules with regard to garnishee orders where the Constitutional Court found some of the aspects of the Magistrate Courts Act of 1944 to be illegal and ensured that magistrates and not court clerks are the only ones that can legally issue a garnishee order among the most important aspects of the ruling. The second was Lewis Furniture Shop that was found to be contravening the NCA on credit insurance. The court tightened the rules on how this insurance can be sold to consumers and ordered the government to ensure that consumers know their rights pertaining to consumer credit. The common theme in both cases is that regulators are not up to the admittedly tough task of pro-actively protecting the most vulnerable consumers in the South African society from unscrupulous lenders (Omarjee, 2016). While the aim of the NCA and the Amendment Bill is to create a fair, transparent and accessible credit market, it now appears to be over-regulating the credit market. This may result in long turnaround times on credit applications, forcing consumers to make use of informal lending options (Schrader, 2009). The preamble to the Amendment Bill indicates that the NCA aims to reduce consumer over-indebtedness and protect consumers from unscrupulous lenders, which will be difficult to achieve if the industry is over-regulated (Government Gazette, 2014).

The introduction of the NCA in 2007 has had a massive impact on the role players in the lending market; one of the impacts was that credit providers have to bring in additional resources such as

[5] Summit Financial Partners was established in 2004 to protect the interest of consumers in the South African financial services sector (Omarjee, 2016).

people and systems to manage the NCA (Haupt & Coetzee, 2008). Granting of credit by unsecured and unregistered credit providers plunged South Africa in a debt spiral, and caused the NCR to investigate the provision of credit and put in place changes that strengthens lending criteria and reduces credit risks. The changes implemented created challenges for credit providers to comply with the new regulations (BANKSETA, 2016). Section 86 of the NCA has introduced the debt review process as a remedy where over-indebted consumers can declare themselves as such and have their debt obligations rearranged. This is normally done through a debt counsellor after reviewing a consumer's budget by making proposals to the relevant lender to restructure the debt. The lender has a choice of agreeing or declining the proposal and, should the proposal be rejected the matter must be referred by the debt counsellor to the Magistrates' Court for adjudication (Haupt & Coetzee, 2008). Debt counselling is an alternative to a sequestration order (Dilotsotlhe, 2013). The debt review process is one of the mechanisms employed by the NCA to deal with over-indebtedness. Although section 3(g) indicates that the Act aims to resolve the over-indebtedness problem, this purpose is subject to fulfilment by the borrower of all responsible financial commitments. The debt review process does not offer consumers discharge from pre-existing indebtedness unless it is found to be reckless and has been set aside by the courts (Roestoff & Coetzee, 2012).

The fact remains that if a regulatory framework were to be designed that protect the purveyors of abusive lending practices it will look exactly like the one that exists in South Africa. Borrowers who have little understanding of their rights and obligations are up against shrewd lenders with a deep understanding of the law, its loopholes and who are able to use their knowledge to outsmart borrowers (Crotty, 2016). Even though many lenders suffered losses in unsecured lending and one of them (ABIL) collapsed, the biggest victims in unsecured lending seem to be the borrowers; the very same people the NCA was supposed to protect. Certainly, untold numbers of consumers have benefited from access to lending from traditional banks as opposed to those offered by unscrupulous unsecured lenders (i.e. loan sharks or so-called *Mashonisas* in SA), but these stories are overshadowed by reckless lending to consumers (*Business Day*, 2016). Over-indebtedness has risen even with the NCA being implemented in South Africa (Dilotsotlhe, 2013).

3.5 FINANCIAL LITERACY, DEBT COUNSELLING AND CONSUMER LEGISLATION

The NCA provides for debt counselling for those over-indebted and in need of debt rehabilitation; however, the argument is that the Act should rather focus on reducing over-indebtedness by means of financial education instead of debt rehabilitation. This is because debt counsellors tend to hold debtors to ransom making it difficult for them to escape their debt obligations (Dilotsotlhe, 2013).

Many credit active[6] South Africans find themselves under a debt burden. The quality of education that a debt counsellor receives is also questionable. A prospective debt counsellor only has to complete a ten-day training program before writing the required examination. After the examination there are no stipulations on how to learn their trade or any requirements for supervision or submission of their outcomes to regulatory scrutiny. The examination is in an open book format and mainly covers theory but makes no provision for practical applications. The only requirements to be a debt counsellor are (Government Gazette, 2019) a matric certificate, a clear credit history, no criminal record and no history of mental illness.

The primary aim of consumer credit legislation is to protect consumers from over-indebtedness. However, consumer credit legislation cannot avert the occurrence of external economic incidents; they can only assist consumers in ensuring that their debt levels are not too high, so that when adverse events occur they are able to withstand them. Consumer credit regulation is contradictory in that it aims to both prevent over-indebtedness, but in a similar manner foster consumer debt increase – a shortcoming in the NCA (De Wet et al., 2015). Over-indebted consumers reported that they had high stress levels, and that their productivity at work was below par (Haupt & Coetzee, 2008). The best example that confirms this is a survey by PwC in the US in 2017, which found that employees are likely to be distracted by their finances at work (55% vs 23%) and make early withdrawals from their pension plans (51% vs 23%) (Allison & Harding, 2017). Much more consumer credit education was said to be needed to encourage responsible spending and to start with the debt counselling process much earlier if the consumer find themselves in that position. Where interaction happens much earlier it is generally simpler for the debt counsellor to help the consumer and the recovery time span is decreased significantly (Haupt & Coetzee, 2008). By making provision for debt counselling, section 86 of the NCA aims to protect the consumer from being blacklisted and to help them remain in the economy without having to go through litigation, judgments and execution sales (Haupt & Coetzee, 2008).

It is widely acknowledged that excessive credit extension is at the centre of many asset price bubbles, meaning that policy tools used must be aimed at inhibiting excessive leverage in the credit market. Housing markets are usually at the epicentre of many financial calamities, meaning that it is the excessive credit in the housing market that should be prevented. This can be done by setting up maximum loan-to-value ratios on property trades and lending restrictions based on disposable earnings (Marcus, 2012). Behavioural finance research shows that the psychological appeal of

[6] Almost half of South Africans were credit active in 2020 (Amounting to R27.99 million in 2020 – a 66 per cent increase from 2011). Over 37 per cent were categorised as impaired, over 10 per cent had adverse listings and over three per cent were classified as having judgments and administrative orders against them (NCR, 2020).

housing spreads further than utilitarian benefits. Home ownership ambitions propel individuals into buying properties that they cannot afford. These aspirations evoke cognitive errors and emotions that blind property-owners to the risk connected to housing. Before the 2008/2009 global financial crisis, one mortgage banker reported that individuals were eager to sign everything that was put in front of them (Shefrin & Statman, 2011). High levels of household debt have shown to slow down economic growth. A US study by Mian and Sufi (2011) found that weaknesses of the US economy was closely associated to greater levels of household credit acquired during the housing boom that led to the financial crisis. This was illustrated by the fact that in US counties where household credit increased moderately between 2002 and 2006, employment loss was also moderate during the crisis and the economic recovery was robust. By contrast, in counties where the increase in housing debt during the boom was large, the economic recession was severe. The housing industry presents a good example of how excessive credit extension can have a severe impact on consumers by making them over-indebted (Shefrin & Statman, 2011).

3.6 ADDITIONAL LEGISLATION REGULATING THE CONSUMER MARKET

Further important legislation regulating the consumer market is the Consumer Protection Act (CPA) of 2008. The CPA wishes to encourage a fairer, more sustainable and more accessible consumer market whereby less informed and less educated consumers are protected. The CPA came into effect on 31 March 2011 and compels lenders to ensure that borrowers fully understand the implications of any credit contract they are entering into, extending to the wording and legal effect of these contracts. The endorsement of this Act holds the view that borrower protection measures may prevent consumers from being nickel-and-dimed to death by various product fees, which they are powerless to dispute (Moss, 2012). Finally, section 165 of the CPA can be used to hold directors personally liable, because they have a fiduciary duty to ensure that the company adheres to all applicable rules and regulations, and when reckless lending arises they should act to ensure it is avoided otherwise be held personally liable and be declared delinquent (Crotty, 2016). Another significant regulation affecting the consumer is the Cooperative Banks Act (Act No. 40 of 2007). This was anticipated to generate and shape a strong enabling environment for the delivery of microcredit in South Africa (Legadima, 2012). The Cooperative Banks Act allows cooperatives to accept deposits in a regulated environment (Meiring, 2012).

In summary the following statutes and regulations primarily govern the financial institutions (Meiring, 2012):

- *The Banks Act of 1990 (the Banks Act):* provides for legislation of taking deposits from the public.
- *The South African Reserve Bank Act of 1989:* regulates the SARB and the monetary system.
- *The Inspection of Financial Institutions Act 1998:* provides for examination of lenders and other institutions conducting a business of a financial institution.
- *The National Payment System Act of 1998 (the NPS Act):* provides for operation, administration, management, supervision and management of payment, clearance and settlement system in SA.
- *The Financial Advisory and Intermediary Services Act 2002 (FAIS):* provides regulation for the offering of specified intermediary and financial advisory services to customers.
- *The Financial Intelligence Centre Act 2001 (FICA):* provides for the formation of a Financial Intelligence Centre (FIC), and the Money Laundering Advisory Council in order to prevent money laundering activities and financing of terrorist-related activities. It necessitates certain obligations on institutions and persons that might be used for money-laundering purposes and to finance terrorism and related activities.
- *The Mutual Banks Act of 1993:* regulates the activities of mutual banks.
- *The National Credit Act of 2005:* provides for regulation on consumer lending and enhanced standards of consumer data, prevent specific unfair lending practices, including unfair advertising practices, and also irresponsible lending practices. Provides the granting of debt restructuring in incidents of over-indebtedness; legislates lending information and the use thereof; and regulates registration of credit bureaus, credit providers, and debt counselling services.
- *The Cooperatives Banks Act of 2007:* provides for the supervision and regulation of cooperative banks. This regulation has been created to deal with cooperatives as a separate tier to the formal banking sector and gives them the necessary freedom to operate in the financial services industry.
- *The Currency and Exchange Act of 1933 as amended by Notice No. R. 445, Government Gazette 35430, dated 8 June 2012:* provides regulations for legal tender, exchanges, and banking. Exchange controls imposed as a result of that Act restricts the export of currency from SA (Government Gazette, 2012).
- *Consumer Protection Act (CPA) of 2008:* the Consumer Protection Act no. 68 of 2008 wishes to encourage openness, fairness, and good business practices between consumers

of goods and services and suppliers of those goods and services. The Act established a National Consumer Commission to ensure a market place that is sustainable for consumer products and services, and guarantee a reliable legislative and execution framework on consumer agreements and transactions (Government Gazette, 2009).

- *The National Credit Amendment Bill of 2014:* introduced to amend certain sections of the NCA to improve the powers of the NCR and the Minister of Trade and Industry. The Act requires all financial service providers regardless of turnover or loan book size to be registered. The Act imposes stricter regulations on debt counsellors, and enhances the Minister of Trade and Industry powers to remove adverse credit information by notice or automatically when the adverse information is due to be removed. The Amendment Bill also empowers the National Credit Tribunal to adjudicate disputes in credit-related matters and declare credit agreements reckless as indicated above (Government Gazette, 2014).

More specifically, the ensuing governing authorities are accountable for supervising the financial institutions in South Africa (Meiring, 2012):

- *The South African Reserve Bank (SARB):* the SARB is the central bank of SA and is most importantly tasked with the responsibility of supervising banks.
- *The Financial Intelligence Centre (FIC):* this body gives guidance and monitors banks and responsible institutions ensuring their conformance with the FICA.
- *The National Credit Regulator (NCR):* the NCR was founded in terms of the NCA to ensure that credit providers are registered and to monitor credit consumer markets and the sector to ensure that prohibited conduct is detected or prevented and prosecuted.

3.7 THE IMPACT OF LEGISLATION ON FINANCIAL STABILITY

The sustainability of the unsecured lending market in South Africa depends on the financial steadiness of the financial industry. The approach towards the regulating financial institutions in South Africa is the responsibility with the SARB, overseen by the Financial Stability Committee (FSC). Supervising the SARB and the financial services industry is the responsibility of the Bank Supervision Department at the SARB, which has transformed into a Prudential Authority in terms of the Twin Peaks legislation (Groepe, 2016). The SARB has an inherent mandate of financial stability.

Financial stability in South Africa is a shared responsibility that is overseen by a Financial Stability Oversight Committee (FSOC) which is overseen by both the SARB Governor and the Minister of Finance. The FSC focuses on financial crises prevention whereas the FSOC reviews conditions regularly to prevent, manage and resolve crises. The 'twin peaks' approach mentioned earlier is

used to regulate the financial sector, meaning that all ‘prudential regulations’ are the responsibility of the SARB and the ‘market conduct’ that of the Financial Sector Conduct Authority (FSCA) (Marcus, 2012).

Financial stability in South Africa on average has been well managed. South African banks have maintained a capital adequacy ratio[7] (CAR) that exceeded regulatory requirements, which bodes well for managing any economic shocks. Figure 3.1 shows South Africa’s capital adequacy ratio for the period 2008 to 2020 (SARB, 2020).

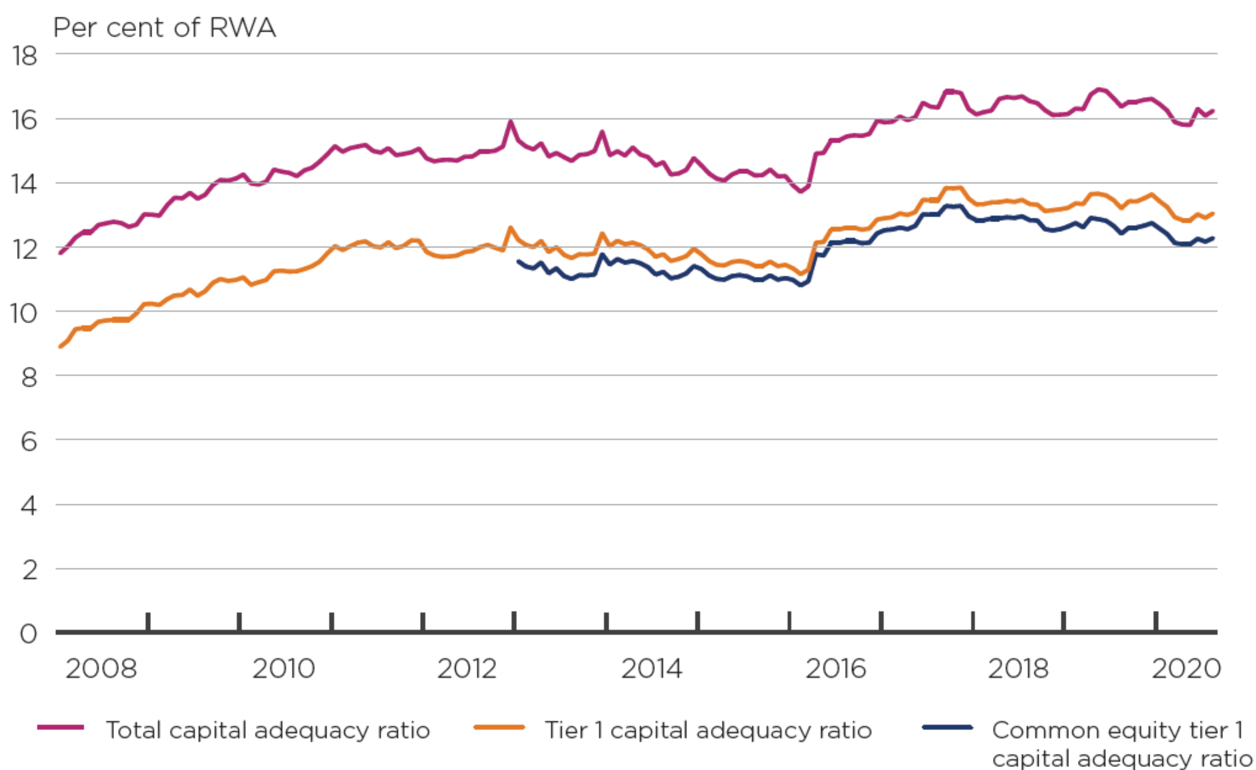

Figure 3.1: Capital adequacy ratios of South Africa’s banking sector

Source: SARB (2020, p.20)

Subsequent to the 2008/2009 international financial calamity the business models of lenders throughout the world have been challenged (BIS, 2017). This is because it has been widely believed that excessive liberalisation and the failure of financial regulations have been the at the core causes of the financial crunch, prompted by the US housing crisis. The authorities and

[7] The capital adequacy ratio (CAR) of the banking sector remains healthy. The banking sector’s CAR declined by almost one percentage point between December 2019 and April 2020, but has partially recovered since. Although risk-weighted exposures have been increasing (largely because of rising market and credit risk) during this period, regulatory capital has also increased in recent months, causing the CAR to rise (SARB, 2020).

scholars have consistently discussed the necessity to reform the financial regulations since the international financial crisis. In the light of these discussions the Basel Committee on Banking Supervision finally unveiled regulatory reforms in the form of Basel III, effectively replacing the Basel II regulations. This is an international governing framework to ensure a stronger banking system that ensures an international liquidity risk framework, risk measurements, standards and monitoring. The Basel III regulations were introduced in December 2010 (Chun, Kim & Ko, 2012). In addition to the many requirements imposed on banks and the scrutiny they are undergoing, they are also required to raise capitalisation levels and reduce leverage especially to high-risk exposures. Most banks have used retained earnings to achieve the required levels of capitalisation. Banks are monitored by the Basel Committee on Banking Supervision and South African banks as indicated earlier have a healthy capital adequacy ratio (BIS, 2017).

In broad terms Basel III entails dual frameworks: micro and macro prudential legislation framework. The micro prudential legislation framework comprises improving the quantity and quality of the regulatory capital base, risk coverage of the regulatory capital, leverage ratio regulation and international liquidity standards, risk management, supervision, and disclosure. While a macro-prudential regulatory framework entails putting in place countercyclical cushions and leverage ratio regulation and improving supervision on systemically vital financial institutions (Chun et al., 2012). The steady build-up of high-quality liquid assets by South African Banks in compliance with the 'liquidity coverage ratio' disclosure framework of Basel III has become effective on 1 January 2015 (Van den Heever & Meyer, 2016). The expectation from Basel III is that it should improve the strength of the international banking system in the long run by ensuring that there is adequate capital and liquidity base, and that it should limit banks' practices of taking excessive risks in numerous ways. This means that banks are persuaded to move away from using a model of high-risk high-return towards a model of low-risk low-return. It also means that shareholders and investors should bear a heavy responsibility when banks need to be bailed out through public funds (Chun et al., 2012).

The liquidity regulation discourages banks from taking loans of low cost, short- term monies and investing them in long-term high-return assets that are risky with high returns. Ensures that Banks' excessive expansion is reined in by the leverage ratio regulation and when assets size reduces, credit cycles fluctuations are expected to be moderate (Chun et al. 2012). Banks view these regulatory requirements as impeding their ability to increase credit growth, because capital cushions and minimum liquidity requirements increase the costs of providing lending, especially costly unsecured credit associated with a higher inherent risk (Van den Heever & Meyer, 2016). One of the notable trends that has marked banks' behaviour after the global economic crisis is the

adjustment of the funding mix whereby many banks have reduced their reliance on unsecured short-term wholesale funding towards relying more on retail funding such as customer deposits (BIS, 2017).

Taking deposits from the general public is prohibited by regulation for some institutions in the unsecured lending market. The prohibition of taking deposits from the general public by financial institutions not registered as a bank was first introduced by the Bank's Act of 1990. This prohibition had a fundamental impact on the ability of micro-lenders who are not registered as a bank to obtain wholesale funding. Addressing the issue of accepting deposits has been hailed as the central theme of the Bank's Act. The Act describes the business of a bank as a distinctive feature of the business of entities to be policed by the Bank's Act. The Bank's Act exempts people who have been allowed by the Registrar of Banks or by the Minister of Finance by notification in the Government Gazette to legally perform a business of a bank without being registered as a bank in terms of the Bank's Act of 1990, provided that the conduct is strictly according to the provisions of the exemption notice (Legadima, 2012).

According to Mokoaleli-Mokoteli (2010), one of the biggest obstacles for some institutions in the unsecured lending sector is their inability to accept deposits from customers, which was a success of Grameen Bank in Bangladesh. ABIL did not have the ability to accept deposits from customers, which is the strength of Capitec and the big financial institutions in South Africa. Grameen Bank was allowed through a special law to accept deposits and was excluded from high capital investments required by a formal financial institution. The savings could be used more effectively to fund the loan book of microfinance institutions (Mokoaleli-Mokoteli, 2010). After its collapse in 2014, ABIL in South Africa has followed a transactional banking model based on customer deposits. This is said to be relatively stable funding due to the nature of the funding made by many small depositors compared to large institutional investors (BIS, 2017). Most entities in the unsecured lending sector in South Africa are unable to access deposits from customers, which hinder their growth (Legadima, 2012).

A further phenomenon is the shifting of more activity towards collateralised funding and central clearing, indicating that banks are keenly monitoring counterparty credit risks as well as incentives that regulation can provide (BIS, 2017). The dangers of economy wide leverage and credit cycles became obvious in the international financial crisis. In macroeconomic research, personal balance sheets and the risks of debt-driven housing cycles have arose as the most important priorities that need urgent attention. Across the globe central banks are tasked with maintaining financial stability by ensuring that credit cycles are managed prudently (Moritz & Ilhyock, 2017). This is done by

using targeted macro prudential tools entrusted to tackle the build-up of systemic risk resulting from excess debt to the market as discussed above (He, Nier & Kang, 2016). Even though the literature and theory of macro prudential policy is still relatively new and under-developed, it addresses the many important aspects of the banks' role during the credit cycle (Cunliffe, 2015). Financial literacy and inclusion have received increasing attention from the central banking community since the late 2000s. The World Bank Group and the Bank for International Settlements (BIS) have acknowledged the critical role of effective financial literacy in properly managing the risks to financial stability that can be brought by increased financial inclusion. Many central banks around the world are actively providing financial literacy products and/or have launched financial education initiatives (Jonker & Kosse, 2020).

While access to unsecured lending, especially for the previously disadvantaged and low-income groups, has ensured that there is another option instead of unscrupulous money lenders and exorbitant interest rates, over-indebtedness of the underprivileged and its societal outcomes have not been resolved by having this kind of access. In many instances large portions of borrowers' income are being paid over to lenders, often with court orders that leaves borrowers with very small income to survive on (Groepe, 2016). There is a need to be proactive in regulating consumer credit, to do proactive investigations, impose fines and order compensation for consumers who may have suffered losses because of reckless lending. At the moment regulation is reactive, in that it awaits the consumer to first report reckless lending before it is addressed. The other concern is that the NCA is silent on interest rates and on the insurance and fees on unsecured lending when a debt re-arrangement is made. This can result in a reckless lender getting away with continuing charging the original interest rates and fees, even if these were the reason the consumer ended in debt in the first place. Consumer credit education can assist in raising the alarm for regulators to be proactive as informed consumers will detect these practices early for proactive investigation (Ardé, 2016a).

3.8 CONCLUSION

The institution tasked to supervise banks in South Africa is the SARB. The credit providers have to make daily, weekly and monthly submissions on their activities to the SARB. The SARB also conducts regular site visits, they engage with financial institutions and is entrusted to make sure that depositors' funds are protected as well as ensuring banks' capital adequacy ratios are in line with the Basel III requirements. Credit providers are among the most regulated financial institutions; these regulations are used to ensure stability in the financial industry. The South African financial sector is one of the most liquid and sound banking systems according to global standards. The sector adheres to global regulations on liquidity requirements and has adopted the implementation

of the Basel III requirements. The sector has also embarked on the Twin Peaks regulation, which strengthens the SARB in regulating banks.

Consumer credit regulation has evolved in South Africa from the Usury Act No. 37 of 1926 and the Usury Act No. 73 of 1968 to the National Credit Act No. 34 of 2005. During these times there have been amendments to the Usury Act, the highlights being the replacement of ‘interest’ with ‘finance charges’ in 1968, and the two exemption notices in 1992 and 1999. The former excluded the interest rate cap on transactions less that R6 000 and the latter exempted those less that R10 000. The Credit Agreement Act No. 75 of 1980 was introduced affecting the financing of movable assets and consumer credit. In 2000, the *in duplum* rule was also introduced curbing interest rates that were charged beyond the initial capital of the loan granted. In June 2007, the NCA became effective replacing the Usury Act. This Act regulated interest rates and was enacted to protect consumers from unscrupulous lenders. The NCA was changed in 2014 by introducing the National Credit Act Amendment Bill No. 19 of 2014 that tightened compliance regulations that were evidently not tight on the NCA (2005) for credit providers. The National Credit Act Amendment Bill required credit providers to be cautious when granting credit. Some tightening includes revised and standardised affordability assessment regulations; improved standards and training requirements for debt counsellors; automatic removal of adverse consumer information; enhanced regulation of payment distribution agencies; and a further clamp down on illegal credit providers by requiring that all credit providers regardless of size be registered with the National Credit Regulator.

It is important to not only place the responsibility of a healthy financial state of the consumer on the individual alone and divest both lenders and governments of their responsibilities (Roberts, Struwig & Gordon, 2014). It should be highlighted that the lender and the consumer are not on the same footing and regulation alone cannot eradicate abuses in the credit industry, due to the fact that there are greedy credit providers in all societies. It is clear that the NCA of 2005 is unsuitable to reduce the high costs of credit and offer the needed consumer protection, and clearly over-indebtedness will flourish under these methods (Swartz, 2012). Legislation can play a vital role to level the playing field where unprincipled lenders can be brought to book. However, the introduction of the NCA and later the Amendment Bill has shown that legislation alone cannot curb the scourge of over-indebtedness. Legislation has been changed numerous times to close the loopholes in consumer credit agreements; however, savvy lenders find ways and have the resources to find the loopholes. This is why consumer credit education can be a powerful tool, not only to ensure that consumers are not taken advantage of in the credit market but also, and most importantly, that they can manage their finances better. Strategies and models to implement an education framework for financial illiteracy are discussed in the next chapter

CHAPTER 4:
FINANCIAL EDUCATION

4.1 INTRODUCTION

This chapter presents financial education methods and highlights some of the many financial education initiatives that have been adopted throughout the world. From a consumer credit finance point of view behavioural finance offers an analysis of consumer credit behaviour. Political and economic perspectives provide an assessment of government intervention in the consumer credit industry and the behaviour of lenders in granting loans. Economic anthropology indicates that financial education programs should be designed after considering how people think and perceive finance (Guérin, 2012). This is important, because consumer social networks have an influence on financial behaviour.

This chapter also highlights key role players in financial education. These include employers, the formal education system, financial institutions, and the National Credit Regulator (NCR). Employers are one of these key role players that can ensure the credit health of their employees through employee assistance programs (EAPs) and other measures. This is because an employee's financial health, amongst other factors, has an impact on their productivity. In addition, there is a clear requirement for including financial education in the school curriculum. Other role players are financial institutions that can and should educate their consumers about a healthy credit uptake. Another role player that can improve financial education is the NCR owing to the fact that one of its specific tasks is to create awareness, enforce the National Credit Act (NCA), and to financially educate consumers (NCR, 2013).

Further methods that can be used in conjunction with education are group lending, ensuring good loan quality and stokvels.[8] These initiatives are only some of the highlights and give a good indication on what can be done from a consumer education point of view to ensure sustainability of the unsecured lending market. Therefore, highlights of some programs around the world are discussed followed by practical examples on implementing a financial education program and

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[8] A stokvel is a form of credit union where a group of individuals enter into an agreement to contribute a fixed amount of funds to a common pool weekly, fortnightly or monthly. Generally, such a method is regarded as a rotating savings and credit association (ROSCA), a group of people who agree to come together for a specified time for the sake of saving together. This financial method is not unique to South Africa, and exists globally. They are also regarded as *Tandas* in South America, *Chama* in Swahili-speaking East Africa, *Partnerhand* in the West Indies, *Kameti* in Pakistan, *Ayuuto* in Somalia, *Cundinas* in Mexico, *Hui* in China, *Kye* in South Korea, *Gam'eya* in the Middle East, *Pandeiros* in Brazil and *Tanomoshiko* in Japan – to name but a few examples" (Matuku & Kaseke, 2014).

possible solutions to curb over-indebtedness. The methods to implement a financial education framework presented in this chapter illustrate the adverse impact of financial illiteracy and the importance of all stakeholders from the financial industry and civil society, employers, and regulators to join hands in creating a financially healthy consumer.

4.2 IMPLEMENTING A FINANCIAL EDUCATION PROGRAM

In early 2015, the World Bank published their annual World Development Report reviewing the reasons that development projects tend to fail in emerging economies. The report presented a template that reaches the heart of any change management issue. It argues that, in order to understand what informs an individual's decision-making, an approach is needed that significantly goes beyond financial and economic analysis, and meaningfully integrate behavioural finance, economic anthropology, psychology, development economics and even a historical context. The World Bank (2015) states that the following factors need to be understood when implementing a financial education model:

- When individuals brains use automatic thinking as opposed to when they use deliberative knowledge-based thinking in their general decision-making;
- The function of social context in individuals' general decision-making; and
- The function of mental models in both constructive and destructive outcomes.

4.2.1 The behavioural finance perspective

4.2.1.1 Background on behavioural finance

As indicated above, from a consumer credit finance perspective behavioural finance provides an analysis of consumer credit behaviour. It is therefore crucial to understand behavioural finance to comprehend the behaviour of individuals in the unsecured lending industry. The domain of finance has been led by the traditional finance model since the 1950s. The central theme of this model is that individuals are rational and that markets are efficient. Rationality in this context means that when individuals receive information they update their knowledge and beliefs in a correct manner, and therefore make decisions that are acceptable. Efficient markets in this context means a market where almost all critical current information is freely available to all participants, resulting in prices of what is being traded reflecting the effects of the information of both events that already occurred and those events that the market expects to happen in the future (Gill & Bajwa, 2018). While financial economists presumed that individuals acted rationally in making financial choices in the market place, psychologists established that economic choices were actually done in an irrational fashion. This finding resulted in the model of traditional finance being challenged. Psychologists further discovered that cognitive errors and extreme emotional bias were causing market

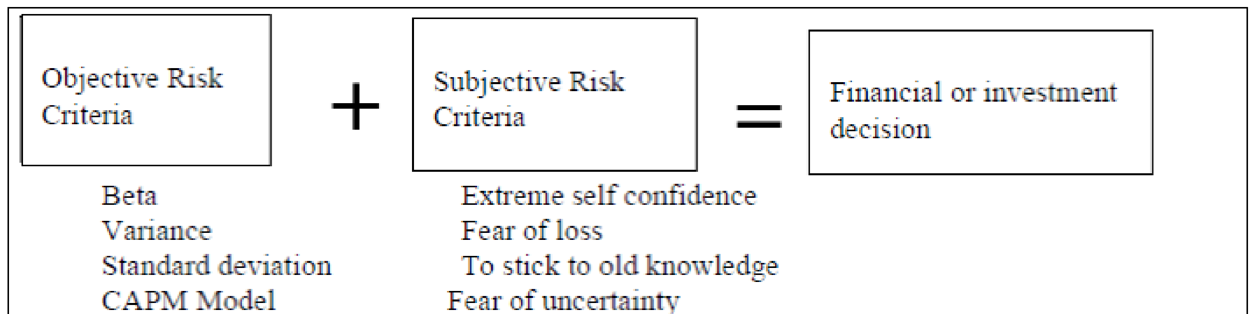
participants to make poor financial decisions (Hirschey & Nofsinger, 2008). Individuals were found not to adhere to the strictly mathematical theory of prediction when making financial decisions under uncertainties but relied on behavioural factors (Nkukpornu, Gymah & Sakwywaa, 2020). This gave rise to the new field called 'behavioural finance', which has evolved and grown ever since. The central theme is considering the influence of personal and societal psychology on financial decisions and general investor behaviour. Behavioural finance therefore examines the financial decision-making psychology. Many individuals agree that feelings affect financial management choices and market participants often refer to the role that fear and greed play in driving financial markets (Byrne & Utkus, 2013). Behavioural finance mainly considers how individuals' taste, perception and thinking impact on their financial and investment decisions (Gill & Bajwa, 2018).

Behavioural finance links this examination of emotions to the part biases play in decision-making including the usage of experience and heuristics (rules of thumb) in making complicated financial choices. Heuristics are defined as use of practical efforts and experience in interpreting information speedily by relying on previous experiences accompanied by intuition (Kartini & Nahda, 2021). Behavioural finance therefore takes understandings from psychological studies to employ them to financial decision-making (Byrne & Utkus, 2013). Behavioural finance tries to explain the human factor in financial decision-making in that it is plausible that some individuals' participating in the economy and managing finances are not entirely rational (Abidin et.al, 2020). Behavioral finance is the examination of cognitive errors and emotions in financial choices (Gill & Bajwa, 2018). The two critical building blocks of the behavioural finance field are 'limits to arbitrage' and 'psychology'. The former contends that it is hard for rational traders to correct disruptions triggered by irrational traders and the latter describes the forms of deviations from full rationality that may be witnessed (Barberis & Thaler, 2003). In general terms, behavioural finance is the use of psychology in the field of finance. Behavioural finance can be divided into two branches (Gill & Bajwa, 2018).:

- Micro behavioural finance*:* It explains the individual who strives to differentiate themselves from the rational individual postulated in the classic economic theory*;* and
- Macro behavioural finance*:* It explains the investment behaviour that results in anomalies relating to the efficient market hypothesis (EMH).[9]

[9] The efficient market hypothesis (EMH) indicates that shares always trade at their fair value on exchanges, resulting in it being impossible for investors to purchase undervalued shares or to sell shares at inflated prices. Therefore, it would be impossible to outperform the overall market through market timing or expert shares selection, and the only way an investor can gain higher returns is by buying riskier investments (Gill & Bajwa, 2018).

Behavioural finance has emerged as the most important model in understanding the part of human behaviour in financial decision making, but the role of traditional finance should not be disregarded. This means that individual decision making are based on two types of reasoning: behavioural finance reasoning (subjective risk criteria), and traditional reasoning (objective risk criteria), as depicted in Figure 4.1 (Kiyilar & Acar, 2009). Financial decision making is the process of choosing the best alternative between a number of financial choices. The decision should normally come out after proper analysis of all available alternatives and is the most challenging and complex activity for individuals. Factors such as demography, socioeconomic status, level of education, age, gender and race are different for each individual. Financial decisions are effectively about allocation of financial resources, and these lie in a continuum that exists between risk and return; it is therefore crucial for individuals to strike a balance between risk and return (Abidin et.al, 2020).



Note: CAPM = Capital asset pricing model

Figure 4.1: Investment decisions model

Source: Kıyılar & Acar (2009, P.461)

The traditional finance model indicates individuals' value wealth and that they act carefully and objectively when financial decisions are made; supporting the notion that individuals act rationally when making financial choices. However, researchers in the psychology field assert the opposite, namely that feelings and cognitive errors perform a role in the financial decision-making process. This shows that both traditional and behavioural theories should be combined instead of considering only one theory (Hirschey & Nofsinger, 2008).

The field of behavioural finance has shown vast progress in the previous 30 years and has become an integral theme in many interdisciplinary studies (Kıyılar & Acar, 2009). The underlying set of assumptions about human behaviour is used to derive predictions on how the credit market will perform based on behavioural finance (McMahon, 2005).

In earlier years, an effort to analyse the effect of behaviour on decision- making was already visible. Human emotions were already showing signs of affecting individuals' decision-making even in the credit market. This was already evident as early as in 1759 when renowned economist Adam Smith's *Theory of Moral Sentiments* was published, which evaluated the psychology of personal behaviour. The 20th century also saw the following contributions to behavioural finance: *the Psychologie Economique* (the Psychology of the Economy) by Gabriel Tarde (1902), the *Psychology of the Stock Market* by G.C. Selden (1912), the *Powerful Consumer*: *Psychological Studies of the American Economy* by George Kantona (1960), and the *Risk Aversion in the Small and in the Large* by John W. Pratt (1964). The overriding basis of these contributions was the studying of heuristics and many biases and limits to cognitive resources were found when financial decisions were examined (Kiyilar & Acar, 2009).

Behavioural finance has seen growing recognition over the years and in 1984 the American Finance Association held its first session on the subject. The following year a behavioural paper by Debondt and Thaler was published that focused on individual's overreaction to news. This paper described the investor overreaction hypothesis that opposed the EMH, changing *regression* to *mean price*. This was followed by the publication of a paper on *disposition effect*, which postulated that investors' reaction to past winners is different to past losers (Barberis & Thaler, 2003). Behavioural finance was finally recognised in 2002 when Daniel Kahneman and Vernon L. Smith who laid the foundation for the theory in the 1970s – and continued to make major contributions in subsequent years – were awarded a Nobel Prize. They received the Nobel Prize for the scientific methods they developed that can be used in research laboratory experiments relevant to economic analysis (Kiyilar & Acar, 2009).

The 2002 Nobel Prize strengthened the field of behavioural finance. Kahneman's study was about human judgement and decision-making in the midst of uncertainty whereas Smith's study focused on alternative market mechanisms through experimental research. This was significant as it marked the first time a psychologist was bestowed a Nobel Prize and played a crucial part in receiving support from majority of financial economists on the impact of irrational investor behaviour on the market (Subash, 2012). This Nobel Prize was an additional acknowledgement of the impact of psychology towards explaining economic behaviour (Prast, 2004). The recognition was significant because economists in the finance field were still sceptical of the psychologists' suggestions related to the behavioural finance model (Hirschey & Nofsinger, 2008).

Demographics as well as psychological factors have an impact on identifying or predicting borrower behaviour. Social support, economic resources, and attitude variables could discriminate debtors

from non-debtors. External locus of control, low self-efficacy, impulsiveness and viewing money as a source of prestige increases the usage of debt by consumers. Consumers with high self-control, self-efficacy, self-esteem, internal locus of control, and who defers gratification use debt carefully. Individuals scoring high in these variables can generally manage their finances well and will regulate their behaviour to prevent falling into too much credit. Impulsiveness is a driver of excessive debt use, due to the fact that these individuals cannot control their impulses to spend. Panos & Wilson (2020) provide evidence that users accessing credit via mobile phones are more likely to engage in impulsive buying behaviour and more inclined to use payday loans. This is because mobile loan products are normally easily accessible and allow fleeting preferences to be acted upon, and indicates that mobile apps and online platforms have to be complemented by financial education and training. These behaviours have a direct impact on how consumers manage their finances as they are mainly rooted in their background, family, and social circumstances. They include an individual's view of self-worth or confidence or immature interpersonal skills (Emmenis, 2014). From a consumer's over-indebtedness point of view, a lack of self-control, temptation and impulsivity, procrastination, over-estimating one's own capacity and social norms are major causes of over-indebtedness (Guérin, 2012). It is overwhelmingly agreed that people with poor financial education normally make weak financial choices and have unaffordable debt levels (Masilo & Marx, 2016). Behavioural finances can perform a crucial part in explaining the impact of emotions (impulsivity, temptation, procrastination etc.) on unsecured lending consumers' behaviour in the credit market (Kiyilar & Acar, 2009).

4.2.1.2 Understanding behaviour

It is vital to understand the terms 'behaviour' and the impact of 'cognitive biases' in the framework of financial decision-making in the credit market. In dictionaries and encyclopaedias behaviour is defined as the way human beings react or their mode of action, while in psychology studies behaviour is described as 'the way the organism reacts to in a response to a stimulus'. Therefore, behaviour is equally the internal psychological circumstances and the external activities mirrored to the outer world. Behaviour can be both visible and invisible and can be categorised into the following three groups (Kiyilar & Acar, 2009):

- The first group is *observable behaviour* such as gesture, speech and mimics. This category of behaviour can be witnessed and numerically articulated;
- The second group is *indirectly noticeable behaviour* that can be sensed or anticipated and include, for instance, understanding a concept, being appreciated, forgetting etc.; and
- The third group is *behaviour happening by processes of the nervous system*. This category of behaviour occurs the sense organs by means of muscles.

Human behaviour is extremely complex and therefore difficult to analyse. Human behaviour is based mainly on both internal and external stimuli (drivers) that are complex and display certain actions and reactions, as can be seen in Figure 4.2. This interaction in psychology is called behaviour (Kiyilar & Acar, 2009).

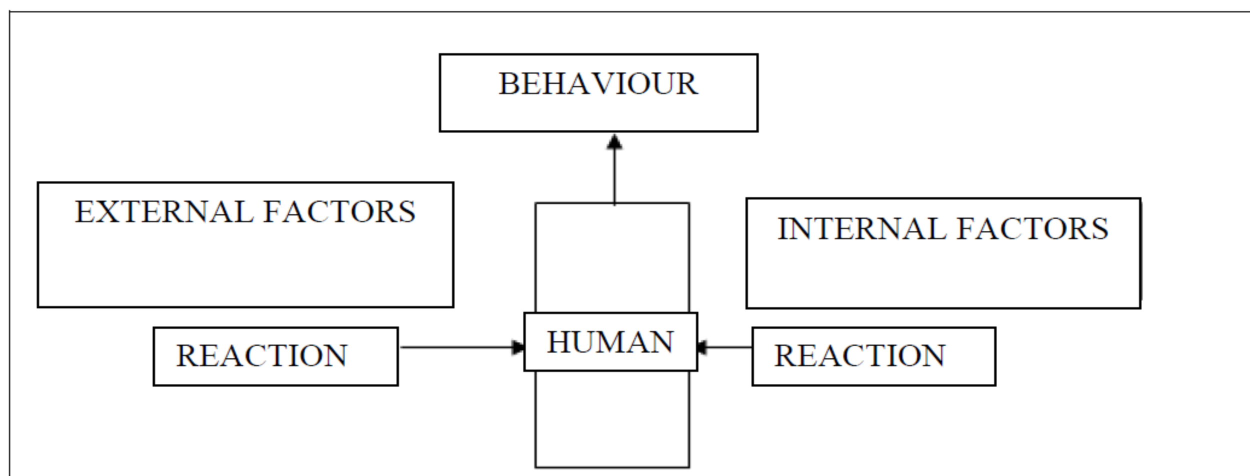


Figure 4.2: Development of human behaviour

Source: Kiyilar & Acar (2009, p.458)

Individuals are prone towards different kinds of behavioural biases, which result in cognitive errors (Subash, 2012). A cognitive bias is defined as a discriminatory disposition or a methodical misrepresentation when choices are made. Biases function at the subconscious level, because they are subjective or predisposed opinions. This makes them hard to detect while having a powerful and a quick effect upon a person's discernment. Biases are said to assist individuals to manage their cognitive limitations, but causes irrational, less thorough decision-making, since they methodically defy the rules of probability. Biases misrepresent perceptions of probable results and also the perceptions of uncertainty or risk associated with those results. This means that biases result in the validity and reliability of information to be overestimated, draw inappropriate deductions or give information too little or too much weight (McMahon, 2005). People have the ability to make predictable, non-optimal choices when they face uncertainties and difficult situations (Subash, 2012). Behavioural biases are conceptually described in the same manner as systemic mistakes in judgement. The decisions where cognitive biases are likely to feature prominently are where there is information overload, great complexity, high uncertainty, strong emotions, high novelty, and fatigue as well as time pressure. Individuals are not generally aware that they show biases, because these are normally used in an unconscious fashion. The argument is that it is very hard to eradicate the effect of biases in decision-making (McMahon, 2005).

Behaviour is strongly influenced by heuristics. As mentioned previously, these heuristics are rules of thumb that are applied in decision making to lessen the cognitive resources required to resolve a problem. Heuristics are mental shortcuts designed to simplify complicated methods in making a decision. Individuals use heuristics (shortcuts) as a strategy to solve complex problems by reducing them into simple judgemental operations, which does not always yield the correct solution (Gill & Bajwa, 2018). For example, a sequence of good or bad news can result in the market overreacting. Research has identified market overreaction to be short term (normally less than a month), while the impetus because of under reaction is normally for periods between three and twelve months and overreaction for horizons longer than a year (Sewell, 2011). The available empirical evidence suggests that there are short-term reactions, up to months and return continuations of up three to five years (longer term reversals). The market that overreacts in the same manner it underreacts can be said to be efficient (Byrne at al., 2008). Behavioural finance is not necessarily a general philosophy of investment behaviour, but depend on a wide compilation of evidence which points to the effectiveness of individual's decision-making in different decision-making conditions (Subash, 2012).

The theory of behavioural finance has become more popular in recent years. As discussed earlier, its principles are embedded in psychology and can be classified as follows: possibility theory, clinging to an idea, regretfulness, lack of comprehension, overconfidence, cognitive segmentation, overreaction and lack of response, gambling and speculation, separation impact, imaginary and magical reasoning, interest in anomalies, socio-cultural effect, accessibility of things that bring discovery, interest in discovery and worldwide culture (Kıyılar & Acar, 2009). Evidence of the biases referred to earlier has emanated from psychology theory and has been used in the financial world. Examples of these biases include (Byrne et al., 2008):

- *Overconfidence and over-optimism:* market participants overestimate their abilities to succeed in the market and the correctness of the data they have;
- *Representativeness:* market participants evaluate circumstances on the basis of superficial characteristics instead of fundamental probabilities;
- *Conservatism*: predictors holding on to past opinions even in the face of up to date information;
- *Availability*: market participants rely overly on recent events to make decisions when they are fresh in their memory;
- *Framing and anchoring:* the way the information is presented can impact the choice made;
- *Mental accounting:* market participants assign information to separate mental compartments and disregard correlation results; and

- *Regret aversion:* market participants make choices in a manner that will allow them to circumvent emotional ache when the decisions result in unfavourable outcomes.

4.2.1.2.1 Overconfidence and over-optimism

Overconfidence is a widely observed bias. People normally overestimate their correctness of their estimates when faced with ill-structured situations or when answering moderate to difficult questions (McMahon, 2005). Confidence means that people believe in their abilities with full conviction, whereas overconfidence is taking this further to being self-reliant to the extreme. Human beings have a propensity to overrate their abilities and predictions of accomplishments (Kartini & Nahda, 2021). This has an impact on the unsecured lending market in that individuals overestimate their ability to repay unsecured loans even when they are already over-indebted. Overconfidence bias has a positive influence on financial decisions; this is because individuals associate better financial prospects to their knowledge and capacity and blame financial mishaps to bad luck (Nkukpornu, Gymah & Sakwywaa, 2020). Psychologists have found that this overconfidence makes people to overrate the correctness of their predictions. Overconfidence results partially from the delusion of knowledge (Subrahmanyam, 2007). Individuals show varying degrees of overconfidence and they appear to be more confident of their assumptions in their self-declared fields of expertise. Owing to their overconfidence people normally do not review their original estimations, even when fresh data is received (McMahon, 2005).

Managing risk, especially credit risk, is the most important consideration in investing. Perceptions of risk are normally influenced by psychology. Research on the psychology of risk management indicates that overconfidence and over-optimism can lead to individuals' underestimating the risk involved in the market and overestimate their knowledge to mitigate the risk (Nkukpornu, Gymah & Sakwywaa, 2020). Statistically, overconfidence is evident when estimations are assigned far too narrowly, or are inadequately calibrated. Over-confidence results in events that are thought to occur less, happening more frequently, and those thought to be certain, occurring less frequently (Kartini & Nahda, 2021). Over-confidence is highlighted in two forms: the first one is the confidence intervals assigned by individuals to estimate their quantities, when they estimate the performance of the stock market, for instance, they are always correct only 60 per cent of the time, while their confidence interval is 98 per cent. The second one is that individuals are usually inadequately calibrated when possibilities are estimated. Events that they believe are definite to happen only happen eighty per cent of the time, while those that they consider impossible to happen normally happen even if it is twenty per cent of the time (Barberis & Thaler, 2003). Unsecured lending consumers are affected by this overconfidence and are unable to predict uncertainties, whereas

adverse shocks such as loss of income and an increase in interest rates or inflation can result in consumers being over-indebted (Mashigo & Schoeman, 2012).

People who are overconfident tend to regard their suppositions as real and do not see the ambiguity related with those suppositions. They usually conclude inaccurately that some actions or decisions are not risky. Overconfidence in skills can result in mistakes in decision making that can cause individuals to trade excessively. The overconfident individual also tends to underestimate financial risks and overestimate financial returns (Kartini & Nahda, 2021). Overconfidence has been contended to stem from a deficiency of meta-knowledge, which means that people are ignorant of their limitations regarding expertise, which results in their being overconfident when making forecasts. They claim to know what they do not know. Overconfidence can also be attributed with the following heuristics: anchoring, availability, self-attribution, hindsight and confirmation biases (McMahon, 2005).

Different studies that reviewed the topic reveal that even if incentives that reduce these biases are displayed, there is no evidence that incentives can completely eliminate biases (McMahon, 2005). Overconfidence does not indicate people are foolish, ignorant or incapable, but instead that they perceive themselves as skilful as they truly are. This is demonstrated by investors who are overconfident about stock-picking, but studies indicate that they usually underperform, because stock-picking is a difficult undertaking (Subrahmanyam, 2007). The analogy of stock-picking can explain the overconfidence of policymakers when unsecured lending as a policy tool was chosen. The major drive by policymakers, the financial sector and NGOs was to speed up unsecured lending as the best method in solving global poverty and helping the poor to access credit (Guérin, 2012). They were overconfident that they had found the best method and ignored earlier indications that showed individuals being trapped in a debt spiral and little evidence of poverty alleviation (Cairns, 2014).

Due to over-confidence people generally tend to overlook truths that challenge the decisions they want to make and usually embrace the truths that confirm their own outlooks (self-serving). There is also a tendency for people to blame failures on others and attribute successes to themselves (self-attribution). Self-serving and self-attribution contribute to overconfidence bias (Kartini & Nahda, 2021). Self-deception is highlighted to be a misleading process, whereby what is believed to be true and valid is accepted, even if there is evidence to the contrary (Sewell, 2011). The traditional finance theory indicates that between risk and return there is a trade-off, while the behavioural finance theory indicates that there is overconfidence from market participants with respect to making gains and overestimate losses (Byrne & Utkus, 2013). When difficulties of over-

indebtedness in unsecured lending emerged and some credit providers failed in certain countries (e.g. Malawi and Sri Lanka), self-attribution was evident as these failures were blamed on management competency of these entities and not on the unsecured lending model (Dallimore, 2013).

Many people have a genuine believe that they can provide a promising future, leading to overconfidence and over-optimism (Sewell, 2011). Also, studies conducted in the field of behavioural finance reveal the following (Kartini & Nahda, 2021):

- *Prospect theory:* Individuals are inclined to provide higher credence to their losses incurred than they do to their gains, and therefore they try to circumvent risks;
- *Fear of grief:* this refers to the tendency to hold on to investments incurring losses hoping investments will change to make profits in order for the individual not to suffer pain or grief;
- *Recency:* higher prominence is placed on latest incidents and trends; and
- *Extreme self-confidence:* this refers to over-confidence in an area where one has a certain degree of knowledge.

4.2.1.2.2 Representativeness bias

Representativeness is defined as the examination of the level of correlation between a sample and a population, an act and an actor, an instance and a category and, more broadly, between a result and a model (Subash, 2012); it is a phenomenon where individuals look for a trend in a sequence of arbitrary incidents (Kartini & Nahda, 2021). Representativeness is concerned with determining conditional probabilities; usually employed when decisions are made under uncertainty. In cases where probabilities are defined in similar terms, representativeness can be described as similarity (Subash, 2012). This heuristic result in pigeon-holing and works to position the world seem better organised than it is. It is responsible for making people to draw far-reaching conclusions based on a few indicators. It is normally demonstrated by the so-called 'great bear' effect – individuals viewing stars in the sky are usually confidently set on detecting a familiar pattern (Prast, 2004). The recent success of individuals also tends to continue into the future, as there is a propensity to make choices on the basis of past experience. Where individuals attributed good attributes of an entity to the good characteristics of its shares, it was found that these shares underperformed more often (Kartini & Nahda, 2021). This reliance on heuristics by individuals can explain the proliferation on unsecured lending given the experience in Bangladesh. This experience was generalised as representative of what can be achieved globally based on this small sample which started from a village in Jobra. Even though other models could be used more effectively in other countries, this bias assisted the proliferation of unsecured lending instead (Bateman, 2014).

Although the representativeness heuristic can be helpful at times, it can produce serious biases, the first being 'base rate neglect', whereby individuals normally put a lot of credence on the explanation or statement which depicts the representativeness and less credence on the base rate or fact. The second bias is 'sample size neglect', which refers to the bias that little data samples will reveal properties of the parent population (Barberis & Thaler, 2003). Individuals who are affected by this bias can ignore or not pay sufficient attention to critical events that may occur in future, hence not protect themselves to unexpected events (Kartini & Nahda, 2021). The representative bias can be used to explain the reason the initial signals that unsecured lending can lead to over-indebtedness and worsen poverty were ignored by policy makers (Hoosain, 2012).

4.2.1.2.3 Conservatism

Conservatism is defined as a phenomenon where individuals adjust their beliefs only gradually in reaction to new information (Khan, Usman & Jan 2021). Conservatism is the most fundamental status quo bias. Conservatism can result in another cognitive heuristic, regarded as anchoring, explaining the human predisposition to make a decision on the basis of the original anchor. Human beings favour relative thinking to absolute thinking. Anchoring has the impact of causing markets to underreact when fundamental information is presented (Sewell, 2011). In theory it therefore represents a cognitive dissonance mechanism. Experimental studies indicates that it requires about two to five observations to produce change in reaction to data. The more valuable the new data, the greater the conservatism to it, as it is more difficult to accept new information that differs from existing knowledge (Khan, Usman & Jan 2021). Cognitive dissonance can affect ethics in financial decision-making. This is because social forces can cause ethical human beings to commit unethical acts. The high sums of money involved in the financial markets can tempt market participants to act unethically. Another view is that well-intentioned people can find themselves ethically compromised if they do not take into account their own errors in human judgements in particular circumstances. This means that unethical actions are not only committed by unethical individuals, but sometimes by good individuals out of the desire to conform to others around them. This means the over-indebtedness in unsecured lending may also be caused by credit providers acting in conformity or competition with one another (Byrne et al., 2008).

The different behavioural models were developed to explain empirical findings. Empirical findings indicate that individuals have conservatism bias and use the representativeness heuristic. Conservatism indicates that human beings are too slow to amend their views even when new information is presented to them. This can explain why in many instances investors are unable to take full advantage of the implication of an earnings surprise (Byrne et al., 2008). When financial education models are developed it should be taken into account that people are conservative and

will not necessarily adopt new behaviours speedily. For the financial education model to be effective gradual steps need to be taken in presenting new information (Boone, Kurtz & Heath, 2006).

4.2.1.2.4 Availability bias

Availability bias is the predisposition of individuals to approximate the probability or frequency of an incident by the simplicity with which it has been brought to mind. It happens for example when a car driver, after witnessing an accident starts driving slower and more carefully even if the probability of the accident has not increased. Normally it has been observed in practice that the driving behaviour becomes more reckless again during the course of time. It therefore means that the careful driving behaviour is not the consequence of being taught, but a short-term rise in the subjective likelihood of accidents being witnessed (Prast, 2004). Recent events will weigh more and distort the estimates when decisions are made (Barberis & Thaler, 2003). Most people suffer from availability or saliency bias. This is a cognitive heuristic that depend on easily accessible information instead of evaluating other procedures or alternatives. Decisions are mainly made based on things that easily come to mind, usually something newsworthy. A study found that shares that had elevated degrees of press exposure underperformed in the following two years after the press coverage (Sewell, 2011). Availability bias can explain the reason many consumers become over-indebted: without consumer education they are not equipped consider alternative means for meeting their financial needs; instead, they rely on readily available information and easily accessible loans in the market, which include unsecured loans (Bateman 2015).

This indicates that experience does not help individuals, but intelligence does. The question of where to diversify contingent on the person's risk profile (Sewell, 2011). When implemented appropriately, financial literacy can assist in improving the understanding and intelligence needed to make the best financial decisions (De Clercq, 2009).

Barberis and Thaler (2003) indicate that one of the biggest departures from strict rationality, which started early in 1947, is the theory of rationality developed by Herbert A Simon. One of the study proposals is that it is possible to maintain personal rationality, but at the same time to relax the consistent belief assumption. This is because individuals apply Bayer's law[10] correctly, but deficiency the data needed to know where the definite distribution variables are pulled from. Human cognition is a resource in short supply, meaning that pondering about financial activity is an

[10] 'In probability theory and statistics, **Bayes' theorem** (alternatively **Bayes' law** or **Bayes' rule**) defines the probability of an incident, on the basis of earlier knowledge of circumstances that could be associated to the incident... When applied, the probabilities that are part of the **Bayes' theorem** could have different probability interpretations' (Barberis and Thaler, 2003).

expensive activity. The 'free lunch' fallacy is avoided by human beings incorporating the deliberation cost as well as bounded rationality in financial models. This theory postulates that businesses usually do not have the necessary resources to evaluate each alternative alongside every relevant criteria to select the most appropriate course of action when faced with a challenge or opportunity. The reality is that individuals have limited capability to collect, process, understand and store all the information required to choose on the best reaction to a complicated challenge. More probable than not, they will yield an easier model of the challenge and assess the most apparent options until one option that is merely suitable enough is found by using limited criteria to solve the challenge and then stop searching. This common phenomenon in decision- making is called 'satisficing' – discovering a sufficient and satisfactory answer instead of searching for an optimal answer. Satisficing can be regarded as a type of inhibited optimisation. It reflects the influence of deliberation cost in decision-making. Individuals satisficing can be procedurally rational (rational intention), but not substantively rational (reaching an optimal outcome) (McMahon, 2005).

4.2.1.2.5 Anchoring and framing bias

Anchoring is a psychological heuristic that happens when individuals give needless significance to statistically accidental and psychologically established anchors leading them to making irrational financial choices. When a credit provider approves an unsecured loan an individual is likely to take up this initially unsecured loan called the 'anchor' without much analysis. When predicting, individuals often begin at an initial, arbitrary loan price and then start adjusting from there. Experimental proof suggests that this change is sometimes not enough, and that people use the initial loan value to 'anchor' too much (Subash, 2012). In an experimental study, the participants were presented with the a description of an individual in a different way using the same data on two separate groups, group A and group B. In group A the individual was described as smart, diligent, critical, stubborn, impulsive and jealous, while in group B the individual was described as jealous, impulsive, stubborn, critical, diligent and smart. Exactly the same characteristics about the individual presented in reverse order turned out to have a significant influence on the group's assessment results. The study reveals that characteristics mentioned earlier have more influence than those mentioned later. Group A significantly assessed the individual better than group B. This shows that it is possible that people's concentration level may decrease with increased amount of information that they need to absorb, resulting in the information mentioned later to get less attention or that first impressions may get more weight than the information presented thereafter. The abovementioned then results in anchoring to occur (Kartini & Nahda, 2021).

This anchoring bias is likely to influence individuals when crucial decisions such as taking more or less loans and whether the loans are fairly priced are considered. Many individuals in the market

experience anchoring bias in that most continue to remember the price of goods or services when they acquired them. The next buying decision is based on the buying price as a reference point. Products will be bought if perceived to be below the reference point even if the recent price was the highest achieved during a certain period it frequently becomes the reference point. This means individuals will take an expensive unsecured loan even if there are cheaper alternatives available as long as the price is not higher than what they paid before (Kartini & Nahda, 2021). The tendency of anchoring can be explained by individuals 'anchoring' their minds to a reasonably irrelevant reference point when making a financial choice. A hypothesis was tested in negotiations for counter-offers, where it was found that an anchoring process was followed leading to the effect that those counter-offers were affected by changes in reference points, which in turn determined if the anchor point was a loss or a gain (Subash, 2012). The complexity of risk can lead to problems of risk perceptions. This may affect framing in that perceptions of risk may depend on how the situation is presented. When risk management is presented as insurance it may be more attractive. The notion of 'risk feelings' is also considered in research, noting that intellectual acknowledgement of risk is at times not sufficient to aggravate action without the emotional reaction to risk. Conversely, some of the risks that are considered minor at an intelligent level may incite action if they cause an emotional response to risk (Byrne et al., 2008).

Kahneman and Tversky (1979) launched the prospect theory. The theory differentiates between two phases in the choice process: the initial phase of editing (or framing) and the subsequent phase of evaluation (Gill & Bajwa, 2018). Research conducted among college students determined that the model of expected utility maximisation in practice does not hold. In the research, participants were requested to resolve a variety of choice challenges. They were found to be evaluating their gains and losses in an asymmetric manner. They were found to be risk averse in situations of winning and risk pursuing in situations of losing (Byrne et al., 2008). The implication is that individuals tend to take larger risks to avoid losses instead of actual profitable taking risks (Kartini & Nahda, 2021). Additional experiments showed that people's risk attitudes depend on their recent history. For example, after a financial loss has been experienced people are unwilling to take more risks, but after a sequence of gains their risk aversion reduces (Prast, 2004). This proved that individuals place more reliance on the outcomes that are perceived to be more certain than those they consider merely propable, a phenomenon known as "recency effect" (Gill & Bajwa, 2018). This is another example of the prospect theory, whereby framing has proved to affect risk perceptions. The theory suggests that people are risk-seeking in the sphere of losses (Byrne et al., 2008). This illustrates that individuals are more responsive to losses than gains. The prospect theory has thus done more than any other theory or approach to take psychology into the core of economic inquiry. This is a theory of average behaviour postulating the behaviour of an individual

or group on average during times of uncertainty. Prast (2004) concludes that the theory describes how people frame value decisions when uncertainty is involved.

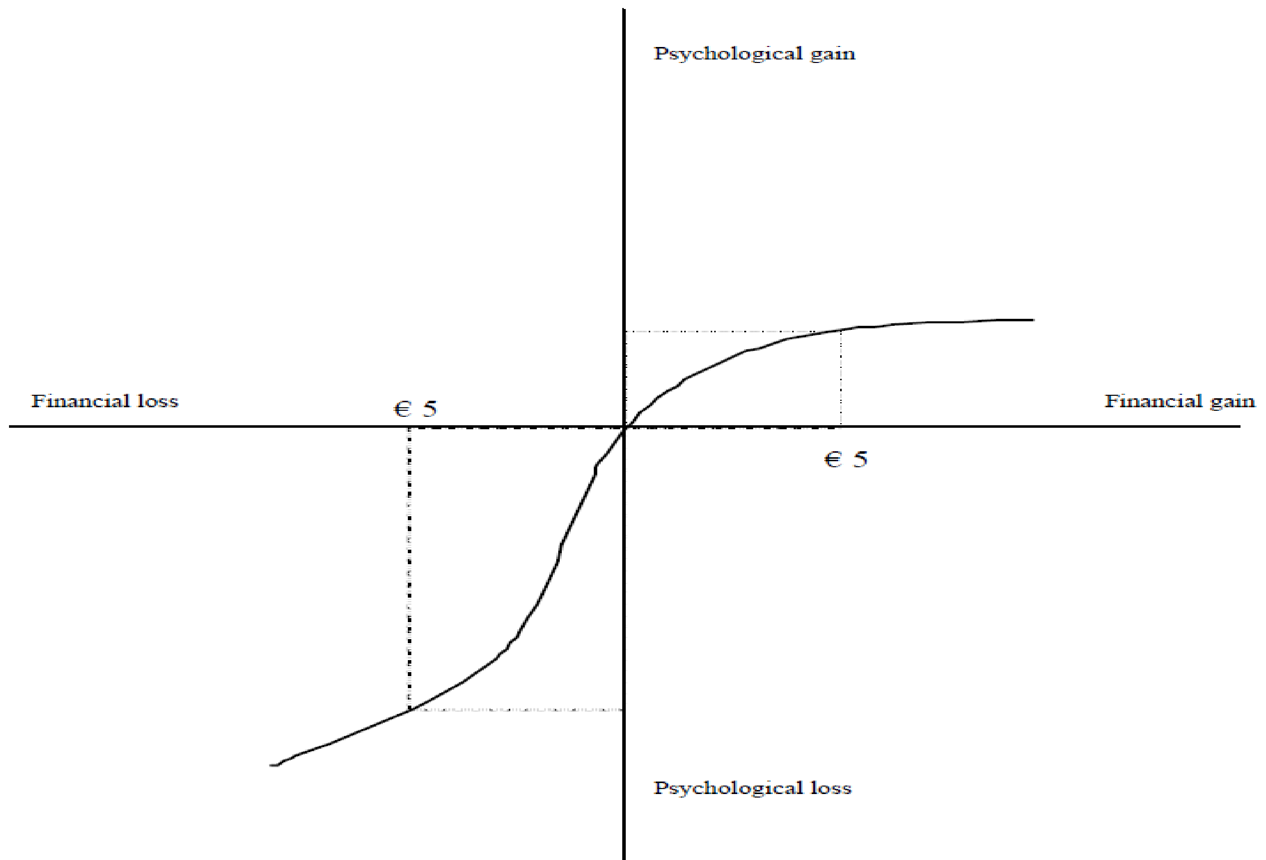


Figure 4.3: The psychological value of gains and losses

Source: Prast (2004, p.7)

According to the prospect theory, the simple value function can be calculated as follows (Prast, 2004):

$$v(x) = xa \text{ for } x > 0; \ v(x) = -\lambda(-x)b \text{ for } x < 0$$

Where: V is the psychological cost that is attached to situation X by an individual. Experimental study shows the value of λ as approximately 2.25; A and B equalling 0.88. Figure 4.3 gives a graphical demonstration of the value function, i.e. based on the prospect theory, and indicates clearly that a psychological gain of €5 is much less than the psychological loss of the same amount (Prast, 2004).

From an anchoring and framing perspective, the prospect theory provides further insights into financial decision-making. One of the important findings based the theory is that an individual's

judgement weights are not resembling objective prospects. The prospect theory categorises decision-making into two parts. The first part is the editing phase – at this phase individuals form probabilities based on gains and losses relative to a benchmark. They do this by applying rule of thumb or heuristics, facilitating the interpretation of the different possibilities available to them to choose. The second part is the evaluative stage – after editing and framing various prospects into gains and losses, they are assessed and the possibility with the highest gain is selected. The heuristics used when evaluating and editing probabilities are a necessary oversimplification of the process. Normally, probabilities are rounded off and those extremely unlikely are discarded (Prast, 2004). The anomaly studies assessed asset values and concluded that markets were not as effective as claimed or the asset pricing models were deficient. Later research, however, started examining the behaviour of individuals and found them to be loss averse, exhibiting too much trading and the disposition effect (Odean, 1998). Khan, Usman & Jan (2021) indicates in thieir study that younger workers are more inclined to register for health insurance plans that provide better premiums and deductables, while older workers will more likely stick with their health insurance that is less beneficial. Older workers are aware of their current plan and what is expected, and thus are reluctant to take a risk on new health insurance plans even though the new plans might potentially have higher potential for monetary benefit, resulting better financial well-being (Khan, Usman & Jan 2021).

4.2.1.2.6 Mental accounting bias

Mental accounting can be described as a collection of cognitive tools that people use to organise, assess and keep account of their finances. It also speaks to the mental codes individuals use when assessing financial decisions. These codes are typically used by individuals to assign different functions to different assets and to separate accounts to deal with them individually (Subash, 2012). People use mental accounting, because separating accounts and focusing on them individually give them an illusion of self-control. The illusion of self-control has an impact on individuals' decisions to keep accounts separately, even when integrating them is the best option (Prast, 2004). This often has a detrimental impact on their consumption decisions and other behaviour (Subash, 2012). This is because the possibility of integrating them into one portfolio decision is normally ignored. The notion that individuals use mental accounting when they make financial choices is also supported by the prospect theory, which postulates that decision guidelines are normally used to each separate account disregarding likely integration (Prast, 2004).

The intricacy of the financial decision-making process has two outcomes relevant to financial literacy: the first one is that efficient literacy interventions must emphasise on both emotional and cognitive factors instead of transmitting technical information only (Boone, Kurtz & Heath, 2006).

Decision-making is described as a method of selecting a specific option from many accessible options. It is normally a complex multi-step practice that involves the examination of different technical, situational and personal aspects. Financial decision-making, in particular, is one of the most crucial challenges faced by individuals. A personal aspect of financial decision making involves factors such as age, income, education etc. Situational factors involve the environment, which refers to the psychology of the market at the time a decision is made (Subash, 2012). This means that credit providers and regulators in the financial sector should help people develop awareness of their own limitations and to put into action internal measures that are familiar to them to control their own temptations. It also means delivering educational programs in simple to follow, drawing on word of mouth, helping consumers to progress step by step, drawing from concepts of behavioural transformation. The theory of behavioural change includes, for instance, the premise that to end harmful health behaviour (such as over-eating, smoking, drug and alcohol abuse) and to start with positive behaviour requires a succession of gradual stages.

The second outcome of the decision-making process relates to behavioural finance and suggests that instruments over and above education are necessary to bring tangible breakthroughs. One of the major problems for individuals is to transfer dreams into reality. Consumers have the knowledge that too much debt is or over-spending is not beneficial to them, but they struggle to act accordingly. In addition to teaching, adding structures to assist these individuals to implement financial self-control will be much more important than merely educating them. This may include compulsory savings, such as development accounts that provides bonuses for consistent savings, or disbursement of social benefits by way of lump sums instead of normal instalments (Boone, Kurtz & Heath, 2006). The focus of behavioural finance is on how investors understand information in order to reach investment choices based on the knowledge at hand. Avoiding mental accounting biases can assist in ensuring the best financial decisions are made (Kiyilar & Acar, 2009).

Voter education and HIV/AIDS education are two real life examples on how education and behaviour changes can be implemented. The behavioural approach is a theoretical orientation that emphasises the role of the environment in shaping desirable behaviour. The behavioural approach also emphasises the importance of an individual's perception of their immediate environment and well-being, meaning that behaviour will in some cases be influenced by what an individual is exposed to. Therefore, when behaviour is analysed it is equally significant to assess the conditions in which the behaviour occurs. Furthermore, Moss (2012) contends that for behaviour to change the environment needs to change. The social exchange theory also posits that consumers are influenced by their social status to incur debt, and the social status has an impact on the financial decisions being made (Hoosain, 2012).

The main causes of overdue instalments stem from poor financial management. A deficiency of information in individual financial management is the major cause of consumers finding themselves in debt that they could not manage. Masilo and Marx (2016) believe that poor money management habit coming from a lack of comprehension of the basic concepts of finance are the two main causes of consumers finding themselves in financial difficulties. Credit providers benefit from late payment penalties, protracted debt etc. as a result of financial illiteracy amongst the underprivileged in particular. Some credit providers misuse their insights from behavioural finance to exploit those who are financially illiterate by, for example, advertising (framing) loans in instalments instead of interest rates and driving extensive advertising campaigns (availability), which are in stark contrast to the scanty budgets of financial education programs. There is clearly a general deficiency of understanding of financial products and that they are difficult to comprehend because of their sophistication (Sewell, 2011).

When consumers experience over-indebtedness and a chronic inability to repay debt, financial education or credit counselling alone will not yield the desired results (Masilo & Marx, 2016). It must be also understood that insufficient or irregular income, and not only a lack of financial management, are the key barriers to long-term financial wellbeing. In circumstances of insufficient or irregular income, formal or informal credit and savings are used as a substitute for lack of government supported social protection systems. Behavioural finance also indicates that knowledge is one of the many factors in the financial decision-making process. Therefore, financial literacy alone without targeting behaviour will have a limited impact. Economic anthropology offers a third perspective by highlighting the social embeddedness of the financial decision-making practice. This perspective argues that the rationality of the individual is also inseparable and situated (anchored) from specific political, cultural and social contexts and from the social standing of individuals (Guérin, 2012).

4.2.1.2.7 Regret aversion bias

Regret aversion bias is a psychological bias that happens when an individual excessively focuses on feelings of regret after a poor decision was made. This is mainly when the outcomes of the alternative decision are visibly better and individuals are privy to the error in their decision-making. Regret aversion stems from the fact that individuals do not like admitting that they made a mistake (Subash, 2012). Unsecured lending customers seem to be suffering from regret aversion as they do not always read their credit agreements to understand the terms and conditions and to possibly explore other credit products that may be more suitable to their needs (Armstrong, 2014). Regret aversion bias may cause indecision and failure due to fear on an unfavourable outcome. The bias restricts individuals from taking necessary action as a result of regret of previous failure

(Nkukpornu, Gymah & Sakwywaa, 2020). As indicated earlier, prospect theory research attests to the fact that people perceive the psychological impact of losses to be much more painful than that of gains (McMahon, 2005). The regret aversion bias leads people to 'second-guess' themselves and not taking definitive actions in the fright that they will make suboptimal decisions in hindsight. One of the reasons for the unwillingness to admit and rectify mistakes timeously is that individuals were found to be holding on to losing positions for too long. It was also revealed that individuals fearing to make mistakes do not make an entry in the market when there has been a downward trend, even when the market is displaying signals of recovery and when it is a great period to purchase. The fright of making decisions results in individuals' procrastinating and when there is uncertainty the stalling of decision-making becomes worse. People who are regret averse make decisions normally to avoid the agony that stems from the following two errors (Subash, 2012):

- *Errors of commission:* these are errors that happen as a consequence of mistaken action; the investor contemplates on the choice made, questions their beliefs and rues the fact that it was made; and
- *Errors of omission:* these are errors that happen as a consequence of foregoing a chance that was existing.

When loss aversion is incorporated into utility functions it shows that individuals suffer bigger disutility from losing wealth than from the equivalent utility wealth gain in absolute terms. Risk aversion and loss aversion are both results of the endowment effect or status quo bias. The other explanation for risk aversion is that reproduction is a multiplicative activity, its algorithm of population is additive (Kartini & Nahda, 2021). People also display a partiality for well-known instead of unknown risks; this phenomenon is regarded as ambiguity aversion. Loss aversion and risk aversion are just objects of the endowment or the status quo effect (Khan, Usman & Jan 2021). This also holds true for unsecured lending consumers in that they try to keep up with their neighbours, family and friends, suffering from the endowment or status quo effect. Even when their prior benefits are outweighed by high debts they do not change their minds easily (James, 2014). There is further evidence that indicates that the level of loss aversion is not the similar in all situations and is contingent on past losses and gains. This evidence indicates that after previous gains, participants take on risks they usually do not take, and after previous losses they reject risks they usually take. When participants take on gambles that they will not normally take it is referred to as the 'house money effect' showing that gamblers are willing to gamble when they are ahead. This is also because loses are not as much hurtful after previous gains. The utility function was modified to capture these findings as follows (Barberis & Thaler, 2003):

$$E_0 \sum_{t=0}^{\infty} \left[\rho^t \frac{C_t^{1-\gamma}}{1-\gamma} + b_0 \overline{C_t}^{\gamma} \tilde{v}(X_{t+1}, z_t) \right]$$

Where, *zt* is a state variable that follows previous market losses and gains. For any static *zt,* the function ˜*v* is a piecewise linear function the same in form to ˆ*v*, outlined the equation. The investors' attitude to losing is determined by *zt* and no longer constant at 2.25 (Barberis & Thaler, 2003).

Kahneman and Tversky's (1979) data-driven prospect theory puts subjective value into focus – losses and gains are based on a reference point. They postulate that individuals have various reference points that can change over time. Experiments have shown over time that subjective value is defined according to gains and losses instead of ultimate wealth positions. This means that when individuals evaluate risky alternatives their evaluations are not based on a portfolio context. Individuals perceive losses much harsher than gains. This makes losses to loom larger than gains in the minds of individuals and therefore in their decisions. This leads to the argument that always comes to the fore, namely that people have a tendency to be risk averse when in relation to gains, but risk pursuing when it comes to losses (McMahon, 2005). This explains, for example, why individuals view their credit being declined as a loss, even if they cannot afford the credit being provided. Similarly, they deem obtaining credit as a win, even if they cannot afford the credit (Johnson, 2013). Individuals accordingly strive to incur minimum losses in a given time and to obtain maximum return during the same time. Additional factors affecting loss prevention are as follows (Kiyilar & Acar, 2009):

- *Loss prevention:* individuals engage in irrational behaviour in order to prevent losses. When they realise they are making losses and have followed a wrong strategy, individuals apply the stop-loss strategy to realise their losses, but during this process a chain of mistakes might cause them to make one mistake after the other. This explains individuals obtaining more debt to pay existing debt and being caught in a debt trap. The concept of juggling debt should also be considered in literature (Guérin, 2012).
- *Regret:* individuals try to make decisions that minimise their regrets, as they normally would not want to have regrets in future. Research has shown that investors motivated to avoid regret have not sold shares where prices have decreased and in the process incurred greater losses. This similarly illustrates why individuals will use debt to buy items that they cannot afford and hold on to them in order to impress or to keep up with family members, friends and society. They avoid regret by not acknowledging that their initial action might have been a mistake and hold on to this decision even if it is costing them. The Global Financial Education program (2011) funded by NGOs such as Freedom and Hunger and Microfinance Opportunities, indicates that credit is great when a borrower benefit financially

and harmful when it turns out to be a financial drain, and still unpaid after the article is used or the proceeds made from the asset is smaller than the total cost of the debt.

- *Monetary illusion:* many individuals do not consider the impact of inflation when making investments. The inflation factor is normally disregarded when calculating the gain or loss from investments. This also attests to the fact that many consumers do not calculate the total cost of debt (interest rates and fees) when they assess their own affordability; they would rather consider whether they can afford the instalment at the time the loan is made. Their decision does not take into consideration the effect of possible increases in interest rates and overall inflation.

For individuals to progress successfully through life there is a need to also acquire, among other things, a degree of skill to use and manage finances (Masilo & Marx, 2016). Financial literacy in developing countries is seen as an instrument for empowering individuals and supplementing individual protection measures (Xu & Zia, 2012). This empowerment contributes strongly to a consumer's capability to make knowledgeable decisions and make effective choices with regard to the management and use of finances. Lenders perceive educated consumers to be more responsible and accountable; this therefore places them in a better position to gain access to credit (Moss, 2012). Informed consumers are believed to contribute towards credit markets being more efficient, because these consumers demand products from financial institutions that will meet their short-term and long-term needs (Dilotsotlhe, 2013).

The dynamics of developed countries, such as the US, has emboldened the need for increased financial literacy as it is believed that the 2008 housing crisis in that country was caused by, among other things, financially illiterate consumers who took on mortgages that they could not afford (Moss, 2012). In addition, the advent of sophisticated financial products like mortgage-backed securities required sufficient degrees of financial education to be able to take sensible financial and investment decisions. The fundamental goal of financial education is to empower consumers to comprehend the main financial models and improve skills to administer their finances in a way that result to a financially better life. It is essential to comprehend the elements that drive financial education in order to succeed in encouraging education (Fanta et al., 2016). One of the important contributions of behavioural finance in understanding financial literacy is to understand that even though traditional theorists' assumed that investors are rational, they are normal at the same time. This 'normalcy' makes their decisions in managing finances to sometimes be irrational which makes it difficult for traditional theorists to explain. Behavioural finance has filled this gap by explaining the impact of emotions and comprehension errors on individuals in decision making processes (Kıyılar & Acar, 2009). Emotions were found to have a massive impact on financial

decision making and many individuals incurred financial losses as a result of their emotional state. For example, a positive mood was found to result in a better appreciable gain on an investment and individuals struggled to modify existing decisions when confronted with contrary information or a new set of decisions. They therefore have a mental discomfort in having to reconcile new information based on their beliefs (Nkukpornu, Gymah & Sakwywaa, 2020). Understanding and mitigating these errors is fundamental in ensuring behavioural change to a financially healthy life (Kıyılar & Acar, 2009).

4.2.2 A political economic perspective

Political economists and lawyers indicate that financial education increases the proliferation of financial management in contemporary societies and produces the economic and social differentiation. Consumers are increasingly urged and compelled to save, borrow and insure themselves against illness, the housing price increases, unemployment, or for preparing for their future, especially their children's education and retirement (Guérin, 2012). The South African government's NCA offers an important framework for good lending practices and setting an example for consumer protection. However, statistics show that the NCA is not enough (NCR, 2017e). Consumer protection has been a priority of the South African government over the past ten years. The biggest focus is eliminating consumer over-indebtedness. This is the reason for the replacement of the Usury Act and the Credit Agreement Act in 2007 with the NCA.

In many welfare countries employee-sponsored health cover has come to be more restrictive, causing people to make choices about and find their own insurance. Obligatory retirement plans have been declining, forcing consumers to make decisions on how to invest and where to ensure sufficient retirement packages. Financial education is also one pillar of a suitable financial policy to enhance financial education. Financial literacy can supplement yet by no means replace other elements of a comprehensive financial policy like regulations and individual protection measures (Guérin, 2012). A comprehensive financial education policy should also be accompanied by further methods ensuring advancement of the financial well-being of consumers. These include, for example, pre-determined savings and investment plans for workers that should be incorporated in their financial planning. There is a growing body of evidence that shows that financial education is among the crucial determinants of financial well-being. A key factor in effective financial decisions has been shown to derive from financial knowledge and if acquired early in life results in significant wealth disparities during retirements (Panos & Wilson, 2020). A comprehensive financial education policy should include improved access to financial services. Financial education should not be used in the place of regulation; it should be used in conjunction with regulation. Therefore, regulation should not be relaxed because of the availability of financial education (Guérin, 2012).

Fighting over-indebtedness and enhancing financial literacy should be integrated into existing workplace programs. Civil society should have a thorough comprehension of financial products as well as how they function. The role of education in the workplace in ensuring financial wellness is well-documented (see section 4.2.4). Other approaches, such as regulation and voluntary initiatives could use education and/or information to influence needed changes in consumer behaviour (Kallinowsky, 2008). The burden of over-indebtedness should not only be borne by the consumer, but also by the institution that was responsible for over-indebting the person in the first place (Guérin, 2012). A normative argument for financial education can be made which is that responsible sales and credit is the right thing to do – neither the business nor the community in which it functions approves of unscrupulous business practices (Kallinowsky, 2008).

4.2.3 Economic anthropology

To be effective, providers of financial education should not assume that individuals make mistakes and adopt suboptimal behaviour when managing their finances (Morvant-Roux, 2006). The poor and illiterate are not merely people who are desperate to make ends meet; they want to improve and hold on to specific social characters. They are part of a network of different entitlements and obligations that they want to strengthen, appease or escape. The poor might be making ends meet, obeying social structures, locating themselves in social hierarchies and networks, trying to affirm their individualism. The poor are not entirely unable to strategise, but their long-term contemplations such as protecting their creditworthiness and reputation may be more important than their short-term contemplations (i.e. taking on debt at a very high price)) (Johnson, 2013). Financial ties are key to these practices owing to their social significance. Credit constitutes social ties between people, and people in turn transmit their emotions, which relate to prestige, dignity and respect, or conversely, shame and humiliation. These ties between people are embedded into holistic entrustments and obligations. Calculation frameworks in this context have normative and socio-cultural components. The calculation frameworks themselves are not complex nor formal or sophisticated, but they have various cognitive, routines, and socially based aspects; stemming from social exchanges and are therefore entrenched in the person's social standing, mainly in terms of ethnicity, gender, caste, and class (Guérin, 2012).

Policy makers and financial analysts should not only view the majority of South Africans (especially those who were previously disadvantaged) as gradually moving from traditional ways of conducting their financial affairs (such as investing in clubs and stokvels) to more modern ones, such as saving money in banks. Most of the poor do not consider being over-indebted an issue, the issue is when they cannot obtain credit. This is because most of the poor and illiterate rather use their money to circulate it within their community than in a bank; they lend one another money to preserve social

bonds, they also lend one other another commodities such as food products, cattle and bricks (Johnson, 2013). The motives for saving are also varied and also at odds given the on-going tension between individual desires and social commitments. This results in an abundance of supplementary and, sometimes unfeasible to alternatives, saving methods. Therefore, attempts to enforce savings or to instil a savings discipline may not yield the anticipated results (Guérin, 2012).

Financial education programs should be designed carefully, after considering how individuals perceive and consider finance – their own modes of calculations, points of view towards interest rates, and the cost of credit, saving, juggling and cross borrowings. Social dynamics in some societies in the world have historically often influenced markets instead of market forces of supply and demand Social dynamics, for example, include gender, religion, status and ethnicity (Guérin, 2012). Some social groupings, especially the disadvantaged and the poor groups are further likely to suffer financial marginalisation, such as access to financial services, thereby exacerbating their financial illiteracy (De Clercq, 2009). It was found that elements of native communities in Mexico; Latino and African-American immigrants in the US; the Dalits in India and women in general, paid more for credit. They also needed to provide more collateral or they received lower amounts of credit. Criteria for assessing 'good or bad' debts may differ significantly from what is considered in financial education as 'good practice' (Guérin, 2012). Credit from outside the formal financial sector is still rife among the poor in South Africa, suggesting that many of them also pay higher prices for credit, which in turn exacerbates the inequality levels in South Africa (Mutsonziwa & Fanta, 2019). The Financial Services Board commissioned a study in 2012 on financial education. A number of the key findings included (Sibanda & Sibanda, 2016):

- From an ethnicity perspective, 79 per cent of white and 73 per cent of Indian South Africans were discovered to be having a higher likelihood to directly manage their household budgets in comparison to 63 per cent of the coloured and 60 per cent of black South Africans. In instances where the degree of literacy or income was higher, there was a higher probability of households reporting to have a budget. Overall, less than half (44 per cent) of South Africans were reported to have a financial plan;
- Over half (56 per cent) of 16–19 year-olds did not track their finances at all;
- Forty-four per cent of South Africans were unable to cover their living costs;
- Less than a third (29 per cent) of South Africans set apart emergency finances that can last them up to at least three months;
- Only 44 per cent of South Africans would have enough money for retirement;
- Confidence in managing finances was mostly vested in banks (76 per cent), friends or family (71 per cent) and churches (65 per cent);

- Fifty-five per cent of South Africans held no investment or savings account;
- Fifty-eight per cent of South Africans held no loan or credit products;
- The credit or debt products that most South Africans were knowledgeable of included store cards (75 per cent), lay-buys (72 per cent) and credit from micro-lenders (70 per cent); and
- Only 23 per cent of South Africans understood the concept of inflation.

Overall, the survey highlighted that many South Africans have low financial education levels. This indicates that many sections of the citizenry are not well-equipped to make sensible financial choices, highlighting the need for sustained consumer financial education initiatives (Sibanda & Sibanda, 2016). The survey was supposed to be conducted every five years. In 2019, the Financial Sector Conduct Authority (FSCA) commissioned a follow-up study to the 2012 financial literacy baseline study. However, because of the COVID-19 pandemic and subsequent lockdown, the Human Sciences Research Council (HSRC), which was appointed to perform the study, issued a directive suspending all fieldwork activities.Only 40% of the data processing could be completed before the COVID-19 lockdown measures were implemented. The rest of the data collection only commenced in October 2020 and the final report will thus only be available in 2022 (FSCA, 2020).

4.2.4 The role of employee assistance programs (EAPs)

4.2.4.1 Background on EAPs

Employers throughout the world have been concerned and involved in the health of their workers coming since the 1880s. In those days, some employers established exercise breaks, while in the 20th century wellness programs to combat drug and alcohol abuse and now used to address life–work-related issues became mainstream practice. Employers often arranged for medical insurance, which was largely aimed at covering the cost of treatment and occupational health and safety programs focused on accident prevention. The concept of employee wellness has evolved significantly since then. Increased attention was seen in the 1950s, when employee assistance and health education was improved to centre on labour relations, a decrease in infectious diseases but still helping with individuals' challenges such as drug and alcohol abuse (Conradie, Smit & Malan, 2016). In South Africa, EAPs started in two key frameworks: first, the welfare system, and second, the management of employees. The first EAP in South Africa is reported to have been started by the local Chamber of Mines in the 1980s (Pillay, 2008). Employees were initially resistant to this first EAP as they perceived it as invading their privacy and the program being an additional burden instead of it being a benefit to them, but they later started to embrace it (Conradie et al., 2016). Since the dawn of democracy in 1994, a couple of matters in South Africa have propelled the human factor up on the country's agenda, including HIV/AIDS, violence, political

transformation, healthcare costs, the changing nature of workers, and the decision by government for companies to invest in the socio-economic improvement of the nation (Pillay, 2008).

Since 1994, many South African businesses have been re-evaluating and contemplating the function of EAPs in their organisation, in assisting to develop and uphold employees' productivity and health. From an over-indebtedness and credit management point of view, the literature has shown that there is a link between personal and financial problems and employee productivity (Pillay, 2008). Work-related stress, burn-out, a lack of employee engagement, low morale, diminished productivity, and an increase in sick leave are the primary drivers of implementing wellness programs throughout the world. These workplace-related issues have tended to define EAPs. Employee assistance programs have been used to help with the detection and resolving of productivity issues related to workers who are compromised by personal worries. These concerns relate to marriage, health, finances, drugs and alcohol, emotional distress, legal actions and other stress-related or individual's issues, all of which may badly impact an employee's work productivity (Pillay, 2008). It is assumed that financial literacy in the workplace improves financial behaviour and helps employees to make knowledgeable financial choices; to reduce over-indebtedness, garnishee orders, and the repossession of goods; and to avoid home foreclosures. Employers also play a critical role in savings by making provision for retirement funds through monthly deductions (Prawitz & Garman, 2008). Employers are thus increasingly concerned about the overall well-being of their employees (Pillay, 2008).

4.2.4.2 Benefits of EAPs

Employers can benefit from creating EAPs in the workplace by reducing significant costs associated with financially stressed employees. The following are some of the perceived benefits (Conradie et al., 2016):

- *Increased productivity:* as indicated above the central theme of including a EAPs in the workplace is to increase performance of workers. A financial wellness program can also help to reduce absenteeism and improve employee engagement.
- *Reduced costs:* EAPs can help employees to understand money management and can help employers to reduce healthcare prices, the prices of low productivity and the price of the inefficient use of workers benefits.
- *Attraction and retaining of workers:* employees who take part in financial wellness programs are highly likely to be loyal towards their employers. Research shows that employees place a high value on a caring organisation. Employers who are able to leverage this benefit can use it in their recruitment to attract potential employees.

Absenteeism caused by a lack of punctuality, sickness, stress or a lack of concentration has a negative impact on business revenue and profits (Funderburke, 2014). There is an opportunity to engage and guide employees in the workplace about their financial affairs as they already engage with money through wages and pensions in the workplace. Using the workplace as a conduit for financial assistance offers a win-win opportunity to both employees and employers, as employers have a vested interest in helping their employees with their well-being. As indicated above, reducing financial concerns has a positive impact on morale, productivity, loyalty and retention (Financial Advice Working Group, 2017). This argument is also supported by the Bank of America Merryll Lynch (2016), which found that employers believe that providing financial wellness leads to more satisfied and productive employees. According to their 2016 survey, workers who have better control of their finances are more satisfied (76 per cent), loyal (66 per cent), engaged (65 per cent) and productive (55 per cent). These findings are shown in Figure 4.4.

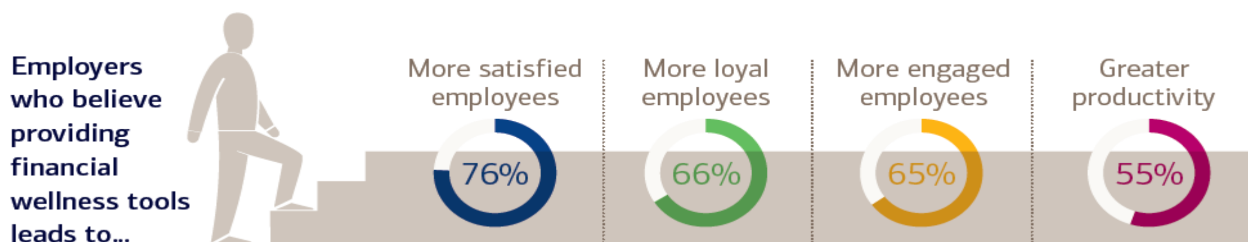


Figure 4.4: Outcome of financial wellness programs

Source: Bank of America Merryll Lynch (2016, p.1)

It has been established that employees who stress about their finances are less productive, and save less, including for retirement (Allison & Harding, 2017). The lack of knowledge about financial affairs is the major cause of over-indebtedness (Mayet, 2008). Occupational matters have come to the fore more strongly in South Africa and issues such as financial difficulties, domestic violence, and a great prevalence of divorce, gender-related difficulties and other concomitant problems have augmented the utilisation of EAPs (Pillay, 2008). Evidence shows that anxiety about personal finances by employees result in poorer social, physical and mental well-being that can impact turnout and productivity. Worries about money were the biggest source of stress to many employees. The Financial Working Group's (2017) research showed that 90 per cent of the employers agreed that financial worries have an impact on workplace performance. Both employers and employees concurred that employees would have better control over their finances if they knew where to go for assistance and guidance and would seek help if needed.

Despite the availability of the NCA and the *in duplum* rule, the consumer lending sector continues to be mostly unregulated and misconducts are rife. Over-indebtedness has also caused social ills. Debt-related absence from work is taking a toll on productivity in South African industries (Kallinowsky, 2008). This shows that financial pressure is having an unfavourable impact on the work habits and psyche of workers. In the US, the National Foundation for Credit Counselling (NFCC) conducted research in 2014 and found alarmingly that nearly 80 per cent of respondents indicated that individuals finances kept them awake at night. Stresses included job issues, deficiency of savings and credit, among other factors (Funderburke, 2014). Personal financial problems are widely recognised as a primary cause of employee stress, having a negative impact on productivity and general well-being. Employees are increasingly looking at their employers for help and many employers respond by offering workplace-based programs on financial wellness (BB&T Bank, 2017). Although not extensively researched and measured, debt-related alcoholism, violence, crime, and family disruption, has clearly leaving its mark in South Africa (Kallinowsky, 2008).

4.2.4.3 EAPs and financial education

As indicated earlier, EAPs assist employees with advice when they encounter financial difficulties (Pillay, 2008). Financial institutions should also be better at advancing their position in providing financial literacy, not just to their customers but also their employees. World class programs need to be adopted and successful experiences that can be helpful to all needs to be shared (OECD, 2006). By acquiring more insights and knowledge into an individual's well-being, an individual is empowered to make correct decisions and to live a more fulfilling and healthier life. It encourages a life-long adherence of discipline to health and wellness. This is critical when a company is considering to help employees to recover from over-indebtedness and to play a positive role in preventing their debts from spiralling out of control. When designing a program to address over-indebtedness, careful consideration should be given to the psychological causes of this phenomenon. Contents of the program should at least include the following (Pillay, 2008):

- Understanding the background and process of personal financial management internationally, but especially locally;
- The psychological reasons why people over-spend;
- Regulation including the NCA;
- Budgeting and getting debt-free;
- Resources available to help employees with this process;
- Public awareness and marketing the program to employees;
- The need for savings and investments; and

- Other information deemed necessary by the employer.

The goal of financial counselling during EAPs is to help employees with debt - related problems, and to counsel them towards achieving sustainable financial stability. The social workers who were involved in one of the companies in the auto-mobile sector in South Africa (BMW SA's EAP program) demonstrated that not only financial counselling, but also psycho-social counselling forms part of the effective financial wellness program (Pillay, 2008). Most large employers have effective corporate well-being programs to react to the various needs of employees in the workplace. These programs normally make provision for an employee's psycho-social lifestyle and medical needs. Most employees who participated in these programs and who received debt counselling reported an immediate reduction in stress levels and improved productivity (PwC, 2015). Employers can assist employees by specifically doing the following (Slot, 2008):

- Assisting employees to manager their personal finance by ensuring proactive exposure to financial wellness programs;
- Encouraging employers to constantly increase their financial knowledge through financial wellness program;
- Ensuring unions' support towards improving the personal financial skills of their members;
- Removing easily accessible loans at the workplace;
- Introducing a compulsory financial literacy program for employees; and
- Actively identifying and referring over-indebted employees to debt counsellors.

Some of the examples of successful financial education programs in 2008 in South Africa were implemented by local automotive manufacturing business BMW SA; the international auditing company, Ernst & Young; the financial services company, Liberty Group; and the brewing and beverage company, South African Breweries (SAB) (Pitman, 2008c). Ernst & Young is one of the players in the financial services industry in South Africa and globally a prime example of a company that has used awareness campaigns and education to mitigate the risk of over-indebtedness (Pitman, 2008a). The Liberty Group has been providing financial guidance and services since 1957 (Bowman, 2008). South African Breweries' (SAB) employee value proposition seeks to make the company an employer of choice (Pitman, 2008c).

Companies throughout the world are recognising that helping individuals pursue financial wellness should form the core part of their human resource management strategy. Individuals have over time been shouldering more responsibility in an increasingly commercialised world. A survey by the Bank of America Merryll Lynch (2016) in the US showed that the majority of bank employees (58 per cent) were seeking guidance in managing their finances better and were turning to their

employers to assist them (Bank of America Merryll Lynch, 2016). This was also evident in the early 2000s in South Africa when it was brought to the attention of Ernst & Young, SAB, Liberty and BMW SA that an increasing number of their employees were experiencing difficulties related to over-indebtedness. More specifically, a rise in the amount of loan requests from workers was evident and a growing number of employees were having garnishee orders attached to their names. Anecdotal evidence from management also indicated that some employees were resorting to loan sharks and many in financial difficulty were planning to resign in order to gain access to their pension funds (Pitman, 2008b).

This evidence supports the notion that financial stress may be the driver for many South Africans to cash in their pension funds. Although the research is far from conclusive, anecdotal evidence proposes that there is a correlation between the amount of garnishee orders in a company and the level of their employee turnover (Pitman, 2008b). Issues such as divorce, bankruptcy, foreclosure, car loans, credit card debt, student loan debt, mortgage debt, food and fuel inflation and many other monetary concerns can hamper employees' productivity. Reactive measures such as cashing their pensions exacerbate their financial challenges. Employees' productivity and overall health are adversely affected by financial stress (Funderburke, 2014). An industry-wide research in 2001 in the South African automotive industry revealed that debt was a significant challenge among a third to a half of their workforce. When BMW SA did research among its own workers they found that an employee financial wellness program was necessary that could reach beyond the educational and awareness campaigns which the company had offered in the past (Bowman, 2008). In the event of default there are two choices for a consumer, to file for debt review or to leave it to the creditors to litigate. Unsecured lending consumers usually get a 'free ride' as creditors normally do not litigate as there are no assets to attach or sell. The default is normally just listed at credit bureaus (Emmenis, 2014).

The example from Ernst & Young, which has a long history of having financial wellness education as part of its People Well-being Program (PWP), is that they expanded this program to address growing difficulties of over-indebtedness in South Africa. This was done as the company became aware that some employees were facing increasing financial strain, evidenced by the increased need for financial loans by employees. The program provided additional support to employees so that they could identify potential debt problems before they arose (Pitman, 2008a). Therefore, the financial wellness program was developed based on a behavioural science approach, which takes the psycho-social factors that relate to individual financial difficulties. There was a realisation that education and awareness alone could not solve the employee over-indebtedness challenge; a sustained behavioural change program model was sought that would be effective in changing the

behaviour of employees when it came to incurring debt (Bowman, 2008). This is owing to the fact that over-indebtedness occurs mainly as a result of a deficiency of financial understanding and a resultant lack of behavioural change (Moss, 2012). Ernst & Young also includes long-term financial planning and wealth creation in its financial wellness basket of services to employees and have won numerous awards as the top firm to work for in South Africa. This award takes into account best human resource practices implemented by companies. The key elements of the Ernst & Young employee wellness strategy included (Pitman, 2008b):

- A holistic approach based on the premise that individual needs are different; and
- Interventions that provide support and empowerment but also entrench self-motivation and self-responsibility for all wellness issues.

During the time when garnishee orders were increasing it was also found that some employees were still paying for garnishee orders that were already cleared, due to not knowing how to manage their debts (Bowman, 2008). The best way to deal with garnishee orders was to ensure that they were dealt with confidentially under the payroll department and that employees were not forced but rather encouraged to attend financial wellness programs. The garnishee orders that were found to be irregular were challenged, which resulted in huge savings and refunds for employees. Some of the lenders that were found to be unscrupulous or illegal were flagged on the company system for future reference and were blocked from issuing garnishee orders to employees. It was found that in many situations garnishee orders were irregular, employees were overcharged and they were owed money. The following irregularities were discovered (Pitman, 2008c):

- Commission was charged higher than the prescribed 10 per cent;
- Repayment plans were overstated;
- Contracts had no money-lending details;
- Some vendors had no loan contracts;
- The *in duplum* rule of the prescribed rate of interest was breached;
- Some credit providers were not registered in terms of the NCA;
- Interest were overcharged;
- Disclosure protocol was breached; and
- A loan contract and a ‘consent to judgment’ form were signed on the same day.

These findings point to the unscrupulous nature of some credit providers and the distorted balance of power between credit providers and their customers that financial literacy can assist to curb (Swartz, 2012). The introduction of EAPs assisted in revealing the garnishee order irregularities and helped to ensure that it was systematically dealt with. It thus shows that without a well-functioning EAP program and a specific focus on financial education, these practices and

behaviour that keep individuals under the debt trap will not be identified and resolved (Pitman, 2008a).

The biggest challenge related to debt was the excessive consumption of credit (over-indebtedness) among employees who were struggling to pay their instalments and were running negative monthly cash flows. Easy access to too many consumption-type loans was the core problem and resulted in loans being taken with the sole purpose of repaying other loans. The following was remarked about employees with an exceptionally high level of financial illiteracy (De Clercq, Van Tonder & Van Aardt, 2015):

- They do not understand the consequences of taking out loans;
- Financial capacity to repay is not assessed before they take out loans; and
- They do not understand the fees attached to loans.

Relationship issues, and money management were found to be an increasing problem among employees. In particular, the escalating difficulties related debt management, financial coaching, and debt administration, and in the majority of these cases the request was to assist on debt consolidation and drawing up budgets in an attempt to manage bad debt. There was also an increase in requests for financial coaching. Employees were experiencing financial problems mainly due to high interest rates, the price of petrol and high living costs (Pitman, 2008c).

Research shows that employees still associate financial support with their employers. For instance, there are still many employees who ask advance on their salaries or borrow money from their employers against their salaries. Metropolitan, one of the main insurance companies in South Africa indicates that the emphasis on financial wellness should be ensuring that consumers are able to achieve their life goals. Metropolitan's view is that a coach or a mentor can work wonders, planning and training the consumer, helping and encouraging them through turbulent times. Accordingly, Metropolitan's focus is on being a mentor for financial wellness of consumers in all life events (MMI Holdings, 2016).

The Financial Advice Working Group (2017) research shows that individuals have a great propensity to live for today, with little planning and a short-term approach in managing their finances. Therefore, the objectives of an EAP in financial education should include (Pitman, 2008b):

- Reduce over-indebtedness among individual employees;
- Assist employees to effectively plan for retirement;
- Create long-term wealth among employees; and
- Develop a model that can be shared among other industries to curb over-indebtedness.

Companies in emerging countries like South Africa face a demanding challenge where governments are not able to fund the abovementioned initiatives effectively out of the fiscus (Conradie et al., 2016). Financial literacy initiatives can be effective in enhancing financial education levels, however the program design is crucial as well as the timing (e.g., before of after a loan application or financial event), length (hours, weeks, or years) and the type of financial behaviour(s) being targeted (credit or saving). It also depends highly on who the target audience (particular age group or income) is and it is clear that one size does not fit all (Jonker & Kosse, 2020).

4.2.4.5 Suggestions to develop sustainable EAP programs

The suggested solutions to over-indebtedness are not merely to have awareness programs and basic financial management tools in place, but to also ensure that a sustainable program is in place, involving external experts such as financial planners, lawyers, psychologists, and social workers. The focus should be on empowering employees to take control of their financial responsibilities and instil skills that will empower them to make better choices in the future. The debt counselling process and the laws that govern credit in South Africa, the NCA of 2005 in particular, should also be part of the program (Bowman, 2008). This means that the financial industry, normally represented by a financial advisor, has a role to play, but for the new role to be effective financial advisors will have to change the way they interact with their customers. Advisory conversations need to be framed in the context of well-being, whether the advisory conversation is about healthcare, insurance, savings and investments, disability or death benefits. The well-being advisory conversations should revolve around the understanding that spending money is not always the answer to achieve goals that what people want to achieve is embedded in their overall well-being, and that there are more effective strategies than using money to solve problems (Conradie et al., 2016). This is because financial advisors can be effective mediators to increase financial awareness among individuals. The involvement of financial advisors tend to improve financial literacy of the individuals they serve, meaning financial advisors can play an important role in complementing financial education initiatives (Panos & Wilson, 2020)

Should the individually tailored reports or any other information in the program indicate that debt remediation is required the employee should be referred to a NCR accredited debt counsellor for immediate intervention (Bowman, 2008). These debt counsellors should be able to (Bowman, 2008):

- Understand the debt recovery process;
- Be familiar with all pre-consultation, consultation and post-consultation process;
- Consider all relevant factors when assessing their liabilities;

- Know how to negotiate debt relief;
- Be fully conversant with the NCA; and
- Know when to advise and when to refer.

Over-indebted consumers can apply for debt counselling and through this process be declared by the courts as over-indebted. The courts may accept or decline an application from the debt counsellor regarding the over-indebtedness of the consumer depending on what is presented and what the court deems appropriate. What is taken into account includes the individual's financial means, obligations and prospects (Lombard & Renke, 2009). Evaluation and monitoring are critical to ensure that the program succeeds. Free credit reports should be part of the program in collaboration with credit bureaus so that employees can access their credit status and debt history (Bowman, 2008).

In the preceding discussion of EAPs it was highlighted that financial difficulties and over-indebtedness are inextricably linked to various other individual and social factors. Anecdotal evidence from the programs indicates that these factors vary – from pressure from the family to buy material goods (such as clothes, appliances, and furniture) to pressure to support extended families. This means solving financial problems usually involves addressing the social family issues that have caused or are exacerbating the employee's debt situation (Pitman, 2008b). Consumers then use debt to fulfil their own and their dependents' expectations, which have resulted in many cases to mountains of debt that are not sustainable. To view such debt as irrational is to miss the important aspects of the social underpinnings of debt. In most cases the reasons for debt have less to do with short-term material aspirations but more with long-term goals such as education, housing or socially prestigious connections such as marriage (Bateman, 2014).

Kahneman and Tversky's (1979) prospect theory postulates that individuals who earn incomes that fall short of their aspirations are inclined to take greater risks as they pursue these aspirations and, conversely, those that have wealth greater than their aspirations are inclined to take less risk. The prospect theory also introduced the weighting function, namely multiplying each outcome of the decision by the decision weightiness. Decision weights are used to quantify the effect of the event on the attractiveness of an investment. Kahneman and Tversky (1979) found that decision weights are usually regressive when compared to actual probabilities. This means that preferences are less sensitive to deviations in probability than the rational standard would advocate (Subash, 2012). Shefrin & Statman (2011) also found that highly competitive people on average are willing to take more risks relative to people with the same income. From a prospect theory point of view this approach suggests that individuals who have high aspirations and see debt as a solution will

incur more debt as they fulfil their willingness to take more risks (Shefrin & Statman, 2011). It is therefore imperative to fathom the individual consumer so that a tailor-made solution can be found for them (Mayet, 2008).

Commitment from the employer is needed to ensure that these programs get the traction they need to keep employees engaged and to produce sustainable outcomes. To develop a strong, supportive and sustainable financial education program the following should also be taken into account (Conradie et al., 2016):

- *Determine employee needs (Start Smart):* An in-depth analysis of employees' financial education needs is critical before designing a financial education program. This will guarantee that funds are allocated effectively and that a standard for evaluating program success is set. The in-depth evaluation can be undertaken in three ways:
    - *Employee questionnaires and surveys:* 'going straight to the source' is the most correct way of assessing a worker's needs. This can be done by surveying employees about their pressing financial concerns, their financial objectives, and linking a financial wellness program to the most crucial needs and goals of employees to ensure employee buy-in.
    - *Analysing employee data:* some insights to build a successful financial wellness program are already in the organisation, therefore factors such as employees' education levels, percentages of employees using their pensions effectively, using savings products availed to them, and participation in voluntary benefits like discount buying programs, accident or legal plans or acute illness insurance can give an indication of the financial stability of employees and help establish the degree of literacy and help needed to produce a culture of financial safety.
    - *Careful consideration of generational differences:* monetary concerns vary between generations, those starting to work (young adults) may be worried about student debt, and to start creating wealth. Therefore, financial education can benefit the young adults by focusing on debt management and repayment strategies, weathering financial emergencies, and considering savings and investment options. Older employees over 35 may have difficulty meeting day-to-day expenses, education, and resources for household financial planning are likely to be an aptly needed financial education intervention. Addressing concerns about housing foreclosures, fuel assistance or utility assistance programs might also assist. While the elderly (over 55-years) are concerned about managing their money post-working years, financial education on retirement money management will be crucial to them.

- *Empower and educate:* Financial literacy has become more crucial than ever as worker benefits have shifted gradually towards voluntary offerings and a buffet of insurance options. Throughout the world there is a shift towards voluntary pension plans that are worker-controlled, shifting the risk to the workers. Therefore, workers need to be well educated on financial matters. Consumers are not generally financially literate globally and are poorly prepared to make sensible financial choices. In order to be successful a financial wellness program should provide workers the education and resources they require to make informed and wise decisions. Employers must encourage employees to be educated about the price of insurance, the best pension and retirement packages, and debt management. A culture of carefully assessing financial choices can assist employees to promote financial independence and security of the workforce.
- *One step at a time:* A culture of responsibility and stability is important when creating a financial wellness program for employees. Literacy is a practice and not an overnight incident, much like a one-time visit to the gymnasium will not produce physical fitness, an annual financial wellness conference will not produce financial well-being. For healthy financial habits to take hold many small changes and continuous encouragement are needed. Employers can encourage employees in the process by in-house marketing strategies, making workers conscious of the benefits accessible to them and giving positive re-enforcement for better financial decisions. Employers can also make available different role players such as legal, tax and counselling services.

Care should be taken when delivering the EAP that is not stigmatised as a service for over-indebted employees; the program should include some form of wealth-creating as well as prevention and awareness strategies (Engelbrecht, Roux & Motlhabane, 2008). This is because the stigma to over-indebtedness affects participation of employees (Pillay, 2008). As emphasised earlier, to be successful financial education programs should be designed with individual employees and consumers' needs in mind, and taking their contexts into consideration... Trust should be developed between consumers and credit providers as well as employers (Mayet, 2008). Flexible teaching methods that appeal to participants should be employed. Regular educational and awareness talks should be conducted to keep employees abreast of current financial trends. The program should ensure that knowledge imparting to fellow colleagues and their children is critical (Kallinowsky, 2008). Employees need to be assured that their information will remain confidential (BB&T Bank, 2017). Intervention has to be long-term oriented and sustainable; it should not be done through a credit provider that is selling a product during the intervention or only having a particular view without giving consumers different options, advantages and disadvantages. Behavioural science should be taken into account including the ability to negotiate better terms,

reducing debt, and the ability to resolve issues of finance with family members or debtors. Highly skilled people need to be used to present the program. Senior leadership of an organisation providing the EAP commitment and the support and buy-in from employees are vital (Mayet, 2008).

4.2.5 Formal education

The South African National Curriculum Framework of 2015 used by the South African education system views education as an interactive process focusing on improving knowledge, skills, attitudes for living productive happy lives (Department of Basic Education, 2015). There is a clear requirement for an educational model for financial education in the curriculum. This should be taught in a simple language that is commonly used and understood y by learners. The knowledge levels of learners should be taken into account and the programs should start at a basic level and be improved as learners' knowledge improves. Financial literacy can also be incorporated in subjects such as Business Management, Mathematics and Economics to create the link in improving an individual learner's ability to understand finances. The following overlapping educational domains were identified in the process of classifying educational goals and objectives (Shuttleworth, 2011):

- Cognitive: Knowledge (mental skills);
- Psychomotor: Skills (physical or manual); and
- Affective: Attitude (maturity emotionally or feelings).

Role players like consumer organisations, trade unions, credit providers, consumers and academics, believe that empowering individuals by educating them is vital. According to these role players, credit education should start at school level where the subject Life Skills should include the topics of credit and financial education. Finance, according to them, should be regarded as a life skill, the same as AIDS and sex education, which will assist young learners to become familiar with financial matters at a young age (Kelly-Louw, 2008). The example of voter education can also be used to support the view that financial education is effective; voter education empowers people to follow political campaigns, discuss politics, connect with political groups and act on community matters. Voter education therefore has an impact on behaviour and on how they ultimately vote. Financial education can also empower individuals to follow financial advice, discuss financial matters, associate with financial entities or groups related to financial services, work on community financial issues and ultimately make better financial choices (Moss, 2012).

A revised National Curriculum statement of 2002 for Grades R to 9 addressed the limited financial literacy standards in the South African education fraternity. The broad outcome reflected in the life skills subject indicated that the learner should be competent in a variety of managerial, consumer

and financial skills. Education levels have a direct correlation with consumers' competencies, therefore a highly qualified consumer will probably have a greater degree of financial education and the earlier examples mentioned indicate that education can make a significant difference in managing finances in general and credit in particular (De Clercq, 2009).

The Department of Education has started integrating some aspects of financial education into the curriculum by including financial education in the Economic Management Sciences (EMS) subject presented in Grades 7 to 9. This is encouraging news as financial education forms 40 per cent of the EMS subject curriculum. The Banking Association of South Africa championed the *Teach Children to Save South Africa*™ (TCTS SA™) as a standard financial education program tailor made to align with the EMS subject syllabus content. Many financial institutions have participated in the TCTS SA™ initiatives with the aim being to teach children to save and improve voluntarism. In addition to EMS, some aspects of financial education are included in the subject called Life Orientation in the basic grades. The integration of financial education into the curriculum is promising but still fall short of ensuring financial education is taken seriously, meaning that it is not merely integrated but instead taught as a stand-alone subject in all grades in school where it can be assessed and measured (Sibanda & Sibanda, 2016). This is supported by research by Panos and Wilson (2020) indicating that financially literate students are better equipped to cope with unexpected financial shocks and concludes that financial education is a key driver of financial well-being among students.

4.2.6 The role of financial institutions

The banking association of SA confirms that major financial institutions in SA offer financial education programs (BASA, 2019). The major financial institutions in South Africa (Standard Bank, FNB, Absa and Nedbank) also agree that the promotion of basic financial literacy is important. FNB has designed a financial literacy and education program that is in a simple language, clear, informative and educational, while Standard Bank indicates that they conduct an in-depth analysis of the employee's needs at the initial interview and are involved in informal gatherings at high-traffic taxi and train stations to educate consumers about managing finances, bank accounts and credit. Standard Bank indicates that they offer financial education virtually, face to face, awareness on radio, television and social media and have reached over 45 million consumers in the 2020 financial year. In 2019 Standard Bank reached 514 500 directly and 235 000 through their website and social media campaigns; their initiative is called "WalletWise", which the bank says it explains financial products and services and how to use financial services and digital platforms effectively and affordably (Standard Bank, 2020). Nedbank also conducted research on the unbanked consumers and indicates that financial education is important and has to be done in a language

that consumers understand. Nedbank indicates that education programs conducted in banking halls to explain the workings of bank products are effective. In the 2020 financial year Nedbank reported that they reached over 23 million (over 7.5 million from 2015 to 2019) individuals in SA, offering them financial education initiatives (Nedbank, 2020). When asked on the areas that need for literacy in the credit sector, both individuals and main stakeholders indicated 'literacy on the basics', for example, what to do when confronted with a debt issue (NCR, 2013).

BASA (2019) indicates that the majority of financial institutions (18 out of 34 members confirmed to offer some form of financial education), both local and foreign owned in South Africa offer financial education in South Africa, not just the major financial institutions. Financial institutions offer financial education by using both interactive methods and awareness methods. Interactive methods include any initiative where there is an active interaction between the target audience and the financial education facilitator. These include face to face engagements, theatre and other edutainment initiatives that are facilitated with an audience, TV or radio programs where the audience can engage either by calling in, online or any other means. Awareness methods include initiatives where individuals are given basic information of financial literacy concepts, their rights and obligations as financial services consumers, where individuals can access information on products and services, as well as where they can go for assistance or recource. Awareness methods do not include in-depth education (BASA, 2019). All four major banks have also addressed language barriers with most flyers, banners and online channels and at ATMs, using several of the eleven official languages. Absa states that a consumer education drive is critical to empower individuals to make knowledgeable choices on banking products and financial services that best suit their needs. Absa indicates that they have provided face to face financial education to over 50 246 people in the 2020 financial year (in 2019 the number was 119 000). The decreased number in 2020 was due to the COVID-19 pandemic with social distancing impacting the ability to deliver face-to-face training. Absa also reports that it has embarked continuously with financial wellness support and education, with 2 014 employees receiving debt relief in the 2020 financial year. They use various communication channels, such as ATMs, face-to-face exchanges, short message services and digital platforms to teach consumers on managing finances and costs of everyday banking products. They also offer first-time home buyers with a credit education initiative, that incorporates the main aspects of home ownership, home maintenance and personal financial matters. They indicate that they continuously leverage the opportunities that digitisation brings to scale, access to information and understanding of homeownership in South Africa to as many people as possible (Absa, 2020).

FNB further indicates that financial education and the ability to make informed financially sound decisions is a cornerstone to financially transform communities. FNB embarked on a *be financially smart* show, which was presented on radio in all eleven official languages. The company has focused on ongoing review of its conduct risks ensuring product suitability, affordability assessments and consumer financial education (FirstRand, 2020). Most financial institutions and financial institutions have digital platforms, offering online financial education and ensuring that their websites also contain sufficient financial information and education. Individuals can obtain valuable guidelines about managing finances and a variety of online bank products are also offered (BASA, 2019). According to Jonker & Kosse (2020), users of digital services or devices already have higher financial know how and prudent financial behaviour patterns compared to who have not used digital services or devices. Panos and Wilson (2020) also concur indicating that studies show that working age individuals (16-65) that used the following four apps: a cash calender app, a loan interest comparison app, an expenditure app and debt management app showed significant improvement in financial literacy and basic financial skills. Those that were using these apps were found to be more likely to keep track of income and expenditure and dealt with financial shocks in a more resilient manner (Panos & Wilson 2020).

There is a real need to focus on what consumers should do to become debt free. The reason is that although a credit provider is prepared to make debt arrangements with a consumer when debt problems arise, it is the fact that the consumer is ill-equipped to deal with the subsequent conversation with the credit provider. Credit and credit products are perceived to be complicated and the institutions in the credit sector are perceived as complicated too. Individuals do not feel capable in their ability to comprehend financial transactions or to manage their financial constraints. The feeling of ineptitude limits their self-confidence in asking the correct questions or doing research before meeting with their credit providers when in dispute (NCR, 2013). Consumers also seem to be struggling to cope with unexpected worsening in their conditions such as higher interest rates, lower asset prices or lower income. Normally, cutting consumption is difficult and consumers usually rather exhaust savings, use illiquid assets as security to raise more debt, and use unemployment insurance if it is available. Consumers should rather renegotiate and refinance debt, reduce the repayment burden or default strategically in territories where debts are not in full recourse, but these are the options that they are not educated on and lack the capability to handle or implement (BIS Quarterly Review, 2017). A study in Argentina shows that credit assessment by Big Techs outperforms traditional credit bureaus in predicting loan loss rates on unsecured loans. Their models use the latest digital innovation such as artificial intelligence (AI) and machine learning. As the Big Techs are still new in the financial market and operate across different geographical areas it is still to be determined whether this outperformance will hold throughout the

economic cycle (Jonker & Kosse, 2020). Big Techs will be discussed later in section 4.4.5 below. The important factor is sometimes providing education just at the precise time with the precise amount of information needed, for example, when someone is taking out a loan to educate them on how that particular loan work compared to others (NCR, 2013). It is therefore advisable for education programs to be provided just before the next financial event such as purchasing a home or applying for a credit card (Jonker & Kosse, 2020). All major financial institutions track inputs, activities and outputs of their financial education initiatives. This is done extensively and and commonly reported through quarterly and annual reports from the banks' senior management. It is still difficult for all major banks to quantify the impact of these initiatives though, meaning that the focus is on activies and awareness instead of making sure that the programs result in better financial choices for individuals (BASA, 2019).

4.2.7 The role of the NCR on financial education

To increase awareness and knowledge about the NCA and the NCR, the NCR has been hosting educational workshops and information-sharing sessions with communities, trade unions, business chambers and organisations. Government departments, local governments, traditional authorities, religious organisations, community-based organisations (CBOs) and NGOs, have been targeted to receive educational awareness campaigns. Media messages are also used to deliver universal prevention and awareness messages; they play a role in supporting policy change, changing social norms and reinforcing positive behaviour in the credit sector (NCR, 2013). Despite major developments in the credit industry, the available literature indicates that misconduct on both the demand side and the supply side of credit is still rampant (Swartz, 2012). Lenders are still pursuing unsecured lending as a growth opportunity. The bulk of this unsecured lending is aimed at individuals who are susceptible to changes in economic circumstances. On the demand side, rising numbers of individuals still carry on to attain debt without enough knowledge of their rights and accountabilities (NCR, 2013).

The NCR has embarked on a strategy with the objective to clean-up non-compliance with the NCA. The example of the outcome is depicted in Table 4.1, extracted from the 2019/2020 annual report. It shows that 306 and 329 investigations were assessed in 2018/19 and 2019/20 respectively and action was taken in 238 (78 per cent) and 274 (83 per cent) in 2018/19 and 2019/20 of the cases investigated. These figures indicate that some lenders are still non-compliant with the NCA and enforcement is important to ensure compliance (NCR, 2020).

Table 4.1: Strategic objectives of the NCR

Output	Performance measure or indicator	Actual achievement 2018/19	Planned target 2019/20	Actual achievement 2019/20	Deviation from planned target to actual achievement for 2019/20	Comment on deviation
Improve compliance with regulations pertaining to the total cost of credit (including credit life).	Number of credit providers investigated/complaints evaluated/compliance monitored/audited/raided on total cost of credit (including credit life) to ensure compliance with the regulation	Q1 and Q2 163 investigations were conducted Q3 and Q4 143 credit providers were investigated/compliance monitored/complaints evaluated	Investigate/evaluate complaints/monitor compliance/audit/conduct raids on 310 credit providers regarding total cost of credit (including credit life) to ensure compliance with the regulations.	Exceeded 329 credit providers were investigated by way of compliance monitoring audit investigations and complaints evaluation	The target was exceeded due to proactive monitoring of credit providers and an increase in information received which prompted investigations and speedy resolution of matters	
	Enforcement action taken on a percentage (%) of credit providers investigated/complaints evaluated/compliance monitored/audited/raided on total cost of credit (including credit life) where necessary by the end of the financial year.	Q1 and Q2 84% (137÷163) enforcement action taken. Q3 and Q4 71% (101÷143) enforcement action taken.	Take enforcement action on 75% of 310 credit providers investigated/complaints evaluated/compliance monitored/audited/raided on total cost of credit (including credit life) where necessary by 31 March 2020.	Exceeded Enforcement action was taken on 88% (274) of 310 credit providers as a set target	Similarities in the nature of contraventions committed by credit providers enabled NCR to adopt an efficient enforcement approach that fast tracked the taking of enforcement action.	

Source: NCR (2020)

Further research findings by the NCR indicated that even though there are varied views on debt, they tend to be mainly negative and the majority of the communications tend to have negative sentiments, positioning debt as a difficulty that consumers must avoid. The possible wealth creation benefits of debt are not enunciated. Credit sector actors are usually seen to be steered by the NCR credit bureaus, and debt counsellors. Credit themes are also known well, especially over-indebtedness, credit agreements, blacklisting, as well as individual rights and responsibilities. This

knowledge can be ascribed to educational programs. However, deep comprehension about the main elements of the NCA and the role of the NCR in the credit industry seems to be limited. Key emerging discussion points around the NCR are about its identity: the name is recognised but not the brand; visibility is regularly spotted at lenders' windows and walls and also noticed on a certificate or as a sticker. The NCR is mainly associated with protection and legitimacy (NCR, 2013).

Obstacles to creating a standardised method in evaluating financial education include a lack of definition and conceptualisation of financial education as a concept, the contents of the financial literacy and the financial literacy explanation. To be financially literate means knowing how to apply financial information, and having the confidence to make financial choice (Moss, 2012). Financial markets have become more intricate, and in the new financial landscape, consumers have more obligation for their financial safety than they did previously. This indicates that sensible and timely investments and saving choices can be vital to financial security. Failure to plan for a financial future can have dismal results (Boone, Kurtz & Heath, 2006). Consumers are increasingly confronting complicated financial decisions earlier in their lives and financial errors made earlier in life can be very expensive, and may have a negative impact on accumulating and creating wealth (Fatoki, 2014).

The NCR embarked on roadshows, stakeholder meetings, workshops and exhibitions aimed at educating consumers on the amended NCA, organised in conjunction with trade unions, government departments, the Department of Trade and Industry and various other stakeholders. The NCR was furthermore active in campaigning for *Know Your Credit Status* in combination with the Credit Bureau Association (CBA), educating consumers about their credit status, credit scores and credit information (NCR, 2016b). The NCR is seen more for raising awareness instead of providing actual credit education. Some of the main stakeholders call for a separation to be made between educational and awareness campaigns. This is because they argue that the former is broad, while the latter is specific towards resolving the instantaneous consequences of over-indebtedness. Stakeholders in the industry see credit education more as a priority than raising awareness at this stage. Credit consumers tend to obtain debt data mainly through the internet, radio and television. The seminars also feature highly as another source of debt information ahead of newspapers, lenders and referrals. Consumers also indicate that television, radio and the Internet are their preferred sources of credit information. These were followed by road shows and newspapers which were preferred ahead of workshops. These preferences point to the fact that members of the public deem road shows as more effective as they are more interactive and

entertaining instead of workshops that are often seen as rigid and a one-way conversation (NCR, 2013).

The NCR seminars were commended for their empowering content, and the quality of presenters, although a concern was that there were fewer staff members and language inadequacies in certain provinces. Recommendations were that the NCR needed to formulate major outreach programs themselves and not be a mere 'passenger' in other organisations' functions, as the NCR was always invited to seminars of other organisations to talk about financial education. Another recommendation was that the NCR should increase the frequency of their workshops or interventions. The NCR acknowledged that the campaigns on billboards and in the broadcast media were simple, appealing, and that the messages were empowering (NCR, 2013).

In Singapore, the Credit Counselling Committee, similar to the debt counsellors in South Africa, is a prime example that a focused strategy on over-indebtedness can work. A part of its mandate is to assist consumers who are already over-indebted to decrease their loans in an arranged way and to tackle the legacy of credit setbacks. Many of those assisted by the Credit Counselling Committee, Singapore attest that with resolve and determination serious debt problems can be overcome (Shanmugaratnam, 2014).

Despite the significant educational awareness among various role players, little change can be seen behaviour. More outreach programs might reveal the fundamental causes of the individual behaviour and offer help for progress (NCR, 2013). The impact of cognitive errors as discussed earlier should be taken into account when educational awareness interventions are considered (Subash, 2012). Positive engaging messages shared by means of broadcast media could attest to have a stronger impact. One of the NCR's functions is to carry out credit education among industry participants and credit consumers. The NCR's mandate is to, among others, create awareness and educate on the safeguard that the NCA provides to these individuals. The NCR was formed under the Act and calls for the NCR to advance the advancement of an accessible lending industry and to specifically tackle the requirements of historically underprivileged individuals, lower income groups, and secluded remote and low-density societies (NCR, 2013).

4.3 EXAMPLES OF FINANCIAL EDUCATION PROGRAMS ACROSS THE WORLD

Financial literacy in South Africa is still a relatively new idea, whereas in the US, financial education can be traced as far back as in 1968, when the Housing and Urban Development (HUD) Act of 1968 was passed. This legislation advocated suitable counselling in credit matters and budgeting to help low income households in being successful property owners (Moss, 2012).

The proliferation of financial literacy programs became evident in the late 1990s, mainly in the first-world nations such as Australia, the US and the UK. They then spread through many northern nations and now seem to have spread all over the world. In 2002 the OECD countries officially acknowledged the importance of financial education which resulted in the creation of the International Network of Financial Literacy (INFE) in 2008. The OECD/INFE developed high-level principles on national strategies for financial literacy that were endorsed by the G20 leaders in 2012, and published a policy handbook in 2015 to support implementation of these strategies in member countries (Jonker & Kosse, 2020).

In South Africa, where different forms of debt, especially household debt, have been identified as a challenge, two public institutions, namely the Financial Sector Conduct Authority (FSCA) and the NCR have financial literacy objectives (NCR, 2013). In Brazil, a declaration was adopted on a National Strategy for Financial education in December 2010. The strategy is to develop programs, plans and actions related to financial literacy and contribute towards social cohesion, a robust and efficient financial system and more informed financial decision making by consumers. The Brazilian government offers various measures such as publications, conferences, websites, training modules, and free hot lines to inform and educate consumers (CEMC, 2020). In other countries such as Mexico, the government launched a mass campaign in financial education. This initiative is considered part of a financial inclusion policy that include consumer protection and transparency. The education law in Mexico mandates the content in the syllabus in all schools, both government and private where the syllabus is authorised or validated by the government to have financial education in their curriculums. There is a concerted effort to forster financial education digitally to reach as many people as possible (CEMC, 2020). In Latin America various regulatory bodies implemented financial literacy programs. These financial literacy programs include those implemented by the Central Bank of Argentina; two public banks in Mexico and Colombia in partnership with government ministries such as the Ministry of Education; or development programs such as *Programa de Alfabetizacion Ecomnomica Financiera* in Argentina, or PATMIR in Mexico (Guérin, 2012). From a central banking point of view, financial education would enable individuals to make better financial decisions that suit their financial needs and risk profiles, which in turn will improve the stability and efficiency of the financial system (Jonker & Kosse, 2020).

In China, the authorities established a financial education program for the youth through their Department of Finance and the Department of Education in collaboration with the research institution at Perkin University called the *Student financial aid information intervention program* (Loyalka, Wei, Zhong & Rozelle, 2013). In Malaysia, financial literacy is driven through a specific organisation, namely the *Credit and Debt Management Agency,* which relies on the central bank.

This organisation was formed in 2006 as part of a ten-year strategy to improve and develop the nation’s financial industry. The organisation’s purpose is to proactively make sure that Malaysians are prudent and resilient in handling their funds with a mission to make judicious financial management a way of life (Ali, 2013).

In Indonesia, the authorities pronounced 2008 as a year of financial literacy, stating access to the use of financial services and enhancing financial education as a priority (Tambunan, 2015). In a study done after provision of financial education in Indonesia, Jonker and Kosse (2020) indicate that there was a statistically significant impact on Indonesian immigrants’ level of savings but this was apparent mainly to those migrants where their families were also trained. This indicates that financial education can have healthy financial outcomes when provided properly and also that Indonesia has been focusing on fostering financial education (Jonker & Kosse, 2020). In India, the central bank has driven a huge mission on financial literacy, mainly aimed at spreading information, both on daily financial practices and on the functioning of central banks. Their central instrument is a website in different languages aimed at popularising financial issues. Making available advice and assistance at local centres are also part of the financial education program (UNDP, 2012). In Russia, there is a national foundation devoted to financial education, especially targeting their youth (OECD, 2013b).

In an attempt to advance financial literacy in the United Kingdom (UK), the UK Basic Skills Agency (BSA) and the Financial Services Authority (FSA), worked together to develop a financial literacy framework. The framework was developed to assist people and institutions to enhance their financial literacy skills and capabilities and those of others. In the US, the American Institute of Certified Public Accountants (AICPA), developed its *360 Degrees of Financial Literacy* promotion in 2004 aimed at researching the status of financial education nationwide. In 2005, the American Association of Certified Accountants (ACCA) introduced the *Global Insights* research program, aiming to enhance financial literacy (Shuttleworth, 2011). The *360 Degrees of Financial Literacy* program is believed to be a comprehensive method to financial literacy for all life stages starting from childhood to retirement. This program encourages certified public accountants to assume leadership in volunteering to educate the American people, from children to those in retirement, on financial issues relevant to their particular life stage (De Clercq, 2009). In South Africa, ECI Africa did a study on financial literacy for FinMark Trust in 2004 and found that, despite numerous financial education programs, South Africans continue to be mainly underserved by initiatives providing financial literacy (Shuttleworth, 2011).

Not only non-profit organisations, but also bilateral as well as multilateral aid organisations are all influential in spearheading financial education. For example, in East and West Africa and, through the Department of International Development (DFID) in the UK, a particular Financial Literacy Fund was created to help educational initiatives that help Africans to improve their financial capacity, which entails improving their attitudes, skills, knowledge and behaviours (OECD, 2011). The World Bank has also followed these developments and approved a Trust Fund on Financial Literacy in 2008. There are also numerous financial education initiatives that are promoted by non-profit organisations and corporate groups globally. These include education programs funded by different sources such as bank foundations (Citi Foundation), bilateral cooperation (DFID), public banks (Bansefi/USTDA in Mexico, Banca de las Oportunidades in Colombia), and charitable organisations (Omidyar Network). One of the most extensive programs is the Global Financial Education Program, which was created by Microfinance Opportunities and Freedom and Hunger – two US-based initiatives that are operational in several countries (HKSFL, 2015).

In Asia, the most significant private organisation offering financial literacy is 'A and B make 3'. Working in the Philippines, Hong Kong, and Cambodia, this organisation presents subjects varying from creating your own business to good habits with money. Financial education programs have been complemented by empirical evidence to quantify the impact of financial education. Studies show, for instance, that consumers lacking financial knowledge and education tend to save less, especially for retirement; take less advantage of financial innovations; borrow at high interest rates; and tend to be more over-indebted than those who are more financially literate (HKSFL, 2015). In Singapore, an integrated consumer education campaign was launched in 2014 called MoneySENSE, using different media networks to get in touch with multiple sections of Singaporeans. This campaign was undertaken to empower Singaporeans with the skills and knowledge they need to handle their finances better and to specifically avoid too much debt. The Institute of Financial Literacy in conjunction with MoneySENSE and Singapore Polytechnic touch workers and trade unions to ensure free credit management seminars are held at places of work. Free public dialogs at convenient locations around Singapore are also organised for the benefit of the general public. Social workers and counsellors are given financial education courses in order to equip them to assist others. These courses are offered by the Institute of Financial Literacy (Shanmugaratnam, 2014). Even though the strength of the impact varies depending on the type of indicator used for financial literacy (i.e. awareness, knowledge, numeracy skills, and attitudes), there is significant causality across the globe with studies showing that financial education leading to improved financial literacy levels (Jonker & Kosse, 2020).

4.4 OTHER POSSIBLE SOLUTIONS TO CONSUMER INDEBTEDNESS

4.4.1 Group lending

Group lending mechanisms have increasingly become widespread among micro credit providers in the beginning of the 20th century. This is mainly as a result of group lending's ability to leverage joint liability to improve loan repayments while at the same time promoting an entrepreneurial spirit among borrowers (Nkwocha, Hussain & Edwards, 2019). According to social-collateral (group micro-lending or social capital) theory, credit providers should lend to groups instead of specific individuals, meaning that borrowers need to select themselves into clusters of the same risk and hold each other accountable for the repayment of the loans sought. This will lead to intra-group lenders being self-driven to track and exclude high risk borrowers who might default (Magorombe & Maswe, 2019). In addition to financial literacy, group lending can be used to overcome problems of high transaction costs, collateral, moral hazard and adverse selection that discourage the provision of financial services to the majority in South Africa (Mashigo, 2012). Banks will usually ration loans because of moral hazard, information asymmetry and adverse selection problems (Ndari & Mukura, 2012). Adverse selection is part of information asymmetry whereby information is hidden from the lender, and the borrower knows more about his or her financial situation than the lender. Borrowers also know more about each other's risk than the credit provider does, which means group based joint liability lending can enhance this local data and harness the credit provider's ability to price for risk (Ahlin, 2020). Group lending can be a critical catalyst to mitigate against adverse selection and information asymmetry and facilitate the much-needed finance to the economy, especially to those previously excluded from the economic mainstream and those with no assets to offer as collateral (Dilotsotlhe, 2013). This mitigation of information asymmetry is achieved by mobilizing social ties through group lending (Chen at al. 2019). This method has been effectively executed in areas such as Asia, Latin America, and Africa where credit is advanced to small groups who are jointly accountable to repay the debt (Magorombe & Maswe, 2019).

Bangladesh because of Grameen Bank made group lending popular, where group dynamics were said to provide insurance against default. If one member defaults, the whole group is denied future loans. Peer pressure and comprehensive knowledge of one another assist in screening of the candidates. One of the methods that Grameen Bank uses is to ensure that members contribute to an emergency fund, saving money that can serve as security for the loan (Mashigo, 2012). A study in China by Chen et al (2019) indicates that it can be theoretically shown that feeling of shame incentivises loan repayment and feelings of guilt discourage defaults under group lending where there is joint liability. Jount liability also provides a form of intra-group insurance to mitigate against idiosyncratic shock and enhance loan repayment. This study shows that joint liability group lending

can result in lower default rates, helping to ensure profitability for credit providers and increase community welfare (Chen et al. 2019). While in South Africa, even though there was enough useful examples in history to successfully drive a post-conflict recovery in a democratic society, the incoming government in 1994 chose instead to drop effectively all features of its radical economic policy and signed up to the typical International Monetary Fund-World Bank neo-liberal idea of creating entirely private market-driven financial intermediation institutions and processes. The reform of the post-apartheid South Africa financial system in followed this neo-liberal trend and one of the most far-reaching outcomes was the arrival of the market-driven microcredit (unsecured lending) model. This was embarked on regardless of the African continent having a long history of self-sustainable community-based finance (Bateman, 2015). When governments design policies that prevent crises and solve problems, the process is usually complicated by different ideologies and self-interest. This is because people have different views and interests and see solutions to problems differently. Policies favoured by paternalists are usually not those favoured by libertarians, and those serving the interest of lenders are not those necessarily serving the interests of borrowers. Differing interest groups are known to regularly enlist law makers in their tugs of war with one another. This enlistment was described by Stigler in 1971 as 'capture theory', noting that each interest group including bankers, union members, lawyers and employers pushes for legislation that maximises their wealth (Shefrin & Statman, 2011).

Financial education can be effective in group lending when it is delivered by a member of the group or community. This is because borrowers in the group normally ask others in the group for advice and are likely to pay attention and follow advice given by their counterparts instead of a lecture from an expert who is not part of the group or community (Kodongo & Kendi, 2013). When individuals are overwhelmed by their financial circumstances they usually turn to friends for advice. (Bowman, 2008). For some consumers learning about finances may be best coming from unofficial groups of family and friends who, through experience, comprehend the workings of banking products, the costs of credit and the language spoken by the community (Moss, 2012).

Peer-to-peer support can be used effectively by providing financial education to a group, re-inforce positive peer pressure that can keep the group on track in financial wellness. The importance of social influence on financial decision-making cannot be over-emphasised. Peer pressure can be a critical mechanism to impact individual behaviour and can provide a critical explanation for individuals' repayment behaviour in group lending context. Peer pressure can affect individuals' behaviour when their behaviour affects the well-being of others in the group and when others in the group have the ability to affect the decisions of the group member. Peer pressure can influence loan repayment positively even in the absence of social sanctions or group expulsion (Chen et al,

2019). Positive group, peer or social pressure can lead to behavioural change that can result in the success of financial education. Even though group formation, training costs, and regular group meetings may present some challenges and costs, group lending can be a critical vehicle in unsecured lending, reducing information asymmetry and risk of default as indicated above (Kodongo & Kendi, 2013). Supporters of the concept group lending understand that there are 'other-regarding' preferences at work in all societies. These include concepts such as innate human need for social status, to belong or identify with a group, tendencies to behave altruistically, and a willingness to behave in instrumental reciprocity (for example, responding to kindness with kindness or vice versa). Financial decisions are significantly influenced by the requirements of the broader group more than it is by self-interest. The group lending method is governed by the principle of group solidarity, which holds that the more solidarity the group members feel for each other the greater influence it casts on the group members (Magorombe & Maswe, 2019).

It is important to link the behavioural finance theory to group decision-making in order to avoid some of the biases that affect groups. This is because behavioural finance can also explain the irrationality in the decision-making process by drawing on the cognitive psychology's experimental evidence and the biases that happen when groups make decisions (Gill & Bajwa, 2018). Sociology also indicates that a considerable amount of financial choices comes from social interactions instead of being made in isolation. This attests to the fact that peoples' decision-making is influenced by external influences (Subash, 2012). There is also evidence that individuals hold on too tightly and too long to an opinion once it is formed. This behaviour means that either individuals are not motivated to examine for evidence that challenges their thinking, or that even if they discover such evidence they will consider it with high suspicion. Some research have discovered another stronger impact, regarded as confirmation bias, where individuals are bound to misjudge evidence that is contrary to their beliefs as essentially being in their favour (Barberis & Thaler, 2003). Confirmation bias refers to the tendency to notice and pursue information that endorses prevailing beliefs, and disregarding everything that opposes those beliefs. It is thus a form of selective thinking. Selective thinking is a practice by which evidence that is favourable is focused on in order to validate a belief and an evidence that is unfavourable ignored is the other phenomenon highlighted in psychological literature (Sewell, 2011). The biases relating to individual decision-making also affect group decision making in the following manner (Byrne & Utkus, 2013):

4.4.2 Two heads are better than one

Using groups in decision-making ensures that individuals benefit from the knowledge and experience of the group. The desire for social acceptance may encourage those in the group with

conflicting views to fall in line with the group's view or those with conflicting views to start doubting their own convictions. This may result in 'group think', a phenomenon that should be avoided.

4.4.3 Crowds versus groups

There is evidence to suggest that crowds (groups of unrelated individuals) normally have the ability to ascertain the right responses to problems. This is because the range of experience and knowledge among crowds is varied and people normally provide their opinions independently of others. Studies shows that the lion's share of the opinion of crowds is usually over 90 per cent correct this explains the reason decision-making in committees is usually highly regarded as it is deemed to be more effective. This effectiveness happens if the committees are appropriately diverse and individuals are encouraged to express themselves independently.

Psychology can also explain the reasons a group of people believe in the same thing. In psychology, when a strong belief is formed through a claim being repeatedly asserted by community members it is called 'communal reinforcement'. This reinforcement happens even if the existence of empirical evidence for the validity of the claim has not been established (Sewell, 2011). Changing human behaviour requires the understanding that there are bad and good news. This is because people will do the right thing to enhance their well-being only if they perceive others to do the same, meaning that people often behave as 'conditional co-operators'. Therefore, under the right conditions, social pressure can provide a powerful tool for behavioural change. This means that policymakers, industry participants and stakeholders should spend more time determining how social pressure, group coercion and group support can be leveraged for dysfunctional behavioural change. The model of trying to convince individuals directly has not been as effective as the one whereby social norms that correlate with the right behaviours are being re-enforced and promoted (Alexander Forbes, 2015).

4.4.4 Stokvels

One of the methods South Africans use to facilitate credit is stokvels whereby members contribute a subscription to a fund, mostly informally managed. No collateral is relied on, but social pressure and monitoring prevails. Members know they rely solely on the stokvel in times of financial difficulty and hence obey the regulations governing the stokvel. Usually if a member defaults he or she is expelled until all arrears are repaid (Mashigo & Schoeman, 2012). The 'self-help' local community driven and owned initiatives such as stokvels are not in short supply in South Africa. These are solidarity groups with lots of well-known variations and objectives. The umbrella body, the National Association of Stokvels of South Africa (NASASA), was created in 1988 to advocate for the interests of stokvels, and was registered as an entity under section 21 of NASASA (Legadima,

2012). This umbrella body provides education and awareness and encouragement for low-income groups to participate in this ‘self-managed’ format (Dallimore, 2013). The estimate is that there are over 800 000 burial societies, stokvels and savings groups in South Africa. NASASA indicates that stokvels are estimated to be worth over R44 billion, having over 11 million members representing over 18 per cent of the South African people. Prominent stockvels in South Africa include burial societies, saving, groceries and investment schemes (Mokoena, Dickason-Koekemoer & Ferreira-Schenk, 2021).

Although stokvels have a rich heritage in South Africa, there are still substantial risks involved, such as financial mismanagement and a lack of transparency (Dallimore, 2013). For many low-income South Africans, stokvels are the most popular informal savings instrument. Stokvels function under an exemption of the Banks’ Act of 1990 (Act No. 94 of 1990), and they are sometimes referred to as Rotating Savings and Credit Associations (ROSCA). In a ROSCA, every participant contributes the same amount and each amount is given to a specific member, each taking turns to receive the total contribution. Contribution of funds in the fund can be monthly, fortnightly or weekly and members agree to receive the contributed funds as a lumpsum payment at a later date, usually after 12 months of contribution (Mokoena, Dickason-Koekemoer & Ferreira-Schenk, 2021). In 2006 when the Banks’ Act of 1990 was amended, stokvels were seen as self-governing bodies functioning outside the rules that govern financial institutions. They are given permission to accept deposits only from their members, but not permitted to keep more than R9.99 million at a time. The Permanent Building Society, now part of Nedbank, became the first financial institution to open a bank account for stokvels in South African in 1988 (Legadima, 2012). Financial education can be helpful for stockvel members to make better financial choices with the lump sums they receive from their savings. Stockvels can enable members to have insurance against unexpected expenses that bring adversity such as death or disability and can also help members by extending loans to them for physiological needs such as housing, basic needs such as food or clothing, business endevours etc. Stockvels also create social capital, mutual assistance and moral support (Bophela & Khumalo, 2019).

4.4.5 Financial education delivery methods

Financial education can be delivered through the following means: self-study materials, classroom teaching, interactive games, and information websites and, at times, through individual counselling. Programs can vary greatly in methodology, content and intensity. However, they all have the same goal of improving an individual’s abilities in handling their finances and therefore their wellbeing (OECD, 2013b). It is important to use different channels when providing financial education, because of the potential this has to assist in reaching different segments of the population. The

purpose of financial education is to ensure that consumer behaviour in managing finance is ultimately changed instead of consumers just knowing financial concepts (Fanta et al., 2016). However, there is a universal worry that even the basic understanding of financial concepts is lacking among consumers, which has a negative impact on their knowledge to make decisions that in turn affect their financial well-being (Dilotsotlhe, 2013). To achieve this, the use of a variety of channels such as newspapers, radio, social media and puppet shows, appealing to each category of consumers, has the possibility to achieve this change. Social media is, for example, critical to reach young people where there is broader access to the Internet; however, for consumers in rural areas where access to social media is limited, radio and television programs are more likely to be effective (Fanta et al., 2016).

Large technology firms, or Big Techs, such as Amazon, Apple, Alibaba, eBay, Facebook, Tencent and Google have also started offering financial services such as payment services, loans and insurance to the users of their online platforms. These Big Techs are able to reach a large number of people with financial services due to their global presence. From a financial education point of view, Big Techs can be used as a tool to ensure that the opportunities of reaching as many people as possible offering them financial education is achieved (Jonker & Kosse, 2020). Financial technology (FinTech) is also revolutionising the financial services industry at an incredible pace. Mobile payments, app-based investing platforms, robo-financial advising, to online banking, FinTech developments have had an impact on financial planning, financial well-being and economic inequality. FinTech can potentially improve financial capabilities of individuals, by simplifying the personal finance and streamline the financial planning process by not only building innovative financial tools through AI as well as machine learning but also encouraging and facilitating financial education (Panos & Wilson, 2020). For the method of delivery to be successful, financial education must be directed at the youth, women, and the poor and rural populations separately, with specific programs designed for this niche market. For example, programs aimed at the youth should focus on addressing the challenges of increased financial responsibility that will face them at a later stage in life. For illiterate people the program must be offered in a manner that is easy to comprehend and avoid technical jargon and complex calculations, emphasizing skills that are intuitively clear (Fanta et al., 2016). Educational programs should be made available for individuals and households, need to be designed and disseminated in a user-friendly way to provide fertile ground for change in behaviour. Information should also include enough warnings against falling into excessive debt patterns together with knowledge of existing financial tools and the value of saving money (Cronje, 2011). The education offered should focus on empowering consumers to make better choices about their lifestyles and finances, rather than focusing on customers' attraction and retention (Coetzee, 2009).

Finally, in 2006 the OECD made the following recommendations that are still applicable today:

- Promotion of a fair, unbiased and coordinated financial literacy is needed by all concerned stakeholders and the government;
- Financial literacy must begin at school level for individuals to be financially literate as early as possible in life;
- Financial institutions' good governance principles should include financial education, whose accountability should be encouraged;
- The small print and obtuse information should be discouraged in loan and financial agreements, financial institutions should encourage their customers to read and understand information in contracts and agreements, especially when it relates to long-term obligations or financial services that have potentially important consequences;
- Codes of conduct for employees of financial services need to be developed and literacy must be clearly differentiated from commercial advice;
- The main focus of financial literacy must be on critical life planning facets such as debt, savings, pensions or insurance;
- Programs must be practical and be aimed at capability building where suitable, directed at particular groups and made as personalised as possible;
- Future pensioners should be alerted of ensuring that their current pensions are adequate for their retirement; and
- Promotion of financial education on specific websites, national campaigns, free information services, high-risk behaviour and issues such as fraud.

4.5 CONCLUSION

Behavioural finance has added to the field of finance the plausibility of cognitive biases when financial decisions are made. As indicated earlier, evidence suggests that individuals suffer from a variety of substantial systematic reasoning errors when it comes to financial decision-making. What has also been revealed is that these errors are systemic and relate to conditions such as incentives, experience and deliberation cost. The consensus should be that behavioural finance adds to traditional finance instead of replacing it. In this sense studying behavioural finance is not a departure from traditional finance but an extension from it. Behavioural finance has made two important contributions to the field of finance and to empirical studies. The first one is to show that market participants assess financial outcomes according to prospect theory in addition to expected utility theory. There are numerous anomalies in preferences resulting from heuristics applied when prospects to facilitate decision-making are edited. In addition, there is a bigger sensitivity to losses compared to gains, which results in choices being affected in how the issue is framed. Behavioural

finance employs insights from cognitive psychology to consider that individuals use heuristics when assessing data or fashioning beliefs; these heuristics are hard if not impossible to overcome. The underlying postulation of behavioural finance is that the information mechanism and characteristics of market participants persuade individuals' investment choices and the market outcomes systematically. Human beings process data by using emotional filters and shortcuts. This influences decision-makers to sometimes act in an irrational manner and to make substandard decisions violating the traditional finance theory of rationality. The effect of this irrational decision-making has implications for the effectiveness of markets, performance of corporations and personal wealth. Irrational decisions can be attributed to either the processing of incorrect data or interpreting with inconsistent choices. Research indicates that when there is more impartiality in making the evaluation, the likelihood of biases in decision-making decreases.

Economic anthropology suggests that the burden of over-indebtedness should not be carried by the consumer alone; regulators should ensure that credit providers also take responsibility of over-indebting their customers. Many of those employed have been found to be over-indebted, facing garnishee orders and asking for loans from their employers, salary advances or resigning to access their pensions. Employers have realised this problem and have incorporated financial education in their EAP programs. Some of these have been successful as seen from the examples of SAB, Ernst & Young, Liberty and BMW. What most consumers need is a credible and knowledgeable resource that can be used for sudden funding issues, resolving a debt crisis, guidance on consumer education, assistance on legal issues and credit contracts. The most negative aspect of EAPs is mainly that employees are not ready to engage, are in denial or in a state of inertia and do not see the benefit of the program. What employers want should not be at odds with what employees want out of the program, otherwise it will fail. Employees are normally not interested in long hours of dreary lecturing on concepts they do not understand or are not interested in. The need to bring the right professional skills to the EAP is paramount to ensure its success. A range of professionals are needed to ensure all aspects relating to education and behavioural change are covered. These professionals may include educators, financial therapists, debt counsellors, financial coaches, legal counsellors, anthropologists and financial planners.

Throughout the world financial literacy is being embraced as one of the solutions to ensure healthy credit consumption. This chapter highlighted that the developing world are also embracing some form of financial literacy for their consumers. It is also evident that the behaviour of consumers is a critical factor to change in managing credit consumption, because from an individual over-indebtedness view point lack of self-control, temptation and impulsivity, procrastination, overestimating one's own capacity, and social norms are fundamental causes of their over-

indebtedness. The social status of consumers also has an impact on their use of credit: they want to preserve, strengthen and maintain status, identity and social ties. Borrowing and saving is therefore different in these communities as it may be in the form of money circulating among community members or savings in the form of assets such as food, land or animals (e.g. cattle, sheep, goats etc.). The fact that consumers and communities are different in how they perceive and interact with finances should be accounted for when a financial education model is designed, because it should be tailor-made for these differences. Employers and the NCR can also play an instrumental role in educating consumers about managing their finances.

The expectation that individuals must take responsibility for their financial choices should be supported by developing the skills and knowledge needed to live a financially healthy life. This should not just be about creating a financial master plan, but about equipping consumers to manage their finances wisely on an ongoing basis. Over-indebtedness and financial vulnerability have more underlying structural causes and education cannot be regarded as a tool to make up for inadequate regulation. When social networks and reputation play an essential role of safeguarding, these incentives, regardless of what they bring, are absolutely rational. Therefore, financial services must not just be considered as financial transactions, but as completely central to constructing social identities and, as a result, their assessment should follow situation-specific criteria. One of the crucial worries is the lack of financial literacy in the school curriculum and this need to be addressed. Group lending, stokvels and loan quality can be used effectively to reduce information asymmetry and the resultant credit risk in the unsecured lending market. The effectiveness of financial education initiatives needs to be evaluated to ensure that financial education achieves its aims. Even though financial education is critical it is only one pillar of a broader and sufficient financial policy to ensure improvement in financial management and adequate access to financial services. Financial literacy can supplement but not substitute other important aspects of an effective policy such as regulation and consumer protection that should also go hand in hand in creating a sustainable financial education framework.

CHAPTER 5:
RESEARCH METHODOLOGY

5.1 INTRODUCTION

Research methodology entails the technique that is used for gathering data and can include a particular tool such as structured interviews, self-administered questionnaires or observations of participants (Bryman et al., 2014). Once defined, the objective of the research governs the choice of the ideal research method. The method allows for the best research techniques to be selected to accomplish the objectives of the research (Moss, 2012). The next section covers the research method of the study.

A quantitative research method was employed as the research design for the current study. The quantitative method of research is a distinctive approach to research, uses numerical data, generally prefers a natural science approach, regards the relationship between research and theory as deductive, and employs an objective conception of social reality (Bryman et al., 2014). In Sections 5.2 and 5.3 the research design is discussed and how the data was gathered. Section 5.4 outlines the questionnaire design, while Section 5.5 presents an outline of the sample design. Section 5.6 concludes the chapter by explaining the data analysis method employed.

5.2 RESEARCH DESIGN

A research design is the framework or plan that is used to determine the study participants and the method of data collection and analysis (Rajasekar, Philominathan & Chinnathambi, 2013; Bryman et al., 2014). A research design illustrates how study questions will be linked to the data and the instruments and mechanisms used in responding to the research questions (Dilotsotlhe, 2013). Leedy and Ormrod (2010) describe a research design as a complete strategy on how to address the research problem and a method to extract meaning from data.

According to Saunders, Thornhill and Lewis (2009), there are four types of research philosophy, namely:

- ***Positivism:*** Positivism refers to the philosophical posture of a natural scientist and involves observing social realities and deducing law-like generalisations that are the same as those in the natural and physical sciences. This approach ensures that the researcher remains objective and independent of the data.
- ***Realism:*** This philosophy refers to research that is shaped by the researcher’s values such as the world view, education, cultural experiences and background. Realism is grounded

on the belief that truth is understood through social conditioning independent of thought, knowledge or belief of their existence. This philosophy is often used to study people's perception of socially constructed interpretation and meaning.

- ***Interpretivism:*** Interpretivism denotes an epistemology that advocates that research should distinguish between the human mind and reality. This approach is used mainly in the management sciences such as organisational behaviour, human resource management and marketing.
- ***Pragmatism:*** This approach focuses on the research question as the most important determinant of ontology and epistemology, and integrates different perspectives to interpret data.

The current study adopted a positivism philosophy by observing the social reality of credit consumers' over-indebtedness and deducing generalisations on how this reality can be prudently managed using financial education.

There are generally two approaches to research problems, namely inductive and deductive approaches. An inductive approach is when research begins from empirical studies and relating these studies to prevailing theories, while the deductive approach starts from existing theory and models and these are related to existing empirical studies. This study followed a deductive approach where theory as well as employees' perceptions, experiences and expectations about risk management in unsecured lending were investigated (Saunders, Lewis & Thornbull, 2009). Furthermore, the study used the descriptive case study method that seeks to expand on themes and trends already discovered during survey research. Descriptive quantitative methods were used to achieve this. Descriptive research focuses on the study of a problem or situation in order to reveal the important features about its nature. The current study revealed the phenomenon of over-indebtedness in the unsecured lending market and how financial education can be one of the effective tools to manage the risk of becoming over-indebted (Jansen van Vuuren, 2011). As indicated in Chapter 1, the quantitative research method has many definitions in the literature, but for the objective of this research it can be described as follows (Bryman et al., 2014):

- It places emphasis on quantification in data gathering and analysis;
- It follows a deductive method regarding the association between research and theory, putting emphasis on the testing of theories;
- It incorporates the practices and norms of the natural sciences, in particular positivism; and
- It regards the social realism view as an objective, external reality.

According to Bryman et al. (2014), a case study method involves a comprehensive and intensive exploration of one or more cases that a researcher intends to study. A case study is one of the approaches used to conduct social research owing to its ability to fathom individuals in a social setting by interpreting their actions. A case can be a specific organisation, a specific location, or a specific event. In this study a department overseeing unsecured lending in a single organisation (a commercial bank) was used to provide an in-depth and detailed examination of the perception of consumer education on over-indebtedness in order to quantify the perceived impact of educating unsecured lending consumers in South Africa. By definition a case study seeks to answer specific research questions by investigating a case for a range of different evidences, being idiographic in the approach by highlighting the unique features of the case (Bryman et al., 2014). It is an empirical enquiry that examines a contemporary occurrence in a real-life setting, especially when the limits between occurrence and context are not clearly defined. Using a case study approach is more valuable in a situation where the contexts of the phenomenon being studied are crucial and the researcher has no influence on the events as they unfold. Primary defining features of case studies are multiple perspectives embedded in a particular context and can also be a specific event or program rooted in a specific time and place. It studies a bounded case or system over time in full, using different sources of information found in a setting. The gathered data are used to attain the best answer to research questions. With this detailed analysis the researcher can gain an understanding on the reasons the incident happened as it did and also what could possibly be researched further. Case studies do not assert to be representative, but they emphasize what can be learned and have value in enhancing fundamental knowledge. The underlying philosophy is not to prove but to improve knowledge (Dilotsotlhe, 2013). A case study method was selected owing to the anticipation of the opportunity to learn that financial literacy can be used more effectively to curb over-indebtedness in the unsecured lending market, as it entails an organised method to gather data, analyse the data and present the research outcomes and in the process gain an understanding of the impact of consumer credit education in depth. There are three types of case studies (Bryman et al., 2014):

- *Intrinsic cases:* This type of case study is designed to gain insights into the specifics of a single situation;
- *Instrumental case studies:* This type of case study is used to comprehend a broader subject or to allow generalisations to be challenged; and
- *Multiple collection cases:* Cases are used jointly to explore a general phenomenon.

This study used multiple collection case studies type. It was done by asking multiple closed and open-ended questions to investigate the impact of consumer credit education on over-indebtedness in the unsecured lending market.

Even though Piekkari, Welch and Paavilainen (2009) found that of the two approaches to case studies (positivist and alternative), many researchers use the positivist approach. With the positivist approach the goal is to extract variables from their context with the aim to generate generalisable propositions and to develop theory, while with alternative approaches the purpose is to generate rich holistic and specific descriptions situated in situational settings. This study used the alternative approach to case studies, namely requesting bank employees working in the unsecured lending market in the central region of South Africa to provide rich, holistic and specific explanations based on their own situations, experiences and contexts. From a validity point of view, the researcher understands that it is not the purpose of the case study research design to generalise beyond the case. Data instruments are valid if they measure and represent what they were anticipated to measure; it is the ability of data collection instruments to measure what was intended and it is about the accuracy of data collection instruments which influence the results of the study (Kumar, 2014).

Validity concerns refer to whether the findings are really about what they appear to be (Jansen van Vuuren, 2011). External validity need not necessarily apply to case studies (Piekkari et al., 2009). To improve validity different types of case study can be used in combination, namely a *critical case* - whereby a clearly identified hypothesis exists and a case is chosen to provide a better sense on whether the supposition will or will not hold; the *unique case* - also denoted to as an extreme case, which is a regular focus in clinical studies; a *revelatory case* - new insights and knowledge are revealed when an occurrence formerly inaccessible to social science is studied; a *representative or typical case* – this case exemplifies an everyday situation that is explored and lessons are assumed to be informative more generally and; lastly, a *longitudinal case* – this kind of case is concerned with how a condition changes through time.

The current study used a *representative case* where an everyday situation (consumer credit) can generally influence consumers negatively (resulting in consumer over-indebtedness) if not managed prudently (by using financial education as a holistic strategy). Research usually focuses on analysing individuals, groups, organisations or societies (Yin, 2009). This study concentrated on the individual level of examination, assessing the impact of financial education on the over-indebted individual.

5.3 SAMPLE DESIGN

5.3.1 Population

The term 'population' refers to individuals in the world who have particular characteristics, a set of entities that embody certain characteristics that can be measured by the researcher. This universe

can be people, nations, cities, firms, regions etc. from which a sample can be selected (Bryman et al., 2014). Normally, a sample of the population is selected to represent the entire population and generalisations about what the research seeks to achieve are drawn from the sample (Vos, Strydom, Fouché, & Delport, 2005). The population of the study was employees of a commercial bank in South Africa working in the unsecured lending market in the Free State, North West and Northern Cape provinces of South Africa (also referred to as the central region of South Africa). The sampling frame used was a list of bank staff members as per the bank's human resources database. The Free State, Northern Cape and North West provinces were selected because they form part of the area where the researcher was employed at the time of the research and the research was manageable from a cost and data management point of view. The commercial bank used in the study is one of the biggest retail banks in South Africa and generally follows a similar approach, strategy, products and employee management throughout South Africa. Many parts of the three selected provinces for the study are regarded as rural areas where financial education should be prioritised in South Africa (Sibanda & Sibanda, 2016).

5.3.2 Sampling

Sampling is defined as taking a piece of a population and seeing it as a representative part of that population. A sample is a subset of the population. Sample theory studies the connections between the population and samples drawn from it. A sample is further described as a portion or the subset of the population selected for research (Vos et al., 2005). The system of selection can be grounded on a non-probability or probability method. Probability sampling is the sample whereby every member of the population is known and stands an equal chance as any other member of the population to be selected, whereas a non-probability sampling is when sample units are chosen based on personal judgement. The probability sampling method selects participants randomly such that each unit of the population has an opportunity to be selected. This sampling technique also controls the magnitude of each grouping within the sample, in most cases in an appropriate way (Leedy & Ormrod, 2010). This research employed a non-probability sampling technique as all the employees working in the unsecured lending market at the commercial bank in the Free State, Northern Cape and North West provinces were chosen to take part in the research.

Convenient sampling was done as one service provider (a commercial bank) was used. Convenient sampling involves using an entity, organisation or a group of people that can be accessed conveniently (Bryman et al., 2014). A non-probability sampling method was used because 100 per cent of the population was sampled to ensure that the sample is representative and that bias and sampling error could be reduced from the sample. Sampling error, sampling-related error, data collection error and data processing error were reduced by ensuring that the

correct sampling frame was used, correct questions were asked and data were coded correctly once received. The sample was chosen proportionately based on the population, but in an appropriate way, as mentioned above. All members of the population (100 per cent) were sampled due to the relatively small size of the population being 588. For the sample size to be acceptable, it should include the following (Gay, Mills & Airasian, 2010):

- If the population comprise less than 100 participants, the whole population ought to be studied;
- If the population consist of nearly 500 participants, 50 per cent of them should be surveyed; and
- If the population comprise about 1 500 participants, 20 per cent of them should be surveyed.

The target response rate was fifty percent of the population or more as per above guidance. Owing to the fact that only one entity was used (commercial bank), the findings can only be generalised to the population of bank employees who specifically work in the unsecured lending market.

5.4 DATA COLLECTION METHODS

The study employed self-administered survey questionnaires to gather data. Self-administered questionnaires are described as structured questionnaires, sent to the target population when a personal interview is not required (Tustin, Ligthelm, Martins & Van Wyk, 2005). A questionnaire entails a list of meticulously designed questions, selected following careful consideration and with an objective to elicit reliable answers from a selected population sample. The objective is to establish what the chosen population think, feel or do. The quantitative research technique was conducted in the form of survey questionnaires, whereby closed- and open-ended[11] questions about ideas, thoughts and perceptions on unsecured lending were solicited. Surveys are research tools used when data are collected from a sampled population; the emphasis is on the person who acts as a unit of analysis and surveys help to establish a level of a given phenomenon of interest in a sampled population. Surveys are also described as tools of data collection on areas of interest from a given population by posing single questions to generate data from that population. Surveys can also be described as a process of collecting data from a population by using interviews or written questionnaires where responses are recorded as given by the population and no manipulation of situations to influence responses. Responses can also be expressed statistically (Dilotsotlhe, 2013).

[11] While the study methodology is quantitative, the purpose of the open-ended questions was to get access to more information, insights and data that could enrich the study and to the contribution of the study.

Questionnaires are a prudent information-gathering method when information is required from a substantial number of individuals and a powerful technique to capture their attitudes and opinions. When the questionnaire was designed for this study the following main aspects were attended to (Subash, 2012):

- The confidentiality of respondents was assured;
- The questionnaire was kept focused and questions were designed relating to the core of the research; and
- The importance of the research was explained to the sampled population to ensure that respondents remained engaged and interested to complete the questionnaire.

To enhance honesty and anonymity, the study did not oblige the target population to provide their names or whatever else that may connect them to the questionnaire. The target population of the study was employees working in the unsecured lending market at the commercial bank (interacting with unsecured lending customers and marketing unsecured loans). Owing to the confidentiality of clients' records in the banking industry, the commercial bankwas not comfortable in providing a database of unsecured lending clients for the study, but the commercial bank was more comfortable to provide approval to study its employees working in the unsecured lending market. The name of the commercial bank was not used in this study and where it appeared it was amended to "the commercial bank or bank" to preserve its anonymity. The questionnaires were sent via email to the sampled population to complete. Emails were used to follow up on those respondents whose questionnaires were not completed, using the email function that identified those who had responded and those who had not yet responded. The questionnaire was expected to take 45 minutes to complete and the bank's management was made aware of the time that was required from employees during working hours and agreed to grant the researcher this time. The sampled population also had a choice of completing the survey during working hours or after working hours at their own time and pace as it was always available to them on their emails. The target population was requested to respond within a month once the questionnaire was sent.

Truthfulness in filling the questionnaire was encouraged and was aimed at promoting correctness and reliability of the information to be collected. Information on the employees working in the unsecured lending market segment were collected from the human resources databases of commercial bank and were based on their employees appointed to service this market segment. The commercial bank in the study gave permission for the researcher to study a population of employees at its in the Free State, Northern Cape and North West provinces. Figure 5.1 presents a map of South Africa, showing where the Free State, Northern Cape and North West provinces are situated in the country.

Figure 5.1: Map of South Africa

Source: Dallimore (2013)

Reliability was ensured by the fact that standard questions were used, which led to consistency and made the data more reliable. Bias was eliminated by ensuring the following: that respondents' attitudes did not influence their responses; that the way in which responses were interpreted was not biased; that a lack of possible credibility was considered as well as the fact that information given could be limited. These types of bias could have an impact on the reliability and validity of the information. The standard of the questionnaire and the quality of data were improved by ensuring that they were identical. The key to achieving success was as follows (Janse van Vuuren, 2011):

- The preparedness of the researcher to be able to ask the right questions;
- Detailed explanations were given that questions were not intended to obtain trade secrets, confidential or personal sensitive information; and
- Giving all respondents a chance to fill in the questionnaire at their own convenient time.

The researcher was an bank employee at the time of the survey and therefore owing to confidentiality and the sensitivity of the information being studied, was not able to use other banks' databases or employees to study the topic.

5.5 QUESTIONNAIRE DESIGN

A questionnaire is described as organised sequence of questions intended to draw out opinions and facts, which provides a mechanism to record data. The format of the questionnaire can be structured, or unstructured, the former being closed-ended questions and the latter being open-ended questions (Tustin et al., 2005). This research used self-administered questionnaires, which entailed the sampled population answering questions by completing the questionnaire themselves. As indicated earlier, the questionnaires were emailed to the sampled population with a time limit of one month given to respondents to complete. Special caution was undertaken to ensure that the questionnaire was clearly presented and not too text-dense, that the layout was attractive, and that the instructions were clear. The study used a closed Likert-type scale, as well as open-ended questions to gather data, and a vertical format on closed-ended questions was employed on the possible answers. The advantage of employing closed-ended questions is the fact that they can be pre-coded, which makes it simpler to process the data. The reason for choosing both closed and open-ended questions was to make it easier for the respondents to answer questions and to obtain further explanations where detail was required (Bryman et al., 2014). Questions were constructed in such a way that it would collect the data that was needed to complete the study. It was ensured that each question supported the problem statement of the proposed study (Jansen van Vuuren, 2011). The questionnaire consisted of 50 research questions, of which 19 were closed-ended and 31 were open-ended. The research questions were both descriptive and relationship-based. Descriptive survey research questions are designed to obtain answers from respondents on a specific question or variable. Descriptive questions would typically start with 'What is?' or 'How much?' etc. Relationship-based study questions are used to obtain answers on a relationship or trend concerning two or more variables (Bryman et al., 2014).

The advantages of using self-administered questionnaires are that they are less expensive and quicker to administer than using interviews or observations; interviewer effects such as age, gender and ethnicity are eliminated; there is no interviewer variability; and they are convenient for respondents because they can fill in the questionnaire when they want to and at their own pace. Disadvantages include the inability to probe and prompt and to explain or give context to the question; the researcher cannot ask other kinds of question or cannot ask too many questions; the researcher cannot be sure exactly who answered the questions; long questions are rarely feasible; there is a greater risk of missing information and the questionnaires normally have a very low

response rate (Du Toit, Favish & Fletcher, 2014). These disadvantages were overcome to a large extent by asking open-ended questions to obtain further clarity on the responses as indicated above. To ensure that the response rate would be satisfactory, care was taken to include a well-formulated covering letter explaining why the research was conducted, why the research was important, why the particular type of respondent was chosen and ensuring their confidentiality. Respondents were followed up with two or three further emails if they did not respond and clear and concise instructions to answer the questionnaire were provided. As a general rule, jargon, acronyms, and slang terms were avoided as well as long and double-barrelled questions and leading questions (Bryman et al., 2014). The study is non-experimental because of the use of questionnaires to gather the data (Jansen van Vuuren, 2011).

5.6 DATA ANALYSIS

Data analysis is a technique by which raw information is ordered and organised so that valuable data can be unearthed from it. This information is examined to ensure that the primary objective of a research can be attained (Leedy & Ormrod, 2010). In the current research, a multivariate data analysis method was used, a method that analyses the structure of simultaneous relationships between three or more variables (Bryman et al., 2014). This method represents the fundamental examination of survey data (Leedy & Ormrod, 2010). The types of variable that were used were dichotomous variables (only two categories, i.e. yes and no), ordinal variables (categories that can be rank-ordered) and nominal variables (categories that cannot be ranked ordered). Missing data were coded as 'zero' (Bryman et al., 2014). The study's 50 research questions were categorised as follows:

- Research questions 1–3, 5, 6, 8, 10–15, 17–25, 27, 28, 30, 32, 33, 39–41, 43, 44, 46 and 48–50 yielded nominal variables;
- Research questions 4, 7, 9 and 26 yielded dichotomous variables;
- Research questions 16, 29, 31, 34, 35–38, 42, 45 and 47 yielded ordinal variables.

Inferential analysis was also employed in the research to predict the population parameters. This implies using a specific sample statistic to predict the corresponding population parameters (Tustin et al., 2005). The researcher wanted to establish whether employees working in the unsecured lending market perceived financial literacy as having an impact in reducing consumer over-indebtedness and therefore had to draw an inference from the research sample. The data were presented using graphic presentations such as pie charts and bar graphs. Data were also displayed using a matrix format template enabling the cross-tabulation of two or more variables or dimensions to identify how they interacted (Miles, Huberman, & Saldaña, 2013). The researcher also used the Statistical Package for the Social Sciences (SPSS) to summarise and analyse

patterns in the data, using descriptive statistics and correlation analysis (Bryman et al., 2014). On closed-ended research questions, the researcher used an expert from the University of the Free State who has the knowledge and expertise to assist in analysing and coding the data. The expert was obligated to sign a confidentiality agreement to ensure that anonymity and confidentiality of data were respected. Data were stored in a password-protected encrypted file. For the open-ended research questions the researcher used excel spreadsheets and formulas to code the data. The coded data were not presented in its original format but were re-presented and interpreted by the researcher. Codes were created using coding frames. There are two types of coding frame when open-ended research questions are coded, namely (Bryman et al., 2014):

- Flat coding: All codes are easy to understand as they are of the same level of importance and specificity. This type of coding is useful for smaller data research samples; and
- Hierarchical coding: Frames capture the taxonomy of how codes associate with one another and allows the researcher to apply different levels of granularity when results are coded and analysed. This type of coding is useful for larger data research samples.

The researcher used a hierarchical coding frame to support the large codes needed for the study, to allow the responses to be categorised according to the organisational structure, and to use different levels of granularity. There are a few crucial things to take into account when coding open-ended research questions, the two being 'coverage' and 'flexibility'. Coverage means that the researcher must ensure that the answers with similar themes are grouped together under the similar code, regardless of the wording. Flexibility means that research results can be used in different contexts, that the coding frame is able to not only group responses with the same themes but able to group responses with different themes. The researcher ensured that the type of coding frame chosen would be s both flexible and would provide good coverage. The coding styles considered for the study were deductive coding, whereby predefined codes are used driven by the objective of the project and intended to report back on specific projected questions. Deductive coding ensures that the items of interest to the study are covered even though bias is very prevalent as pre-existing codes are used, and important themes that could emerge naturally from study responses might be missed. The other coding style that was considered was inductive coding – often called a 'grounded coding' style where no pre-determined codes are used and all codes emerge straight from the survey responses. The researcher followed the inductive coding style that was iterative. The sample data were read; codes were created to cover the sample; the sample was re-read and codes were applied; the sample data were re-read employing the codes and notes were made, where codes did not match and new codes were created. After this process, the researcher read and recoded all the responses again. To ensure high-quality codes were used the researcher attended to the following (Bryman et al., 2014):

- Ensuring coverage: the codes covered as many survey responses as possible and the codes were more general than the comment to cover other responses. This was balanced with usefulness of examination to ensure that the codes had high coverage and high value and that they were not too broad;
- Avoiding commonality: different codes were used to distinguish between the codes and the use of similar codes was avoided;
- Creating contrast: the codes that contrasted one another were created to capture both the negative and the positive of the same response separately; and
- Reducing the data: this was done to ensure that the analysis was useful and that the essence of the response was captured on the code to avoid applying as many codes as responses.

The measure of central tendency that was used to summarise the distribution of values was the *mode,* because it can be used for all types of variable. Measures of dispersion including the standard deviation, variance and range were used to examine the information. Statistical significance was applied to ensure that conclusions of the study could be generalised. The Chi-square test was employed to test whether there was a real association between consumer education and over-indebtedness, i.e. whether the two variables were independent or dependent. The correlation coefficient was also analysed together with its significant level to ensure that the findings' confidence level was acceptable. The mean and statistical significance were also compared to ensure that the *explained variance* and the *error variance* could be determined (i.e. determining the *F*-statistic) (Bryman et al., 2014). Thematic analysis was used as data analysis method with a goal to ascertain, analyse and explain themes or patterns across the dataset. The main answers in the questionnaires were identified to form the themes of the research; differences and similarities in the various answers were examined and employed to create themes. The themes were identified where a phenomenon occurred many times and coding was used to identify the themes (Jansen van Vuuren, 2011).

Thematic analysis can either be deductive or inductive. An inductive method entails developing themes in a bottom-up manner directly from the data, whereas a deductive approach entails a top-down approach informed by the researcher's theoretical framework, with themes being guided by previous research topics. The study followed an inductive approach where themes were developed emanating from respondents' data. Quasi-quantification based on the employment of terms such as 'many' and 'some' was employed in the research. This was enhanced by expressing the quantity of respondents on a specific theme. Direct quotes from respondents were grouped together in

these themes, written in under quotation marks in italic (Bryman et al., 2014). The study followed the six-phase process of thematic analysis as suggested by Braun and Clarke (2006):

- Data familiarity: recording information, reading and re-reading the information noting initial ideas;
- Generating initial codes: making information related to each code by coding data in a systemic fashion;
- Search for themes: gathering codes into prospective themes and grouping information to each prospective theme;
- Review the themes: generating a thematic chart of the examination;
- Define and name the themes: refining the particulars of every theme and produce clear names and definitions for every theme; and
- Compile a report: choosing clear, compelling excerpt analysis, linking back to the literature and the study questions and generating a scholarly story of the analysis.

5.7 LIMITATIONS OF THE STUDY

As with any study, this study had a number of limitations. The following limitations applied:

- The study did not analyse the inputs of the credit-rating agencies or the impact of rating agencies on credit risk.
- The confidentiality policies of financial institutions' restricted the access to client files and it would be difficult to replicate the study;
- The study did not include customers who deliberately misrepresented their financial positions on their credit applications with the aim to defraud the lender, or as a result of being desperate to obtain a loan. However, the researcher recognised that this occurrence was possible in the unsecured lending market;
- The study did not examine the unsecured lending's impact on entrepreneurship, job creation, and economic growth. However, the researcher recognised that access to funding, especially unsecured funding, is vital for entrepreneurship especially start-up businesses with no collateral;
- The study did not take into account the legacy of apartheid and the composition of unsecured lending between race groups and demographics in general although the researcher acknowledges that owing to discrimination, people from certain race groups were not able to borrow during the apartheid years.
- Owing to the strict confidentiality of bank data, and the high costs and amount of time in accessing clients because of the size of the commercial bank in the study, it was not possible to access information about its customers and their loans. The study therefore

focused on those bank employees working in the unsecured lending section as employees were easy to access.

5.8 ETHICAL CONSIDERATIONS

All social studies undertaken has to follow to a collection of ethical standards and acceptable conduct. These entails applying principles related to voluntary partaking, informed consent, confidentiality, anonymity and risk of harm (Dallimore, 2013). In studies, ethics relates to the manner the researcher puts together and clarifies their study topic, design, collection processes and the storage of information; data analyses and disclosures of study findings in a responsible and moral way (Jansen van Vuuren, 2011). A confidentiality agreement (non-disclosure agreement) was signed with the commercial bank to access the data and the real names of the commercial bank employees were not used in the study to protect the bank's confidential information. In addition, the following ethical principles were adhered to in conducting this study, adopted from Bryman and Bell (2007).

5.8.1 Harm to participants

Care was taken to maintain the confidentiality of records and the anonymity of individuals – all the responses were treated anonymously and records were kept confidential. Participants' specific requests for anonymity were respected. Pseudonyms and numbers were used where relevant to ensure confidentiality and anonymity.

5.8.2 Informed consent

The commercial bank was presented with as much information as possible regarding the research in order for them to make an informed choice on whether they would like to be part of the study.

5.8.3 Invasion of privacy

Privacy is associated to informed consent as indicated in the previous section. Each participant was treated individually and sensitively and they were provided the chance to withdraw from supplying information that they deemed an invasion of their privacy. In this way the privacy of participants were respected and their personal information were treated as confidential.

5.8.4 Deception

The commercial bank in the study, was not deceived in any way with regard to the research conducted. They were informed fully on the cause of action to be pursued. The study was done in good faith.

5.8.5 Data protection

The law regulates in what way and to what degree personal information can be employed for research objectives. In this regard, the Data Protection Act of South Africa of 2013 was adhered to (*Government Gazette*, 2013).

5.8.6 Reciprocity and trust

The study was conducted on the notion that its findings would be of reciprocal benefit and interest to the participants and the researcher. Its findings will be made available to the institution for likely addition in their systems and processes.

5.8.7 Affiliation and conflict of interest

The study did not have any funders.

5.9 CONCLUSION

An interpretivist philosophy was followed in this research. This philosophy ensured that the perceptions of employees working in the unsecured lending market on how risk can be prudently managed for sustainable lending could be examined. The population of the study was employees of a commercial bank working in the unsecured lending market in the Free State, Northern Cape and North West provinces of South Africa. These provinces were selected because they are one of the four regions in which the commercial bank is divided into in South Africa.

The study used 100 per cent of the sample to ensure that the sample was representative and that bias and sampling error were reduced from the sample. Self-administered questionnaires were employed to gather the data. The quantitative research method was employed as research technique. Reliability was ensured by the fact that standard questions were used, which led to consistency and made the data more reliable. Bias was eliminated by making sure that respondents' attitudes did not influence their responses. The way in which responses were interpreted was not biased. The study did not oblige the target population to provide their names or whatever else that would connect them to the questionnaire.

The research used both open and closed-ended Likert-type scale questions to gather data. Care was undertaken to make sure that the cover letter was well formulated, explaining clearly the topic of the research, why the research was important; why a particular type of respondent was selected and that confidentiality would be ensured. Respondents were followed up with emails if they did not respond. Clear and concise instructions to answer the questionnaire were provided and steps were taken to ensure that the first few questions were interesting. The study was non-experimental in nature owing to the use of questionnaires to collect the data. A multivariate data analysis method

was employed. Pie charts and bar charts were employed to describe the data because they are relatively easy to understand and interpret. Inferential analysis was also employed in the research to predict the population parameters. Data were analysed by using spread sheets employing Excel formulas for coding. The researcher also used the SPSS package to analyse the data. The *means* and *eta* were compared in the study. The mode is used as a measure of central tendency to summarise the distribution of values. The Chi-square test was employed to test whether there was a real association between consumer education and over-indebtedness – whether the two were independent or dependent. The study was underpinned by correct ethical principles, as was explained in detail in Section 5.8. The research results will be shared with the commercial bank to benefit them in ensuring sustainability of the unsecured lending market.

CHAPTER 6:
DISCUSSION OF RESEARCH FINDINGS

6.1 INTRODUCTION

This chapter shows the findings and the data of the research questions that were analysed using SPSS and data coding. SPSS is defined as a statistical software package that is employed to examine data collected from surveys whereby information (variables) is obtained from a number of respondents, subjects or cases (Moss, 2012). The analysis was done based on univariate, bivariate and multivariate analyses. Data coding means that the coded data were not presented in its original design but that it was re-presented and interpreted by the researcher. In Chapter 5, the methodology used was discussed to determine the respondents' beliefs of whether financial education could be a useful tool to decrease the credit risk of over-indebtedness in the unsecured lending market. Empirical research concludes ultimately in the interpretation and analysis of the questionnaire data, as explained by Bryman et al. (2014, p.8):

> The goal of examination is to comprehend the different constitutive elements of one's information through an review of the relationships between variables, concepts or constructs, and to see whether there are any trends or patterns that can be isolated or identified, or to create themes in the data.

The goal of the empirical survey was to understand unsecured lending employees' beliefs on the impact of financial education in reducing over-indebtedness in the unsecured lending market in the Free State, Northern Cape and North West provinces in South Africa (also referred to as 'central South Africa'). Questionnaire results were examined and then interpreted to draw suitable conclusions.

This chapter seeks to decipher whether employees working in the unsecured lending market perceive financial education to be one of the tools that can be useful to curb the credit risk of over-indebtedness to ensure the sustainability of the unsecured lending market. This chapter will also uncover the discernment of over-indebtedness, the unsecured lending sector, the role of legislation in the South African unsecured lending sector, consumer education models used in the unsecured lending sector and areas where South African consumers need to be educated in order for credit providers to lend more sustainably in the unsecured lending sector.

6.2 QUANTITATIVE RESEARCH METHOD ANALYSIS

The study was conducted by collecting data from commercial bank employees in the Free State, Northern Cape and North West provinces in South Africa. As depicted in the map in Figure 5.1, these provinces are situated in the central region of South Africa. The commercial bank offers unsecured lending through employees working in their branches where customers can visit the branches to apply for unsecured loans. Data were collected from the 106 branches in the three provinces. A quantitative research method was used to determine whether financial education can be a useful tool to lessen the credit risk of over-indebtedness in the unsecured lending market. The survey questionnaire consisted of 50 research questions, of which 31 research questions were open-ended and 19 were closed-ended. The findings of the research are discussed next.

6.3 RESEARCH FINDINGS ON THE FREE STATE, NORTHERN CAPE AND NORTH WEST SAMPLE

The total number of employees involved in the provision and administering of unsecured lending in the three provinces amounted to 588. All 588 employees were sampled and also received the questionnaire. To encourage participation, the researcher and the human resources team at the commercial bank sent follow-up emails. Of the 588 employees who received the questionnaire, 509 responded adequately to the questionnaire, resulting in 87 per cent response rate.

6.3.1 Demographic information

6.3.1.1 Gender composition

The first question on the questionnaire asked respondents to indicate their gender composition. Figure 6.1 shows the gender composition of the employees who responded with 63 per cent being female and 37 per cent being male. This illustrates that, at the time of the study, there were more female than male employees working in the unsecured lending market at the commercial bank in the Free State, Northern Cape and North West provinces.

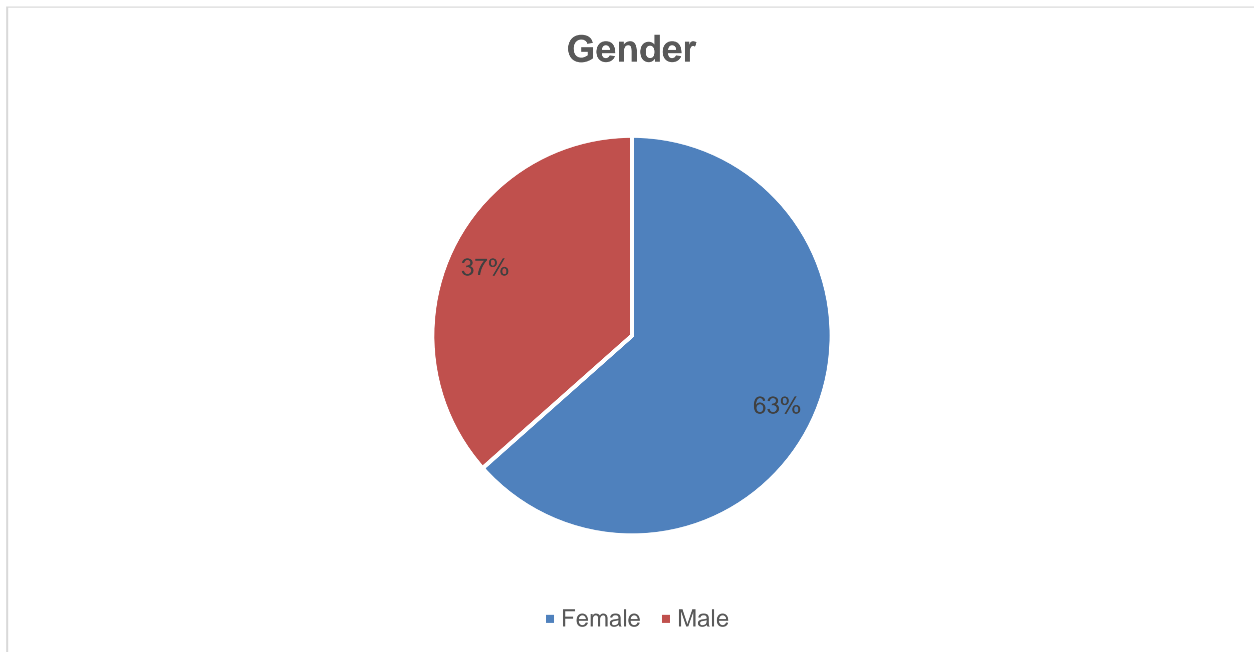


Figure 6.1: Gender composition

6.3.1.2 Ethnic composition

Secondly, respondents had to indicate their ethnicity. The ethnicity of employees in the unsecured lending market was found to be dominated by whites (47 per cent), followed by black South Africans (30 per cent) and coloured South Africans (18 per cent) with the minority being Indian South Africans (four per cent). These figures indicate that, at the time of the study, white employees made up the majority of employees working in the unsecured lending market at the commercial bank bank in the Free State, Northern Cape and North West provinces, followed by blacks. The findings of the ethnicity of respondents are depicted in Figure 6.2.

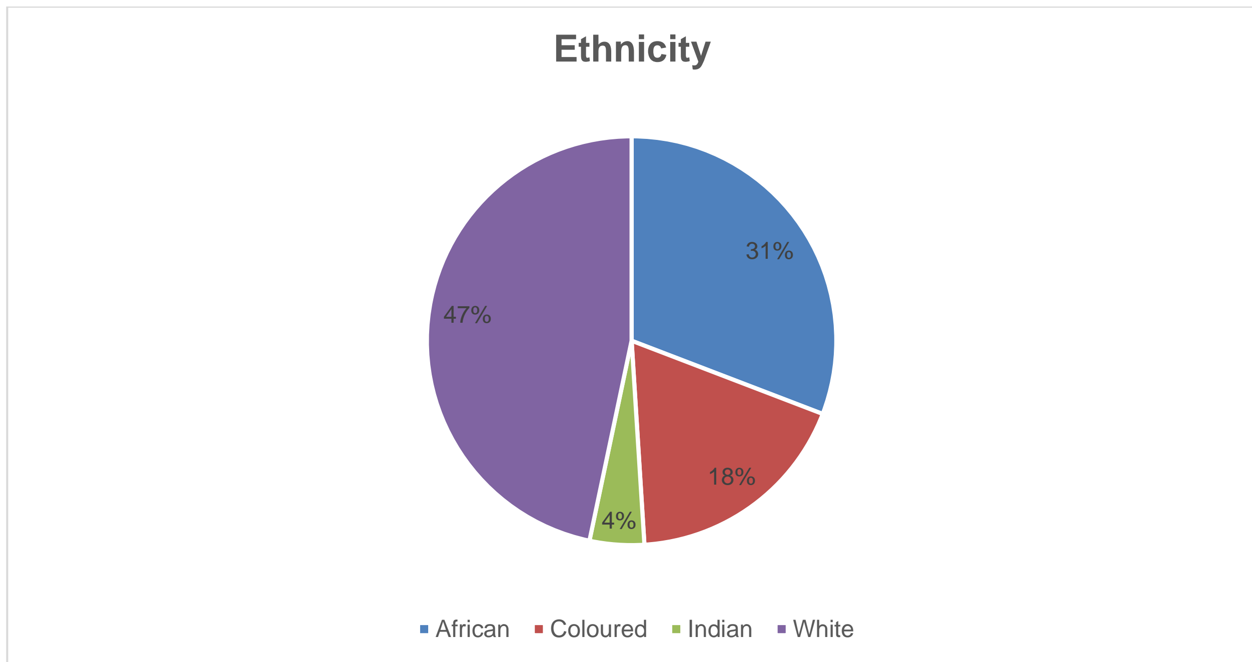


Figure 6.2: Ethnic composition

6.2.1.3 Nationality

The last demographic research question required respondents to indicate whether they were South African citizens or foreign citizens. All the respondents indicated that they were South Africans and no foreign citizens were found in the sample. This also indicates that, during the period of the study, the majority of workers working in the unsecured market at the commercial bank in the Free State, Northern Cape and North West provinces were South Africans.

6.3.2 Discerning over-indebtedness

The second section of the questionnaire contained research questions on employees' perceptions on their discernment of over-indebtedness in the unsecured lending market. Employees were asked to respond to the purpose of an unsecured loan and the reason(s) for the purpose of the unsecured loan during the loan application process. Employees also answered questions on which loan products were the easiest for customers to obtain, whether customers applied for unsecured loans even when they were already over-indebted and the reasons given by customers' applying for unsecured loans, even when they were already over-indebted. Employees were asked whether there were customers who insisted that they could afford the loan even when the credit assessment indicated otherwise as well as the reasons given for the customers' persistence. The last question of this section elicited responses on employees' perceptions on the main causes of unsecured lending customers defaulting on their loans. The findings on these questions on discerning over-indebtedness are discussed next.

6.3.2.1 Findings on the purposes of unsecured lending

The findings of the close-ended research question 4 indicate whether the purpose of the loan is regarded by respondents as important during the loan application process. . Figure 6.3 indicates that an overwhelming majority of respondents (97 per cent) agreed that it is important to discuss and understand the purpose of the loan requested by the customer during the loan application process.

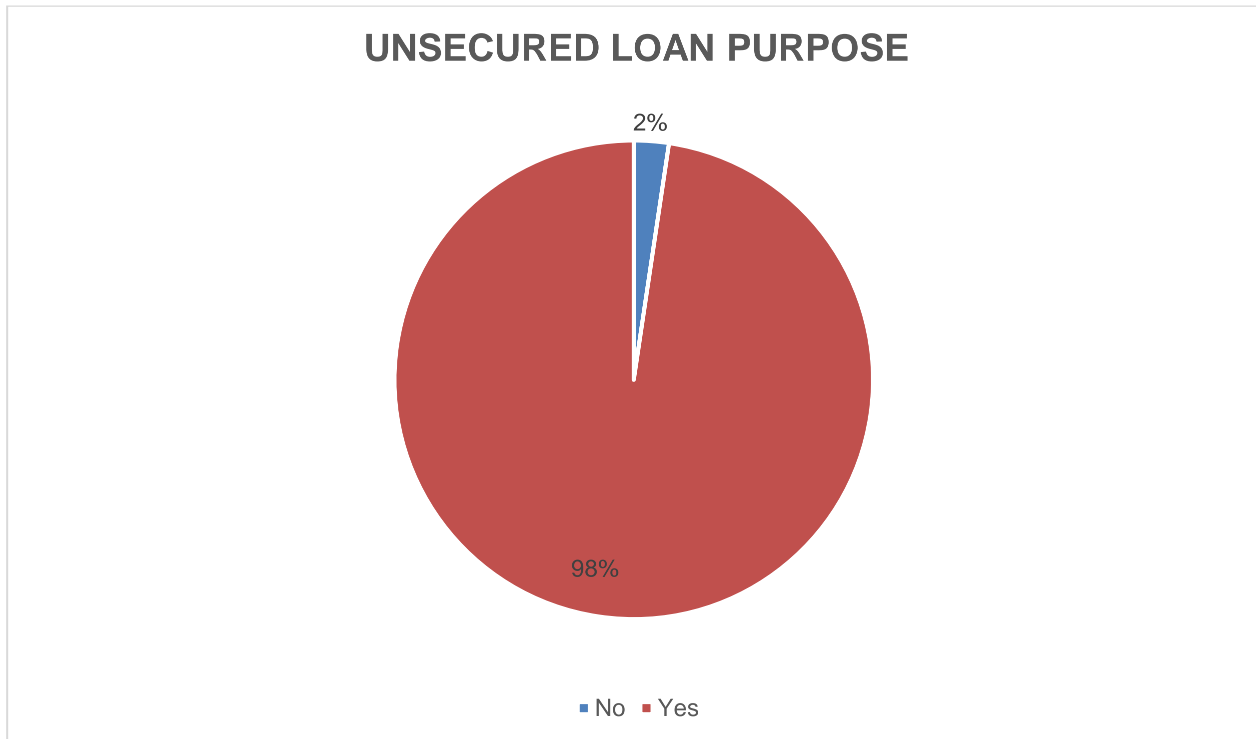


Figure 6.3: Findings on the importance to discuss and understand the purpose of a loan during loan application

These findings are supported by empirical evidence by Rose and Hudgins (2013), which indicate that it is important for the lender to understand and verify the purpose of the loan to be able to provide the right type of loan to the borrower. If this is not done, it may result in consumers not understanding the consequences of taking out loans, the financial capacity to repay, and the fees and conditions attached to the loans.

It can be inferred from these findings that the majority of workers employed in the unsecured lending market at commercial bank in central South Africa were aware of the importance of understanding the purpose of the loan during the loan application process.

6.3.2.2 Findings on why it is important to know the purpose of the unsecured loan

The findings of open-ended research question 5 depict respondents' perceptions on the reasons the purpose of the loan is important during the loan application process. These findings are listed in Table 6.1.

Table 6.1: Findings on the purpose of the loan

Codes	Description	Occurrences	%
UND:	Understand why the customer wants the loan to ensure that proper advice and correct product is provided to the customer and to motivate why the unsecured loan is appropriate	223	44%
DFLTR:	An unsecured loan carries its default risks, purpose of borrowing the money should be determined to ensure debts are afforded, are not used to cover other debts resulting reckless lending and a debt spiral or robbing Pieter to Pay Paul	86	17%
TOKNOW:	The bank needs to know what actually happens to the loaned funds to ensure borrowing results in a better financial position for the borrower.	74	15%
ILLEGAL:	Not lend to a client if he intent to use the funds for illegal activities including money laundering	73	14%
BEHPAT:	To establish a behavioural pattern for requesting loans, and to ensure the borrower makes the right financial decisions	20	4%
EDUCA:	It is important to know purpose of loan; as people needs financial experts to guide them in terms of needs and wants, as well as how the unsecured loan works	16	3%
N/a	N/a	17	3%

The above findings can be summarised as follows:

- A considerable percentage (44 per cent) of respondents signalled that it was important to *understand* the purpose of the loan, i.e. why the customer wanted the loan. This understanding is important to ensure that proper advice and correct products are recommended to the customer and to motivate the reasons unsecured lending is appropriate for the customer's needs;
- Some respondents (17 per cent) indicated that owing to the fact that no security is required in unsecured lending, the *default* risk is higher. It is therefore important to determine the purpose of the unsecured loan to ensure affordability and that loans are not used to pay other loans resulting in a debt spiral and unsecured lenders defaulting on their loans;
- Other respondents (15 per cent) indicated that the purpose is important to ensure that the credit provider *knows* what the loan is required for, to ensure that the lending actually results in a better financial position for the customer;
- Some respondents (14 per cent) indicated that the purpose of the loan is important to avoid funds being used for *illegal* activities including money laundering;

- Other respondents indicated that the purpose of the loan is important in understanding the *behaviour patterns* for requesting loans to ensure the borrower makes the right financial decisions, to ensure affordability, and to avoid reckless lending or debt spirals;
- A small percentage of respondents (three per cent) indicated that understanding the purpose of the loan helps in ensuring that financial expertise is used in *educating* customers in their needs and wants and in how the unsecured lending process works.
- An equally small percentage of respondents (three per cent) did not deem it important to understand the purpose of the unsecured loan during the loan application process. However, these respondents were by far in the minority.

6.2.2.3 Findings on loan products that are the easiest for customers to obtain from credit providers in central South Africa

The findings of open-ended research question 6 depict respondents' perceptions regarding the loan products that are the easiest for customers to obtain from credit providers in central South Africa.

Table 6.2: Easiest loan products to obtain from credit providers

Codes	Description	Occurrences	%
PL:	PL: Personal Loans	246	48%
REVCLO:	Revolving loans, credit cards, clothing accounts; Overdraft and credit cards; Unsecured Lending, Personal /Micro Loans; Absa instant loans @ ATMS	97	19%
PLCCARD:	Personal loans and credit cards	86	17%
UNSEC:	Any loan product that does not require collateral or security is easier to access. These include unsecured loans, overdrafts and credit cards. The other loan that can also be considered as easier is that of vehicle finance. This is because the vehicle itself is considered as collateral hence the applicant does not need to provide other forms of assets as collateral.	53	10%
ANY:	If affordability and income can be proven…any type of loan can be approved	14	3%
RCS:	With RCS, not much info is required, as soon as you reply on their offering, soon afterwards a notification that the money was paid into your account is received: Feedback from many of customers	13	3%

These findings are depicted in Table 6.2 and can be summarised as follows:

- A considerable percentage of respondents (48 per cent) indicated that *personal loans* are the easiest to obtain;
- The following was also indicated: a combination of *personal loans and credit cards* (mentioned by 86 per cent of the respondents); *revolving loans, overdrafts, clothing*

accounts and Absa *instant loans* at Absa bank ATMs and *microloans* (mentioned by 19 per cent of the respondents); and specific mention of *RCS* (three per cent of the respondents);

- Those that did not require *collateral* (ten per cent) mentioned that vehicle finance as a specific asset could be used as collateral; and
- Only a smaller percentage of respondents (three per cent) said that *any loan* is easier to obtain when affordability can be proven.

It can be inferred from these findings that *personal loans* are mainly regarded as the easiest types of loan to obtain from credit providers in Central South Africa. Furthermore, it is easy to obtain any loan that is unsecured such as credit cards, clothing accounts, revolving loans, overdraft or vehicle finance as these are secured specifically by the vehicle being financed. Specific mention was made that some customers indicated that RCS loans were the easiest for them to obtain as they received 'quick' feedback on credit applications; that not much credit information was required by RCS and that once the information was sent, the notification that funds were paid into the customer's account was received 'quickly' thereafter. Respondents also pointed out that 'any' loan should be easy to be approved by credit providers as along as affordability can be proven.

6.3.2.4 Findings on whether customers apply for unsecured loans when they are already over-indebted

The findings of the closed-ended research question 7 depict respondents' answers as to whether customers applied for unsecured loans even when they were already over-indebted. As depicted in Figure 6.4, the vast majority (98 per cent) answered 'yes', indicating that many customers applied for loans regardless of whether they were already over-indebted.

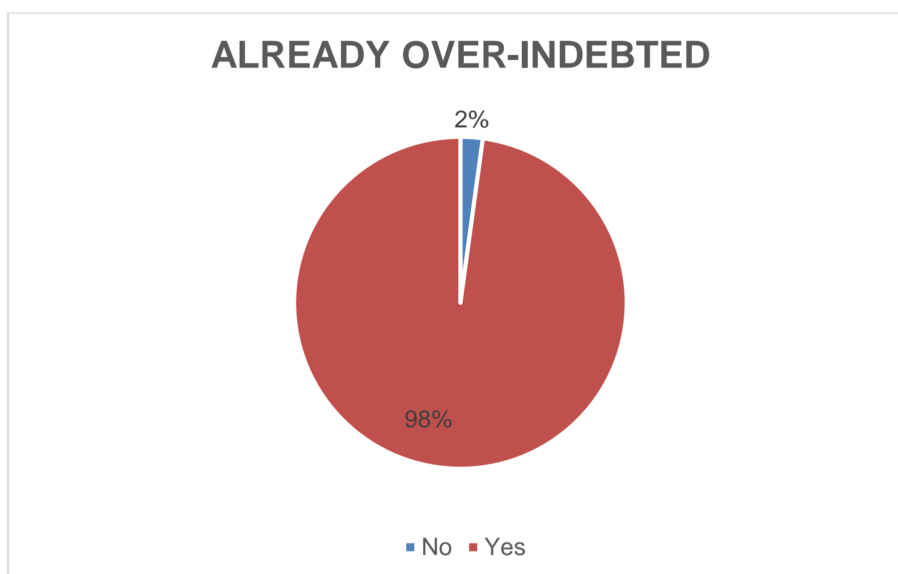


Figure 6.4: Already over-indebted customers applying for loans

These findings support the empirical evidence by Armstrong (2014) that most South Africans have inadequate knowledge around to financial management, credit management (affordability) and the credit risk of being over-indebted. According to Guérin (2012), this has resulted in high debt levels (over-indebtedness), high-debt-to-income ratios and debt juggling. Empirical evidence by Subash (2012) also suggests that people are overconfident and overestimate their abilities including the ability to repay loans that they cannot afford.

6.3.2.5 Findings on the reasons customers apply for loans although they are already over-indebted

The findings of open-ended research question 8 depict respondents' perceptions as to why customers still apply for unsecured loans despite the fact that they are already over-indebted. These findings are depicted in Table 6.3.

Table 6.3: Reasons customers apply for loans although they are already over-indebted

Codes	Description	Occurrences	%
OVERIND:	Some of the clients exhaust their debt capacity even though there is no urgent need for them to get finance. When an urgent need arises, they approach banks for funding and unfortunately they cannot get it as they are over indebted. Because they need more money due to the fact that they are over-indebted, they cannot get through the month with what they have left. They are desperate because of their financial situation and are not able to meet there monthly obligations. To get relief them from debt stress. South Africans especially live beyond their means. But also sometimes these loans are used to consolidate other debt.	259	51%
STATUS:	I think it is a lot do with status and also living up to the Jones. They make new debt to help repay old debt. Luxury items also. They have to maintain their standard of living or they want to consolidate debt. Due to high living costs. Again, to maintain a certain lifestyle, to service other debt, not declaring all income.	122	24%
EDUCA:	Not all customers are educated, and sometimes does not take into account that the loan needs to be repaid. They apply for a loan to solve the immediate issue. They are not properly educated / in such deep distress that lending is required for survival. Customers not knowing what amount of loans they can afford. Some customers do not understand how we as bank look at affordability to repay loan (EBITDA must cover long term debt between 2.5 & 4 times).	76	15%
FINDISCI:	The majority of customers always believe that they will settle some of their debts to get a relieve from being over-indebted. Customers are sometimes desperate. Customers seeks alternatives all the time and even knowing their affairs are not in good standing, hoping for a favourable answer. Customers will want to pay one loan off with the other loan way of just get something out of the deal. Some clients is not financially disciplined, or desperate for money	18	4%
NOCOL:	Because they don't have to provide any collateral.	17	3%
ECONO:	It is because of our economy as the standard of living is too high were people's salary is not enough to cover clients' needs	17	3%

The findings can be summarised as follows:

- The majority of respondents (51 per cent) indicated that customers exhaust their debt capacity even though there is no urgent need for them to obtain finance and, when an urgent need arises, they approach banks for funding and unfortunately they are declined as they are deemed *over-indebted*.
- On the other hand, some customers are perceived by respondents (24 per cent) to be chasing *status,* trying to live up to the proverbial Jones's (family, neighbours and friends) buying luxury items in the process to keep up.
- Fifteen per cent (15%) of the respondents also indicated that not all customers are *financially educated*, and sometimes they do not take into account that the loan needs to be repaid. A small percentage of the respondents (three per cent) indicated that customers apply for loans even when over-indebted, because of *the country's economy;* that the standard of living is too high and that people's salaries are not adequate to cover their needs.
- A minority of respondents (four per cent) indicated that the majority of customers always believe that they will settle some of their debts or will get relief from being over-indebted. Customers seek alternatives all the time and even knowing their affairs are not in good standing, they still hope for a favourable answer. 'Customers will want to pay one loan off with the other loan or just get something out of the deal'. Some customers are perceived not to be *financially disciplined* or they are desperate for money.
- Lastly, three per cent of the respondents indicated that some customers apply for loans even when they are over-indebted owing to the fact that *no collateral* is required for unsecured lending.

6.3.2.6 Findings on whether customers insist that they can repay the loan even if the credit assessment indicates otherwise

The findings of closed-ended research question 9 depict respondents' answers as to whether unsecured lending customers insist they can repay a loan even if the credit assessment indicates that they cannot afford to repay. As depicted in Figure 6.5, the overwhelming majority of respondents (93 per cent) indicated 'yes' that many customers insist they can afford the loan even when the credit assessment indicates otherwise, whereas a small minority of the respondents (seven per cent) answered 'no', indicating that customers do not insist that they could afford loans.

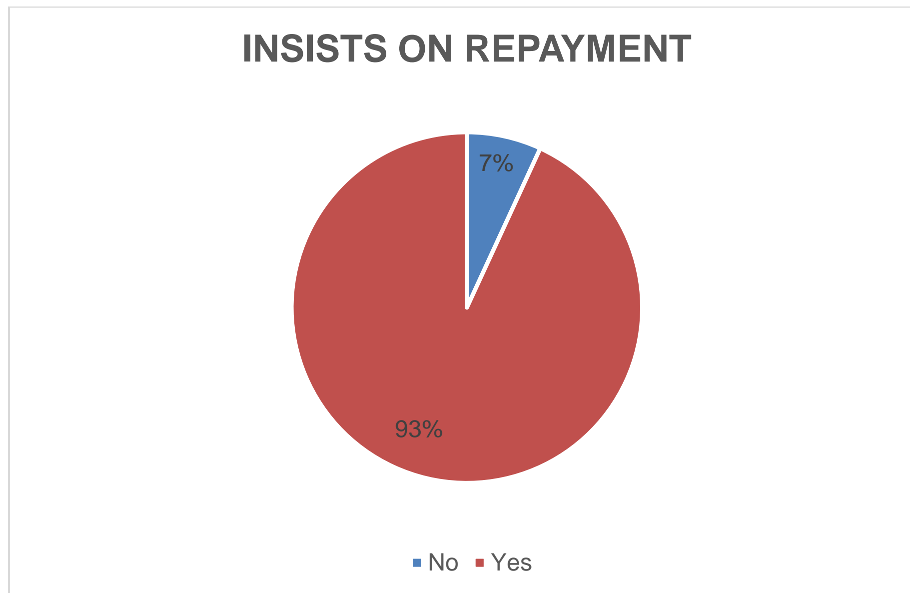


Figure 6.5: Insisting on unsecured loans

This finding concurs with the empirical evidence by Barberies and Thaler (2005) that emotions as well as related unconscious human needs, fears and fantasies drive most human decisions. The behavioural finance theory supports the view that individual financial choices are shaped by people's feelings and their psychological stance at the time the decision is made (Kıyılar & Acar, 2009). Therefore, instead of relying on the factual and accurate data given by the bank that the loan is unaffordable, the customers' feelings and emotions take centre stage and become the basis for customers' decision-making and insistence that they can afford the loans.

It can be inferred from these findings that bank employees working with unsecured lending experience this phenomenon most of the time and that their customers do not really understand what they can and cannot afford.

6.3.2.7 Findings on the reasons customers insist that they can repay unsecured loans even if the credit assessment indicates otherwise

The findings of the open-ended research question 10 depict respondents' perceptions on the reasons for customers' insistence that they can repay their unsecured loans even if the credit assessment indicates otherwise. The findings, depicted in Table 6.4, can be summarised as follows:

- Thirty-four percent of the respondents indicated that some customers *do not know how* to draw up their monthly cash flows or budgets. Customers calculate their monthly instalments at a minimum interest rate and they do not account for the risk factor, for example, the fact that prime interest rates may increase in the future and render the loan unrepayable. Some customers make their own calculations before they approach the bank without taking

interest rates and other costs on the loan agreements into account. Some customers believe that a policy or investment will pay out in future and that they will use the latter to repay the loan.

- The other theme that emerged from the respondents (31 per cent) was that of the *arrogance of customers*. Customers believe they can justify the loan and the expenses because from their perspective, they are able to afford the repayments. To satisfy their needs, customers think that they can manage to pay the instalments at the due dates and should not be asked how. Respondents indicated that
    - Customers do not take into account the food consumption of their family as well as their already necessary expenses when applying for loans, they only think of now. When customers need the money, they will try very hard to convince you that they will be able to repay the loan. They feel they have been with the bank for many years and play the blame card. What matters to the customer is what they want at that point in time and not about affordability. Clients insist that if the bank restructure their debt they will be able to meet monthly commitments.

Table 6.4: Customers insisting they can repay

Codes	Description	Occurrences	%
KNOWL:	Some clients do not know how to draw up their monthly cash flow. They calculate the monthly installments at minimum interest rate and they do not bring in risk factor - for example Prime increase within 3 years again to 10%. I think it is because they are desperate as well as the fact that they are not well educated to make good financial choices. Customers make their own calculations before they approach the bank (not having interest rates and loan agreements in mind) so when credit assessments says otherwise they don't understand but why. Maybe policy or investment will pay out in future and will use that to repay loan. Again that's why financial education is so important.	175	34%
ARROG:	This is sometimes a bit of arrogance. Customers believe they can justify the loan and also the expenses. To satisfy their needs, they think that they can manage to pay the instalments at that moment of need. They do not take into account the food consumption of their family as well as their already necessary expenses. Only think of now. When they need the money, they will convince you that they will be able to repay the loan. Because from their perspective, they can be able to make the payments. They feel they have been with the bank for many years and play the blame card. What matters to the customer is what they want at that point in time and not about affordability. Clients insists that if the bank restructure their debt that they will be able to meet monthly commitments.	156	31%

EMOTION:	Emotional attachment to the need that the loan is going to fulfil, pre-conception of how the loan will change their lives, commitments already made & unavoidable pressing personal problems & the bank being the last port of aid. Moment of desperation, wanting to obtain cash. Customers lack the ability to foresee the possibility of an emergency and therefore presume they have enough cash to pay back loans. Clients always states that this will be the last loan and they will only have one payment to make - in the case of consolidation. They believe if they get these funds this will provide them some breathing space and they will be able to make the monthly installments due. Some clients come to the bank with a promise that there will be a new stream of income. They give us a guarantee that this new stream of income will provide enough money to meet not only the new debt he is applying for but also assist clear debts that are in arrears.	80	16%
LYING:	They need the money so desperately that they are willing to lie, or they are unrealistically optimistic of their own potential. Denial of being over-indebted. They always believe that the have affordability just that the bank does not to grant them a loan. No idea what is going on with their finances or sometimes they have a side income that they are not declaring. Customers do not disclose their full financial background/ info. There is are customers that are not declaring all their income to SARS, we can only take into account funds what we can confirm	43	8%
NOTOLOSE:	Clients will default on unsecured loans as they have nothing to lose, instead of a home loan or car finance where they have the asset to lose.	19	4%
N/a	N/a	36	7%

- The other theme that emerged from respondents (16 per cent) on reasons customers insist they can afford even when the credit assessment indicates otherwise was the *emotional attachment to the need that the loan will fulfil*. Respondents indicated that customers already had a pre-conception of how the loan would change their lives, they already made commitments, they experienced unavoidable pressing personal problems and the bank was deemed the last resort of aid. There is a moment of desperation when customers run out of cash to meet obligations. Another theme that emerged from the respondents (eight per cent) was the occurrence of *customers who lie*. Respondents indicated that
    - Customers need the money so desperately that they are willing to lie, or they are unrealistically optimistic of their own potential. Customers live in denial of being over-indebted. Customers always believe that they have affordability and it is just that the bank does not [want] to grant them a loan. No idea what is going on with their finances or sometimes they have a side income that they are not declaring. Customers do not disclose their full financial background/info and there are customers that are not declaring all their income to SARS, and credit providers can only take into account funds that they can confirm.
- The last theme that emerged from respondents (four per cent) was that some clients *have nothing to lose or have no collateral/assets to lose.*
- Seven per cent of the respondents did not respond to the research question.

It can be inferred from these findings that the lack of financial knowledge, incidences of arrogance, shifting the blame to credit providers, emotional attachment to financial hopes, lying or being in denial about their financial situation, and having nothing to lose in the form of collateral are the main causes of customers insisting that they can afford loans even when they clearly cannot afford the loans. Bank employees are often confronted with these responses from their customers when they indicate that the credit assessment shows that the loan is unaffordable.

6.3.2.8 Findings on the main causes unsecured lending customers default on their loans

The findings of the open-ended research question 11 depict respondents' perceptions on the main causes of unsecured lending customers defaulting on their loans. These findings are depicted in Table 6.5 and can be summarised as follows:

Table 6.5: Customers defaulting on their unsecured loans

Codes	Description	Occurrences	%
OVERIND:	Over-indebtedness for most clients but some clients is due to the fact that they do not know the importance of paying debt on time. Affordability - Expenses exceeds client's income. Clients with many personal from different banks pay way too much for their credit and sometimes defaults due to this.	157	31%
STATUS:	Not saying enough is enough and stopping when the debt gets too high. Rather dead than out of fashion is the saying. Cash flow that is not sufficient to support the lifestyle choices, pressure from family members to assist where it is not really possible and lastly the pressures from the society - status issues. Spur of the moment costs / lifestyle pressure over powers the responsibility of paying a regular instalment. Living beyond their means.	88	17%
INCLOS:	People default on unsecured loans firstly due to loss of income. When bank assess loan applications, they cannot see how long the applicant will be employed, they hope for the best and when the applicant loses the job without taking credit life, they default. Now that there is unforeseen circumstances like Covid 19. Where people lost most their basic salaries and jobs.	62	12%
FINMAN:	People not managing their financial affairs properly, payment record on credit bureau. Judgements, and bad Internal accounts handling. High interest rates and inability to successfully manage finances (budget income and expenses), expenses is more than his income - or they are not financially disciplined. The client does not manage the cash flow and expenses are more than planned for. The unsecured loan funds did not go for the reason provided to the bank. No additional profit generated to assist with payment of loan. They do not always understand their obligations toward the bank, and the consequences of not paying their loans back. Clients normally believe they have the necessary income to repay debts they are getting into.	59	12%

NOSEC:	Due to the fact that they know no security was offered. If they have no asset linked to the loan, they have nothing to lose, thus not overly committed to keep up to date. There is no personal asset linked to the loans so it is easy to default and not lose any of their assets. Clients will default on unsecured loans as they have nothing to lose, instead of a home loan or car finance where they have the asset to lose. Zero collateral at stake. They know the worst that can happen is being listed by the bank, all they care about is receiving the funds.	87	17%
LOANS:	High Interest Rates, inadequate loan sizes, improper client selection, retrenchments. sometimes is the instalment clients can afford it the time they apply for loan but as time went on they can afford to pay instalments and cost of living. Some change their banking details but forget to update with personal loan department, others change their salary date due to new jobs and they do not inform loan department about new date.	47	9%
RECKLEN:	Reckless lending, Other financial institutions over indebting the clients. Borrowing for consumption instead of investment in assets or business. If the correct credit process of ensuring affordability is not done properly from the beginning of the credit granting process. Fraud and crime that impacts client's financial position, where they lose money intended to repay the loans.	9	2%
FRAUD:	Fraud and crime that impacts client's financial position, where they lose money intended to repay the loans. Some experience fraud like unauthorised debit orders so when loan debits from the account, there will not be enough money,	0	0%

- A number of respondents (31 per cent) indicated that unsecured lending customers default on their loans because of *over-indebtedness and affordability.* Respondents explained that

  > Over-indebtedness is a big cause of defaults for most clients but some clients are due to the fact that they do not know the importance of paying debt on time. Some customers with many personal loans from different banks pay way too much for their credit and sometimes default due to this. Affordability is also a huge problem - expenses exceed customer's income.

- The second significant theme emerging from respondents (17 per cent) was *keeping a certain status and lifestyle in the community by the borrower.* Respondents indicated that:
  - Some customers live above their income and then they cannot pay all their debts, not accepting reality, succumbing to peer pressure. Spur of the moment costs/lifestyle pressure overpowers the responsibility of paying a regular instalments. Customers living beyond their means.
- The third theme that was evident from respondents (17 per cent) was *no security or collateral required.* Respondents indicated:
  - Borrowers default because they know no security was offered. If they have no asset linked to the loan, they have nothing to lose, thus [they are] not overly committed to keep up to date; instead of a home loan or car finance where they have the asset

to lose. Borrowers know the worst that can happen is being blacklisted by the credit provider, [but] all they care about is receiving the loan…Zero collateral is at stake.

- The fourth theme that emerged from respondents (12 per cent) was a *loss of income.* Respondents indicated that 'when credit providers assess loan applications, they cannot see how long the applicant will be employed or earn an income, they hope for the best and when the applicant loses their job without taking credit life, they default'. Other respondents indicated that given the unforeseen circumstances caused by Covid-19, many people lost most of their basic salaries and jobs: 'Borrowers' circumstances change due to personal reasons/economic conditions. Other unforeseen circumstances [such as] sudden large expenses, and divorce or retrenchments are the major causes of defaults'.
- The last three themes that emerged were firstly, *loan structures and borrower behaviour* (indicated by nine per cent of respondents) where respondents' highlighted 'high interest rates, inadequate loan sizes and improper client selection'. This means that banks and other creditors charge high interest rates and when circumstances change it becomes difficult for customers to repay loans. Sometimes customers can afford the instalment at the time they apply for a loan but as time passes they find it difficult to afford to pay both instalments and living costs. Some customers change their banking details or their salary date but forget to update with the personal loan department. The second theme that emerged was (a lack of) *proper financial management* (indicated by 12 per cent of respondents). Respondents indicated that 'borrowers are not managing their financial affairs properly, having bad payment record on credit bureaus, judgments on credit records, and bad internal accounts handling. An inability to successfully manage finances and financial discipline are the major causes of defaults'. Some borrowers are not using the unsecured loan funds for the reason provided to the bank and at times no additional profit generated to assist with the payment of loans. Some clients default because of poor education on the impact of default; they normally say they will eventually pay: 'They think the debts are within control. Not all customers have the financial education to manage their finances'. The last theme that emerged from respondents' (two per cent) was *reckless lending,* with respondents highlighting that 'some financial institutions over indebting their customers. Lending money recklessly, borrowing for consumption instead of investment in assets or business. Some credit providers do not follow correct credit processes of ensuring affordability during the credit granting process. To a lesser extent, fraud and crime was highlighted by respondents as one of the causes of default as it has an impact on the customer's financial position: 'Some customers experience fraud like unauthorised debit orders, so when loan instalments are debited from the account, there is not enough money'.

These findings support the empirical evidence by James (2014) that there is an upward mobility that is aspired to, but seldom earned by households.

6.3.2.9 Findings on the main reasons for declining unsecured loan applications

The findings of open-ended research question 12 depict respondents' perceptions on the main reasons for declining unsecured loan applications. These findings are listed in Table 6.6 and can be summarised as follows:

Table 6.6: Findings on the main reasons for declines

Codes	Description	Occurrences	%
AFFORD:	Affordability / amount requested / reason for the loan. Declined due to affordability and credit record. Client does not qualify for the loan, or cannot proof that they have enough surplus to meet the repayments. Does not meet qualifying criteria - Risk appetite of the lender towards the customer. It is because some clients do not have debt at all, some it is because after the bureau's has given their debts the system finds that the client will be left with nothing or has nothing already once they have to start repaying a loan. Cash flow projection do not support the loan. The customer does not have a strong balance sheet. The customer does not have enough experience in industry. Expenses exceeds income, Client does not qualify for the loan, or cannot proof that they have enough surplus to meet the repayments	232	46%
DEBTHIS:	The reasons include bad debt history/ credit record, no source of income, applicant applying for too much funds in relation to his income, and even though client has proof of income, he/she is not permanent. Financial behaviour of the client. Returned debit orders from a client's profile which indicates inconsistency in debt repayment. Listed on credit bureau as bad payer. Garnish orders, judgements, debt counselling well as adverse. RD's on account, Judgements etc. Spending patterns of the South Africans and also track record/ defaults/ excesses/ returned items	218	43%
OVERIND:	Over indebted, arrear accounts. They find that the client is over-indebted and other goes under debt review not knowing much about it. Expenses exceeds income, Over commitment. Affordability. Clients are black listed. Some clients do not know that they are over indebted due to lack of financial knowledge	46	9%
N/a	N/a	13	3%

Respondents provided the following key reasons for declining their customers' unsecured loan applications: *lacking affordability* (indicated by 46 per cent of respondents), *over-indebtedness* (indicated by 43 per cent of respondents), *and having a bad credit history* (indicated by nine per cent of respondents).

These findings are supported by empirical evidence by De Clercq, Van Tonder and Van Aardt (2015) that the biggest challenge faced by individuals in the credit market is the credit risk posed by over-indebtedness, resulting in customers being unable to afford their loans and therefore defaulting. These individuals have adverse credit records with judgments and some with

repayments in arrears. A low credit score has also resulted in customers being declined for further loans.

6.3.3 Unsecured lending sector analysis

The third part of the questionnaire contained research questions on the respondents' perceptions of the unsecured lending sector in South Africa. Findings are discussed on the main providers of unsecured lending in central South Africa, the main reason(s) a certain credit provider or providers are used by unsecured lending customers, and the credit provider(s) that are the easiest to obtain unsecured lending from in central South Africa. The remainder of the findings relate to responses on whether comprehensive financial information and supporting documents are important when clients apply for a loan and, lastly, the impact comprehensive financial information has on customer financial education.

6.3.3.1 Findings on the main credit provider(s) in central South Africa

The findings of open-ended research question 13 depict respondents' perceptions on the credit providers that are dominant in unsecured lending in central South Africa. These findings are depicted in Table 6.7 and are summarised as follows:

- A significant number of respondents (44 per cent) perceived *commercial banks* as being the most important credit providers. They identified these banks as Absa, FNB, Nedbank, Standard Bank, African Bank, Capitec, Old Mutual and Samba. There was a strong sentiment among respondents that 'the leaders of unsecured lending amongst the banks are Capitec and African Bank'.
- Some respondents (36 per cent) also identified *micro-lenders* as significant providers of unsecured lending. The following microloans were identified by respondents: 'Private cash loans; Micro-lenders; Pay day lenders; Retail stores; Direct Axis; Bayport; Finbond; Capfin; Letsatsi Finance; Finance World; Lemas; Wonga.com; Blue Chip; Lencor; Finchoice; Societies or Stokvels as well as family and friends'.
- Other respondents (20 per cent) indicated that *cash loans and loan sharks* also dominate the unsecured lending market in Central South Africa.

Table 6.7: Findings on credit providers that are mainly used to obtain loans in Central South Africa

Codes	Description	Occurrences	%
AFCAP:	The main providers are commercial banks. These banks are Absa, FNB, Nedbank, Standard Bank, African bank, Capitec, Old Mutual, Samba. The leader of unsecured lending amongst the banks is Capitec and African Bank.	226	44%
MICRO:	Private Cash Loans, Micro Lenders, Pay Day Lenders, Societies or Stockvels, Retail Stores and Micro lenders (registered) and unregistered micro lenders. Cash loan centres, family and friends. Direct Axis, Bayport. Finbond, Capfin, Capitec and Direct Axis. Letsatsi Finance and Finance World. Lemas, Wonga.com. Blue Chip, Lencor, Finchoice.	181	36%
LOAN:	Cash loans; Loan sharks,	100	20%
N/a	N/a	2	0%

This indicates that the majority of bank employees indicated that commercial banks, especially Capitec Bank and African Bank, dominate the unsecured lending market in central South Africa, followed by other small credit providers (micro-lenders).

These findings are supported by empirical evidence by Reenen (2013) that South African consumers seem to only be interested in obtaining loans as quickly as possible.

It can be inferred from these findings that, at the time of the study, Capitec Bank, micro-lenders, and African bank dominated the unsecured credit market in central South Africa. Although the so-called 'big four' commercial banks (Absa, Standard Bank, FNB and Nedbank) as well as Old Mutual and Samba were mentioned, they were not perceived by respondents to be as dominant in the unsecured lending market.

6.3.3.2 Findings on reasons customers use the main unsecured lending credit provider(s) in central South Africa

The findings of open-ended research question 14 depict respondents' perceptions on the reasons the customers use the main unsecured lending credit provider(s) in central South Africa. These findings are depicted in Table 6.8 and are summarised as follows:

Table 6.8: Findings on reasons customers use the main credit provider(s)

Codes	Description	Occurrences	%
EASY:	Easy to get approved but with high interest. A lot of people are declined by banks and proper lending organisations and they opt for easy ways. Cash loans are willing to take a higher risk than the commercial banks. The work with smaller ticket sizes. Loans are done over a shorter period and recurring business takes place because of that. Immediate money provided, in spite of a poor credit history. Small Loans companies not always doing proper Financial Analysis on client. Their qualifying criteria are simpler compared to the other big banks. Not a detailed analysis of the clients' credibility is done. Even people with bad credit records can apply for a loan, where the financial institutions will not approve their applications. Last resort for desperate consumers.	330	65%
AVAILSPED:	They are readily available throughout the country to offer unsecured lending to clients. After you apply for the loan and send all the required documents you will receive an answer immediately whether loan is declined or approved. Accessibility and overall service when they request a loan. The application process is easy and application processed with speed and convenience in a matter of minutes. Good advertisement and accessibility in almost every town and city in South Africa	125	25%
NOCOL:	No assets are required to take out this type of loan. Like I said standard of living is too high and people's salaries is not enough. Salary account holders	52	10%
REGUL:	The main reasons is that they are commercial banks that act as transactional banks for clients. It is easier for them to cross sell from transactional accounts to lending facilities by creating a one stop shop for customers. These banks are well governed by the National Credit Act which makes clients more comfortable.	2	0%

- The majority of respondents (65 per cent) indicated that the credit providers are mainly used in central South Africa because it is *easy* to get the loans approved although with high interest rates.
- The second theme that emerged from respondents (25 per cent) was that these credit providers are mainly used because they are *readily available* throughout the country. Respondents said that:
  - "The application process is easy and application processed with speed and convenience in a matter of minutes. Good advertisement and accessibility in almost every town and city in South Africa. Customers want to talk to someone whom can relate to their problem for a solution – they prefer trustworthiness".
- The third theme emerging from respondents (10 per cent) was that these credit providers are mainly used because *no collateral* is required when loans are provided.
- Lastly, only two respondents indicated that the use of these commercial banks could be ascribed to the fact that they are *well regulated*.

These findings support the empirical evidence by Mashigo (2012), which indicates that South Africa consists of two distinct sectors, one that is well developed and servicing middle to high-income individuals through big banks and other financial institutions; and the other sector that is informal, servicing low-income individuals, mostly the previously disadvantaged, who are mostly serviced through pawnbrokers, micro-lenders and loan sharks.

6.3.3.3 Findings on the credit provider(s) from whom it is the easiest to obtain unsecured loans in central South Africa

The findings of open-ended research question 15 depict respondents' perceptions on the credit providers from whom it is the easiest to obtain unsecured lending in central South Africa. These findings are depicted in Table 6.9 below and can be summarised as follows:

Table 6.9: Findings on credit providers from whom it is the easiest to obtain loans

Codes	Description	Occurrences	%
MICRO:	Micro Lenders (registered) and Unregistered Micro Lenders. Micro lenders who grant smaller loan amounts and shorter period (usually < 12 months) compared to commercial banks. Micro Lenders, Pay Day Lenders, RCS and Sanlam and Cash loans; Blue Chip, Bayport, Wonga.com, Finbond	232	46%
CAP:	Capitec	74	15%
AFCAP:	Capitec Bank, African Bank. The two in my opinion is African Bank and Capitec. They have also come under scrutiny for their robust unsecured lending total. African bank had to be bailed out by government because they were lending out unsecured loans recklessly and customers defaulted.	71	14%
CAPFNB:	Capitec Bank, African Bank, Capitec, African bank, Absa, Standard bank, FNB, Nedbank, Old Mutual. Absa, well known bank with a good reputation. A personal loan will have an offer available for a credit protection plan offered by Absa.	51	10%
BAYDI:	Bayport Direct Axis	33	6%
SHARK:	Loan sharks because most of them they don't check income and expenditure. Loan sharks	32	6%
Unsure	Unsure	16	3%

- A significant number of respondents (46 per cent) perceived *micro-lenders* as the easiest credit providers to obtain unsecured loans from. Other credit providers mentioned were: 'Micro-lenders (registered and unregistered), Pay Day Lenders, RCS and Sanlam, Cash loans; Blue Chip, Bayport, Wonga.com, Fin-bond'.
- *Capitec Bank and African Bank* were also found to be the easiest to obtain unsecured loans from (15 per cent of the respondents indicated Capitec Bank and 14 per cent indicated both Capitec Bank and African Bank): 'The two in my opinion is African Bank and Capitec, both have also come under scrutiny for their robust unsecured lending total. African Bank had

to be bailed out by government because they were lending out unsecured loans recklessly and customers defaulted'.

- Other respondents (six per cent) indicated that *Bayport and Direct Axis* are also 'the easiest' providers of unsecured loans. The following credit providers were also mentioned to be the easiest, although by fewer of the respondents (10 per cent), compared to Capitec Bank, African Bank, Bayport and Direct Axis: 'Standard Bank, FNB, Nedbank, Old Mutual, credit card facility from clothing businesses, for example, Woolworths, and Absa, a well-known bank with a good reputation'.
- **Loan sharks** were also specifically mentioned to be the easiest providers of unsecured lending with some respondents (six per cent) indicating the following: 'Loan sharks [are chosen] because most of them don't check income and expenditure'.

These findings show that the majority of bank employees indicated that micro-lenders (registered and unregistered), Capitec Bank and African Bank dominate the unsecured lending market in central South Africa, followed to a lesser extent by the larger banks Absa, Standard Bank, Nedbank and FNB.

6.3.3.4 Findings on whether comprehensive financial information is important when customers apply for a loan

The findings of closed-ended research question 16 depict respondents' perceptions on whether comprehensive financial information and supporting documents are important and should be obtained during the loan application process. These findings are depicted in Figure 6.6. All most all the respondents (99 per cent) either strongly agreed (92 per cent) or agreed (seven per cent) that comprehensive financial information and supporting documents are important and should be obtained during the loan application process. Only one per cent was 'undecided' and seven respondents did not respond to the research question. This result indicates that almost all bank employees believe that credit providers should obtain comprehensive financial information of the applicant during the loan granting process. It can be inferred from these findings that the importance of obtaining comprehensive financial information and supporting documents during the loan application process cannot be underestimated. It is crucial in order to ensure that a proper loan assessment can be done when customers apply for unsecured loans.

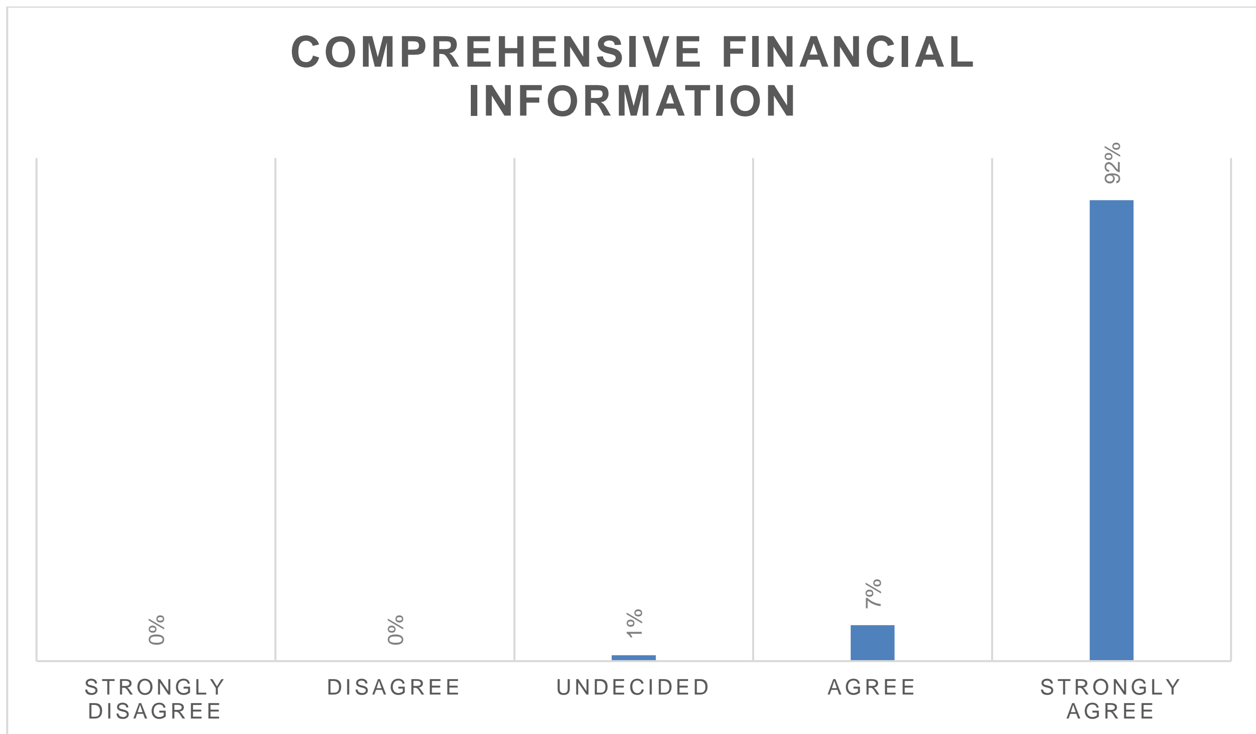


Figure 6.6: Findings on the importance of comprehensive financial information

These findings support the empirical evidence by Dilotsotlhe (2013) that financial services can be employed to build households' assets, and therefore decrease their vulnerability to external shocks. Comprehensive financial information is crucial to determine the consumers' credit needs and to offer appropriate credit solutions and advice.

6.3.3.5 Findings on the impact of comprehensive financial information on customer financial education

The findings of the open-ended research question 17 depict respondents' perceptions on the effect of comprehensive financial information on customer financial education. These findings are listed in Table 6.10 below.

Table 6.10: Findings on the impact of comprehensive financial information on customer financial education

Codes	Description	Occurrences	%
EDUCA:	Customers are mostly not financially educated and choose incorrect products for their needs. It educates an applicant of what the institution will be looking at when doing the assessment and creates awareness of how important affordability is. By supplying transparent and comprehensive financial information, the advisor can assist and educate customers on their financial situation. There more in-depth someone knows his own finances, the better he is able to control the outcome of his future financial situation. It tells us the client knows the importance of monthly management statements, cash flow projections to be successful in his business. It will teach them to compile their own budget and spend money according their income. High impact, as clients learn about what impacts their financial history and credit record. Understanding their own position and knowing their boundaries. It gives the customer a realistic picture of his/her financial standing. Some customers does not realise the pattern of irresponsible spending on certain things unless a proper analysis is done.	217	43%
KNOWL:	This is very important as the client needs to know what they are getting themselves into. The FSCA explicitly says the financial service providers themselves need to know about the product before selling it or else must be under supervision. Clients are impacted when an event there needs to be a settlement from retrenchments or loss of income, neglected clauses prevent some situations being covered by credit life.	188	37%
RECKLES:	Reckless lending will not be done. They get to see/understand where the decisions about their credit applications are based. Understand the risk of lending and the repayment. Compare income to expenses. To see if the client is reckless in his spending or not. With these information it is easier for the client to understand when a loan cannot be approved. To ensure affordability and minimal risk to the bank.	87	17%
FRAUD:	Can prevent you from paying out fraudulent transactions and mitigation and combat Money Laundering	17	3%

These findings can be summarised as follows:

- A significant number of respondents (43 per cent) perceived that customers are *not financially educated* and as a result choose incorrect products for their needs. Comprehensive financial information educates an applicant/borrower on what the credit lending institution will be considering when doing the assessment and creates an awareness of how important affordability is. By supplying transparent and comprehensive financial information, the consultant can assist and educate customers on their financial situation. The more in-depth someone knows their own finances, the better they will be able to control the outcome of their future financial situation. It tells that the client knows the importance of monthly management statements and that cash flow projections should be successful. Comprehensive financial information will teach customers to compile their own budgets and to spend money according to their income. It will assist the customer to

manage their debts successfully and will prevent financial stress. It will help customers to compile a budget and to understand how their income relates to their expenses and can help them avoid accumulating debt in the future. The impact is that they will see the reality of repaying their debt should they decide to take on the debt.

- Some respondents (37 per cent) also indicated that comprehensive financial information has an impact on financial education by helping both bank employees and their customers with the required *knowledge* to ensure that the unsecured lending market remains sustainable. This is because the Financial Sector Council Authority (FSCA) explicitly says employees of the financial service providers themselves need to know about the product before selling it or otherwise it must be done under supervision. Respondents indicated that *'*customers are impacted when an unforeseen event occurs such as retrenchments or loss of income; neglected clauses prevent some situations being covered by credit life; with financial knowledge customers can manage these circumstances better'.
- Other respondents (17 per cent) indicated that comprehensive financial information will also ensure that *reckless lending* is prevented. Customers start to see and understand the decisions on which their credit applications are based. Comprehensive financial information ensures that customers understand the risk of lending and the repayment afterwards, and helps them to compare income with expenses. On the other hand, it helps the lender to assess whether the client customer is reckless in their spending and to ensure affordability and to minimise credit risk to the credit provider.
- Lastly, only a few respondents (three per cent) indicated that comprehensive financial information can *prevent fraud and money laundering,* indicating that comprehensive financial information 'can prevent you from paying out fraudulent transactions and mitigation and combat money laundering'.

It can be inferred from these findings that the impact of obtaining comprehensive financial information will ensure that customers are better educated about the importance of affordability, to manage the risk of unexpected events, to prevent reckless lending, and to prevent money laundering and fraudulent transactions.

6.3.4 The role of legislation in the South African unsecured lending sector

The fourth section of the questionnaire contained research questions on respondents' perceptions on the role of legislation in the South African unsecured lending sector. The findings indicate the respondents' perceptions on whether unsecured lending customers understand fully the credit agreements they are entering into; the impact of consumer credit legislation (e.g. the NCA and CPA) on unsecured lending; the option(s) available should customers have difficulty in repaying

the loan; the impact of explaining options available should customers have difficulty in repaying the loan; the impact of debt counselling on the financial literacy of unsecured lending customers; the methods used by the commercial bank to explain the rights and obligations to unsecured lending customers; and the impact of the methods used by the commercial bank to explain consumer rights to unsecured lending customers.

6.3.4.1 Findings on whether customers understand fully the credit agreements they enter into

The findings of open-ended research question 18 depict respondents' perceptions on whether customers applying for unsecured loans understand fully the credit agreements they enter into when the loan is approved and the credit agreements are signed between the credit provider and the customer. The findings are depicted in Table 6.11.

Table 6.11: Findings on customers' understanding of the credit agreements they are entering into

Codes	Description	Occurrences	%
NO	NO: No, the customers are only interested in the loan amount they are requesting. Not all customers understand in full, even though it is very important for them to understand. I don't really think so, as clients just want to know what they will pay and if there is any important things, they say contracts are too much paper work. No they don't read the fine prints. No. It's done at the heat of the moment without checking the interest rates etc. No. Not all customers have the financial background or education to understand things like regulation and conditions.	293	58%
NOTALW:	Not always. They are sometimes impatient when we try discussing the agreement. Even though you explain all the detail within the contract they are so desperate for the funds they hardly take note of all the information being shared. They just want the loan so desperately that they do not think about the end result. Not always. E.g. fees associated and consequences for late payments. Some still lack financial education in their finances. To some extent, the unsecured market unfortunately does cater for anyone.	95	19%
YES	YES: Yes, client know exactly in this day and age what they are signing for and the financial institutions makes this very much transparent.	67	13%
STAFF:	The Sales person assisting is trusted to educate customers on products applied/ approved for - for ease of us and for clients to understand how they work. If the information on the quote is discussed with the client in detail.	54	11%
REGUL:	Because the banks and other credit providers are well regulated in South Africa, information is always available to potential clients seeks any sort of lending. The issue is that these clients are driven by the urgent need for the funds and hardly have time to read between the lines.	16	3%

These findings can be summarised as follows:

- A significant number of respondents (58 per cent) indicated that customers *do not fully understand* the credit agreements they are entering into and that customers are only

interested in the loan amount they are requesting. Respondents pointed out that ’they don’t read the fine prints. Loans are done in the heat of the moment without checking the interest rates etc. Not all customers have the financial background or education to understand things like regulation and conditions’.

- Some respondents (19 per cent) indicated that customers are so desperate that they *do not always take note of* the credit agreements they are entering into. Although bank employees explain all the detail in the contract, the customers are so desperate for the funds that they hardly take note of all the information being shared; they do not think about the end result, the issue is that these customers are driven by the urgent need for the funds and hardly have time to read between the lines. Respondents indicated that "‘some still lack financial education to manage their finances better. Some understand credit agreements to some extent, the unsecured market unfortunately does not cater for everyone*’.*
- Some respondents (13 per cent) answered ‘yes’ to the question, indicating that *customers do understand credit agreements* because the banks and other credit providers are well regulated in South Africa and information is always available to potential clients who seek any sort of lending. Respondents indicated that ‘the client knows exactly in this day and age what they are signing for and the financial institutions make this very much transparent’.
- Lastly, respondents (11 per cent) indicated that the *sales person* assisting the customer is trusted to educate customers on products applied for or approved.

These findings support the empirical evidence by Atkinson et al. (2006) that consumers are still making badly informed financial decisions, for instance, not understanding the terms and conditions and not assessing how credit providers compare to one another. This results in over-indebtedness and credit risk, among others, negative results of poor credit decision-making because of customers not having all information and rather relying on weak proxies for decision-making. Respondents who agreed that customers understand credit agreements support empirical evidence by Lombard and Renke (2009). Lombard and Renke (2009) suggest that lenders should take practical steps in ensuring that prior entering into a credit agreement, the customer has read and appreciate the costs and risks of the proposed loan and the rights and obligations during the loan tenure.

It can be inferred from these findings that most customers of unsecured lending do not understand fully the credit agreements they are entering into. This is despite the fact that credit providers are required by credit regulations to ensure that their customers do understand. Conversely, customers are often desperate and only interested in the funds, not the agreement.

6.3.4.2 Findings on the impact of consumer credit legislation (e.g. the NCA and CPA) on unsecured lending

The findings of open-ended research question 19 depict respondents' perceptions on the impact of consumer credit legislation (e.g. the NCA and CPA) on unsecured lending. These findings are depicted in Table 6.12 and can be summarised as follows:

- A number of respondents (35 per cent) indicated that consumer credit legislation reminds everyone that *reckless lending* is dangerous and restricts lenders from lending money recklessly. Respondents highlighted the positive impact of consumer legislation, indicating that the emphasis on proving affordability is 'a good thing' and that it prevents credit providers from over-indebting their customers by approving credit that the client will not be able to afford.
- Respondents (29 per cent) also indicated that consumer credit legislation gives some comfort to both the institution and the lender that there are **rules** that need to be adhered to. Consumer legislation regulates the banks and registered micro-lenders, but it has no impact on unregistered micro-lenders who still provide unsecured lending to the majority of South Africans. Respondents commented that consumer credit legislation is for the benefit and best interest of the customers as it protects them from being exploited, and protect both the customer as well as the bank from potential losses:
    - The Act intends to give effect to every individual's right to credit and guard against over-indebtedness. Only individuals [who] can afford loans should be permitted to have access to credit. Place responsibility on lenders and accountability on customers towards their credit commitments. Loans may only be awarded if the bank is convinced that the client can repay the loan given all the criteria are met regulated and set out by NCA legislation. Advance a non-discriminatory and fair industry for access to customer credit. Advance responsible credit approval and usage.

Table 6.12: Findings on the impact of consumer credit legislation (e.g. the NCA and CPA) on unsecured lending

Codes	Description	Occurrences	%
RECKLEN:	NCA reminds everyone that reckless lending is dangerous. It restricts them from loaning a money recklessly. Positive impact. Proving affordability is a good thing. It makes it a little more difficult to sell the product but also prevents reckless lending. It protects the customer not to get over indebted. If a client cannot afford the full repayment without having to take it up again then it is declined as not affordable. It prevent credit providers not to over indebt clients by approving credit which the client will not be able to afford.	178	35%
RULES:	It gives some comfort to both the institution and the lender that there is rules that needs to be operated in. It is for the benefit and best interest of the client. It protects clients from being exploited. Protect the clients as well as the bank from potential losses. The Act intends to give effect to every individual's right to credit and safeguards against over-indebtedness. Only individuals that can afford loans should be permitted to have access to credit. Promote a non-discriminatory and fair industry for access to customer credit. Promote responsible credit approval and usage. In the absence of consumer credit legislation the system is open to abuse specifically for customers who are not financially literate.	148	29%
NCACPA:	The processes initiated by the NCA concerning the credit costs on unsecured loans have had the unintended results of decreasing access to loans. Regardless of the extensive consumer protection in relation to credit, it may be hindering access to credit as credit providers are rejecting those individuals who they regard as higher risk. Additionally, the interest rate on credit, including unsecured credit, are considered 'prescribed' rates instead of maximum rates as envisioned by the legislature, and end up in individuals being refused access to loans at competitive rates. NCA protects the individual to not take up to much debt. CPA assist the individual to change his/her mind after loan was granted and the individual maybe decided not to do loan anymore.	97	19%
LEGISL:	Micro-lenders do not abide by legislation, so they lend to who-ever is in need, no matter what their repayment ability looks like. It has an impact which regulates the banks and registered micro lenders But it has no impact on unregistered micro lenders which still provide unsecured lending to the majority of South Africans. Some institutions apply these regulations more strictly than others and in some cases, applications can be manipulated to ensure the loan is approved. More regulated and stringent to avoid over indebtedness. It help the consumers that are already over-indebted not to get into more debt and also helps the clients that has no assets to get loans.	86	17%

- Respondents (19 per cent) also indicated that if the consumer credit legislation is absent the credit system in South Africa will be open to abuse specifically for customers who are not financially literate. The *NCA & CPA* ensure consistency in the application process and ensure that applicants will still be able to pay for their living expenses after debt instalment has been serviced. Respondents stated the following:
    - Consumer credit legislation makes it difficult sometimes for customers to get finance, the approval process for customers falling within NCA is stricter compared

to those who fall outside NCA; this is because affordability must be determined and proven. This has resulted in commercial banks having more stringent qualifying requirements due to consumer credit legislation. The NCA protects the individual to not take up to much debt while the CPA assists the individual to change his/her mind after the loan was granted and the individual may decide not to [continue with the] loan anymore.

- Some respondents (17 per cent) raised concerns regarding consumer credit *legislation* as some institutions apply these regulations more strictly than others and, in some cases, applications can be manipulated to ensure that the loan is approved. These respondents emphasised that micro-lenders do not abide to legislation, so they lend to whoever is in need, no matter what their repayment abilities look like: 'Consumer credit legislation has an impact which regulates the banks and registered micro-lenders but it has no impact on unregistered micro-lenders who still provide unsecured lending to the majority of South Africans'.

It can be inferred from these findings that consumer credit legislation has a number of effects on unsecured lending: Firstly, it creates an awareness of the dangers and consequences of reckless lending. Secondly, it gives peace of mind that there is adherence to rules and regulations and that the absence of regulations might lead to the credit system being open to abuse. Finally, the findings highlight that there is an inconsistency in the application of consumer credit regulations and that regulations can sometimes result in unintended consequences of reducing access to credit.

6.3.4.3 Findings on the impact of consumer credit legislation (e.g. the NCA and CPA) on customer financial education

The findings of research question 20 depict respondents' perceptions on the impact of consumer credit legislation (e.g. the NCA and CPA) on customer financial education. These findings are depicted in Table 6.13 below and can be summarised as follows:

Table 6.13: Findings on the impact of consumer credit legislation (e.g. the NCA and CPA) on unsecured lending

Codes	Description	Occurrences	%
KNOWLE:	If the client did not know his position prior to his/her application - they would learn about this when discussing the application with the bank agent servicing them. The general consumer does not know about the legislation, unless the credit provider informs them. Very huge impact which according to me sometimes customers don't understand, like they still feel they have a relationship with the bank despite their credit history. The credit providers should help individuals to make healthier financial choices. Legislation is there to help educate the consumer. It is there obligation and social responsibility to make citizens financially literate.	219	43%
BUDGET:	It assist customers spend money wisely (budgeting), teaches them to live within their means, it educate them to priorities what they need to lend money for the necessity and or importance. Lower debt level. It highlights the importance of still being able to pay for living expenses and discipline that is required to manage finances responsibly. It will educate a client to not spend more than what he can afford. It has a positive impact. This is because it insists that credit providers avail the information to the clients for the purpose of ensuring the client was awarded sufficient time by the credit provider to know about the product being sold.	110	22%
CRITERIA:	The customer needs to understand why the commercial banks uses different criteria to approve loans than outside NCA. This again reiterates the fact that a client should know what his financial position is and when an application is declined, the bank needs to explain why the application has been declined. A client doing reckless lending can be declined easier with NCA legislation. They disregard their own financial position just in order to get a loan. It explains the rights and obligations of the consumer as well as the rights and obligations of the lender.	91	18%
LITTUNS:	Unsure. Very little considering the overall distressed financial position of consumers.	89	17%

- A significant number of respondents (43 per cent) indicated that consumer credit legislation has a considerable impact on consumer education, because credit providers should help consumers with gaining *knowledge* to make better financial decisions. Respondents indicated that it is the credit providers' duty and social responsibility to help citizens to become financially literate and that legislation is there to help educate the consumer: 'Legislation enforces the understanding of products sought. The impact on consumer credit legislation is to inform and educate consumers thus ensuring some degree of comprehension of the financial services and products.
- Some respondents (22 per cent) indicated that the impact on financial education is that consumer credit legislation assists customers to *budget* and spend money wisely and teaches customers to live within their means. Credit legislation helps to educate customers to prioritise what is necessary and important to them to borrow money for. Credit legislation

also contributes to lower debt levels. Consumer legislation should have a positive impact, because it insists that credit providers avail the information to the clients for the purpose of ensuring that the client was given sufficient time to obtain information about the product being sold. Even after the lending has commenced, consumer credit legislation encourages customers to request statements of the unsecured lending account which the lender should provide. These statements should entails details such as any amounts currently payable or owing, and the current balance on the customer's account. Other respondents (18 per cent) indicated that consumer credit legislation assists the customer to understand why commercial banks use different *criteria* to approve loans than outside the NCA. This is because consumer credit regulation is shaped by economic social, and political factors. This again reiterates the fact that a client should know what their financial position is and when an application is declined, the bank should explain why the application has been declined. Respondents indicated that:

  - Rural areas are most negatively affected by [a] lack of financial education. If the client did not know his position prior to his/her application, they would learn about this when discussing the application with the bank employee servicing them. This is because the general consumer does not normally know about the legislation, unless the credit provider informs them.

- Some respondents (17 per cent) were sceptical, indicating that consumer credit legislation has *very little impact.* Others were *unsure***.** However, although these respondents were sceptical or unsure they explained that 'very little [impact is made] considering the overall distressed financial position of consumers. Sometimes customers do not understand, like they still feel they have a relationship with the bank despite their credit history'.

It can be inferred from these findings that consumer credit legislation assists customers to budget and live within their means. The legislation also ensures that customers understand the criteria used by the credit provider to assess unsecured lending applications. When customers can prepare a budget and live within their means they will also make better financial decisions.

6.3.4.4 Findings on the option(s) available should customers have difficulty in repaying the loan

The findings of open-ended research question 21 depict respondents' perceptions on the option(s) that are available should customers have difficulty in repaying the loan. These findings are depicted in Table 6.14. The findings can be summarised as follows:

- The majority of respondents (62 per cent) indicated that, should a customer have difficulty in repaying the loan, the options available are *payment holidays or payment arrangements*

with the credit provider or existing creditors, debt restructure or debt consolidation. Respondents also mentioned the following options: A payment holiday for three months, if serious, a distressed restructure can also be considered; internal and external debt consolidation; repayment assistance. [Make] arrangements to pay off the loan, like a reduced payment over a certain term'.

Table 6.14: Findings on the option(s) available should the customers have difficulty in repaying the loan

Codes	Description	Occurrences	%
PAYHOL:	Payment holiday for 3 months, if serious a distressed restructure can also be considered. Internal & External debt consolidation. Repayment assistance. Arrangements to pay off the loan is set in place, like a reduced payment over a certain term. Phone your bank and make an arrangement with smaller payments/ longer terms/ relief payments. Arrangement for reviewing the contracts for longer terms/ for smaller repayments. Debt review. Make arrangements with creditors.	315	62%
DEBCOUNS:	The customer could go for debt counselling. Apply for debt review, debt counselling or to be placed under administration. If clients can't afford repayments on account they can be referred to debt counselling or can apply for debt consolidation to make it easier for repayments. It is the best way if there is no way, just to get into the other side to financial wellness. Last resort is Debt Counselling / Business Rescue.	70	14%
FINWELL:	Financial wellness is important to ensure clients understands how to handle their finances effectively. I explain the different offers, the pre agreement in full to the client. You explain face to face, give them sites with more information and also the print of terms and conditions explaining their rights. use language that is preferable to the client	55	11%
NEGIMP:	Negative impact on your credit rating, Collections and Judgments against your name; Clients needs to know the importance of paying their installments on time on time to avoid arrears. Currently we don't have any brochures that explain the consumer rights the only thing that we use is word of mouth	22	4%
CREDINS:	The best option is to prepare for such an event. It is the duty of both the employee representing the credit provider and the applicant to take credit life insurance. It protects the applicant who has found themselves unable to take pay the loan. If the absence of the credit life insurance, there should be a dialogue between credit provider and the client to engage on matters of refinancing and payment breaks.	8	2%
N/a	N/a	39	8%

- Some respondents (14 per cent) also indicated that the customer could go for *debt counselling,* apply for a debt review, take out an insurance policy against the unsecured loan, or could be placed under administration. Respondents also pointed out that financial wellness is important to ensure customers understand how to control their finances effectively. It is critical, according to respondents, to use the preferred language of the customer when explaining the credit agreement to ensure customers understand the

options that are available should a problem arise in repaying the loan. A respondent also commented that he/she explains the terms and conditions of credit and the consequences to their clients. Some respondents (11 per cent) indicated that the other option available should a customer not be able to repay the loan is *financial wellness,* whereby customers are taught how to manage their finances effectively.

- A few respondents (four per cent) also highlighted the *negative impact on customers' credit rating* should they experience difficulty in repaying which might lead to collections and judgments against their credit record. Respondents indicated that:
    - Customers need to know the importance of paying their instalments on time to avoid arrears. Currently we don't have any brochures that explain the consumer rights, the only thing that we use is word of mouth.
- Lastly, only two per cent of the respondents highlighted the significance of giving customers a full explanation of *credit insurance* in unsecured lending:
    - Clients should get a full explanation on how the unsecured loan works, interest, instalment and terms as well as insurance available. You have to explain the clients the assurance of the loan what it included if the client will be covered if he loses his job or in case of retrenchment.

This supports the empirical evidence by Moss (2012) that consumers should be given options available to them should they default, as many of them seem to be struggling with unanticipated deterioration in their circumstances such as a lower or a loss of income, higher interest rates or lower asset prices. Credit providers should assist in educating their customers to rather renegotiate and refinance their debt or reduce their repayment burdens by using measures such as debt consolidation. This is because empirical evidence shows that most people suffer from availability bias – a cognitive heuristic that make people rely on readily available information rather than to evaluate the other options available (Sewell, 2011).

It can be inferred from these findings that payment holidays and debt arrangements are crucial and need to be put in place early when a customer encounters difficulty in repaying the loan. Other options that can be considered include credit insurance that can pay out to cover the loan when the customer cannot repay and debt counselling to rehabilitate the customer and to ensure that their situation improve so that they can return to a healthy financial position. It is clear that when a customer is unable to repay a loan, it has an adverse effect on their credit profile such as being flagged as having a poor credit record, because of arrears or judgments on their credit record.

6.3.4.5 Findings on the impact of explaining options available should customers have difficulty in repaying the loan on the loan repayment

The findings of research question 22 depict respondents' perceptions on the impact of explaining options available should customers have difficulty in repaying the loan. These findings are depicted in Table 6.15., and can be summarised as follows:

- A number of respondents (40 per cent) indicated that explaining options available should customers have difficulty in repaying the loan will ensure that customers receive *information* on how to react should they not be able to repay the loan. Consumer credit legislation also requires the lender to explain to the borrower these options. The explanation provides insight into options available for the client not to abandon repaying their loans when problems arise. Respondents commented that:
    - Explaining the options to customers will assist them in understanding the pros and cons. It gives the client the option to repay debt in a more affordable structure to ensure that they still service the debt, instead of not repaying anything. This will give a client the correct guidance so that they don't apply for more debt to be able to repay the existing loan.
- Other respondents (26 per cent) also indicated that explaining available options will ensure that customers have better *financial management,* work more wisely with their funds, and that they will not be allowed to borrow more money than they can afford. Should customers be unable to repay the loan they will have different options: the customer will have a clear understanding of their financial situation, which can assist them in making the right decisions.

Table 6.15: Findings on the impact of explaining options available should customers have difficulty in repaying the loan on the loan repayment

Codes	Description	Occurrences	%
INFORM:	The customer will have information on how to react if he/she cannot repay the loan. Legislation also requires the lender to explain to the borrower this options. Insights into options available/ client will then not just forfeit on paying debt. Explaining the options to customers will assist them in understanding the pros and cons. It gives the client the option to repay debt in a more affordable structure to ensure that they still service the debt, instead of not repaying anything. This will give a client the correct guidance so that they don't apply for more debt to be able to repay the existing loan. Gives clients life-lines and channels to use for aid. Realisation of the consumer's position, which however seems to be so dire that survival instinct seems to override such. You still keep your client's interest at heart and you want to help him/her to keep on paying the outstanding loan. You do not want to close business. Customers are immediately interested in how they can repay the money over a longer term	206	40%
FINMAN:	You will have to work more wisely with your funds and you will not be allowed to borrow more money. If they have a problem repaying they have different options. The client will have a clear understanding of his/her financial situation. It can assist the client in making the right decisions. It can also ensure that the bank gets its money back. Realisation of the consumer's position, which however seems to be so dire that survival instinct seems to override such. Depends on how far that are in trouble - sometimes there is a way if they have equity on the property. Will bring knowledge to customer regarding repayment and how to manage his finances. Restructure existing payment plan. They will consciously make decision based on informed choices. Identifying cash flow pressure and providing advice to manage / improve the situation can prevent default / adverse credit record.	134	26%
MITIGA:	It mitigates the future risk towards the lender not just stopping payments when under cash flow pressure, they have options that will not impact on their credit ratings. The most important thing is to see how you can help the client and to limit loss for the bank like extend term, skip payment for 3 months pay interest only. Customer may not apply for other loans. They can be listed on the Credit Bureau.	127	25%
ADHERE:	Customers don't always adhere with the agreements available. Loans could be called up and serious impairments can be brought about. These days it is too easy to just not pay your obligations as you have some laws protecting you. Can default. That there is a waiting period for them to take an any credit again. Customer may not apply for other loans. They can be listed on the Credit Bureau.	42	8%

- Other respondents (26 per cent) also indicated that explaining the options available helps to *mitigate* the future risk towards the credit provider by customers not merely stopping payments when under cash flow pressure. The most important thing the credit provider can do is to help the customer and to limit loss for the bank, for instance, to extend the term of the loan, or to allow for a payment holiday or for interest only. Respondents indicated that:
    - The impact is that the credit provider might face the possibility of the client not wanting to take up the product if he sees that the consequences are not worth the money required. The client might seek the funds somewhere else like a family

member where it does not involve listing them at default. A client's credit is severely impacted and may not be able to get credit for a very long period. Positive impact, builds customers trust in the institution as we are assisting them with options. You still keep your client's interest at heart and you want to help him/her to keep on paying the outstanding loan. Customers are immediately interested in how they can repay the money over a longer term.

- Other respondents (eight per cent) stressed that customers do not always *adhere* to the agreements available, loans could be called up and serious impairments can be brought about. Respondents indicated that:
    - These days it is too easy to just not pay your obligations as you have some laws protecting you and it is easy to default. You still keep your client's interest at heart and you want to help him/her to keep on paying the outstanding loan. You do not want to close business. Customers are immediately interested in how they can repay the money over a longer term. That there is a waiting period for them to take any credit again. Customer may not apply for other loans. They can be listed by the Credit Bureau.

It can be inferred from these findings that customers will have the information and knowledge on how to react should they experience difficulty in repaying the loans. In other words, if credit providers explain the options available, it will improve the customers' financial knowledge and, consequently, their overall financial management. Explaining the options will also improve the relationship between lender and borrower, thus reducing the credit risk to the lender and ensuring that the borrower does not merely stop their payments but instead use the options available when they experience difficulty in are paying the loan.

6.3.4.6 Findings on the impact of debt counselling on the financial literacy of unsecured lending customers

The findings of open-ended research question 23 depict respondents' perceptions on the impact of debt counselling on the financial literacy of unsecured lending customers. These findings are depicted in Table 6.16 and can be summarised as follows:

Table 6.16: Findings on the impact of debt counselling on the financial literacy of unsecured lending customers

Codes	Description	Occurrences	%
NOTHING:	Nothing. Old habits don't die they sometimes put customers further in debt as explanations are not thoroughly discussed and the implications of it. The challenge is customers see it as an escape from their debts of which is not the case. Customers do not understand the process, they just see that they will have money left over to buy more items. Not much. Once clients are out debt counselling they run and make debt again. Based on what I hear from my clients, debt counselling is not as effective. Not sure it meets the objective as additional fees seems to put the consumer further under distress. It depends on the personality of the individual receiving the education if they are to implement it. Where a client is illiterate, he/she might not completely understand the terms and conditions and implications of receiving debt counselling. Most debt counsellors lack financial management knowledge and do not have mechanisms to verify their clients' financial well-being after debt counselling service had been completed.	232	46%
EDUCATE:	The more educated the better and more informed decisions can be made. Clients can be more aware of pitfalls in the future. Be better informed. To better evaluate and scrutinize offers for financing. It educates people how to conduct their finances. Better handling of debt repayment/ lower bad debt written off by financial institutions. It will guide the client how to stay within his budget and learn how to handle his financial obligations in a better way. It improves customers understanding of financial planning and to make better future financial decisions.	155	30%
ASSIST:	It supports the individual and assists with the restructure of repayments. It also assist with learning from the process. It has a positive impact if explained correctly and the customers understand it correctly. Help them plan better. Yet it grants clients better cash flow short term. To assist over-indebted consumers struggling to keep up with repayment commitments. It may on the other hand assist the applicant to understand the importance of repaying the debt. A life line when they cannot repay their debts.	122	24%
NOADDLO:	If you are under debt review, no additional loan can be granted in that period… not even a new cell phone contract. Its impact is that you can't have a credit anywhere else until you finish paying. Debt counsellors don't explain to customers the consequences that goes with the arrangement that before the repayment term a client will not be able to make other debts again. Decreasing your monthly repayments on your loans, it will lengthen the time it takes for you to settle the amount owed resulting in more interest paid.	75	15%

- A significant number of respondents (46 per cent) indicated that *debt counselling has no impact.* This is because they believe that 'old habits die hard' and that debt counselling puts customers more into debt as the debt counsellors do not always thoroughly explain the implications of being under debt counselling. When a customer is under debt review, no additional loans can be granted in that period including a new cell phone contract. The impact is that a consumer cannot have additional debt until they pay off existing debt that caused them to be placed under debt counselling in the first place. Respondents perceive that debt counsellors do not normally explain to customers these consequences thoroughly.

The impact of debt counselling is the reduction in a customer's monthly instalments, which makes the loan to take longer to be settled and increases the interest rate paid during the loan tenure. Respondents explained:

- Customers do not understand the process; they just see that they will have money left in the money to buy more. They normally do not know what they are getting into. Not much help from debt counselling. Once clients are out of debt counselling they run and make debt again. Based on what I hear from my clients, debt counselling is not as effective. Not sure it meets the objective as additional fees seem to put the consumer further under distress. The challenge is customers see it as an escape from their debts of which is not the case. Most debt counsellors do not have the financial management knowledge and lack the methods to confirm their consumers' financial well-being once debt counselling service has been concluded. Even though debt counselling is crucial, it does not essentially help individuals to efficiently control their finances, it depends on the personality of the individual receiving the education if they are to implement it. Debt counselling is not good in my eyes, as the client pays for years and at the end pays more interest and cannot apply for credit during this time, even if he is financially stable again. Not sure it meets the objective as additional fees seem to put the consumer further under distress.

Other respondents (30 per cent) also indicated that the more *educated* the customer, the better and more informed decisions can be made as customers can be more aware of pitfalls in the future. Debt counselling also ensures that customers are better at evaluating and scrutinising offers for financing and effectively educates people how to conduct their finances to better handle their debt repayments and leads to less debts being written off by the credit provider of the customer. It also depends on the debt counsellors and whether they are trustworthy and accredited, but where a client is illiterate, they might not completely understand the terms and conditions and implications of receiving debt counselling. Some respondents (24 per cent) indicated that debt counselling supports the individual customer and *assists* with the restructure of repayments and also with learning good financial habits from the process. Respondents' lauded the positive impact of debt counselling on financial education if debt counselling is explained correctly, and if the customers understand it correctly it helps them plan better and helps with better cash flow management. Debt counselling also assists over-indebted consumers struggling to keep up with repayment commitments. The NCA has made provision for consumers struggling with their debt to

unilaterally seek debt counselling (the impact is to assess financial well-being which is all inclusive), or any non-compliances on the part of service providers, e.g. charging exorbitant interest rates.

The explanation of debt counselling is supported by empirical evidence indicating that credit providers should work hard to gain the understanding of their customers, encourage them to call on their assistance, and assist them not only when they are doing well but also when they face financial hardships. A range of options need to be afforded to the customers to ensure that they are able to repay their debts and if all else fail, credit providers need to ensure that customers are not only informed, but encouraged to go through debt counselling. This is because debt counselling is an alternative to a sequestration order and has been implemented as one of the mechanisms by the NCA to solve the over-indebtedness problem (Absa Bank, 2012).

It can be inferred from these findings that there are mixed views about debt counselling among respondents, others indicating that it is very good for consumers helping them to get back to a financially healthy position through financial education, reducing instalments on loan repayments and ensuring that no new loans are taken out that may increase the customer's debt levels while under debt counselling. Some respondents indicated that debt counselling add no value and, in some cases, it even drives customers further into financial distress, because the behaviour of customers is difficult to change and debt counsellors are not deemed to be successful in changing customers' behaviour for the better. Debt counsellors are perceived not to be very honest with their customers in explaining the debt counselling process to them: reducing instalments is perceived to result in the loan being paid over a longer term and therefore costing customers more interest.

6.3.4.7 Findings on methods used by the bank to explain consumer rights and obligations to customers

The findings of open-ended research question 24 depict respondents' perceptions on methods used by the commercial bank to explain consumer rights and obligations to customers. These findings are depicted in Table 6.17 and can be summarised as follows:

- A significant number of respondents (59 per cent) indicated that methods used by the commercial bank to *explain* consumer rights and obligations to customers include the whole process being explained by the agent, consultant or banker servicing the client. Where the self-service channel is used the assessment still gets done by an individual (agent, consultant or banker) and the terms and conditions are handed to the client and are also explained. The self-service channel goes as far as reading these terms and conditions, which include the rights and obligations of customers. Agents, consultants or bankers are

used because they are authorised and given a mandate through FAIS to give advice. Respondents indicated that:

- Discussing the contract with the client. Record of advice discussion, before the client signs the contract. Inform customer of his rights under the NCA and CPA. Terms and conditions are signed by the customers with all lending. Consultants, Bankers, are having one on one discussions with the clients and completing a record of advice form to record the discussion and finalisation of transactions. The consumer must also receive a copy of the terms and conditions. Brochures, education on commercial bank app and the Internet and staff in the branch. The commercial bank does have this topic on the Internet giving client option to work out their budget, commercial bank internet, see possible installments in loans and even apply for loans online. Through advertising and via the Internet.

Table 6.17: Findings on methods used by the commercial bank to explain consumer rights and obligations to customers

Codes	Description	Occurrences	%
EXPLAIN:	At bank the whole process gets explained by the agent servicing the client. If the self-service channel is utilised the assessment still gets done by an individual and the terms and conditions are handed to the client and is also explained. The self-service channel goes as far as reading these terms and conditions which includes the rights and obligations. Using consultants as they have a mandate to give advice. Bankers inform the client about obligations, but rights are seldom discussed. Discussing the contract with the client. Record of advice discussion, before client signs the contract. Inform customer of his rights under the NCA and CPA.	302	59%
FINEDUC:	The bank has a financial Education Program which is offered free of charge to the workplace or any other institution which might require financial education. There is also online "ready to work program" on financial education which assists unemployed even employed customer on basic financial literacy. My financial life which addresses financial education to clients. Presentations, Financial Fitness. Presentations at companies by Arranging Financial Fitness meetings. Benefits of budgeting and living within the budget. Checking the transactional behaviour as well as credit commitments and ensuring that clients understand the relationship. In branch when clients come for advice and financial fitness presentations.	80	16%
FORMS:	There are none that I am familiar with but clients are given business client engagement forms, on boarding and product forms to read and sign. We have the bank forms (Terms and Conditions) that client signs with any product. The bank has a client agreement contract that the client signs which explains the rights and obligations to the customers. The bank has a client agreement contract that the client signs which explains the rights and obligations to the customers. Do your work right and explain all form signed and T&C's. Also make sure when looking at all the documents to make a well informed motivation and decision. to protect the client and the bank	71	14%

ONLYEXPL:	Customers are only explained the repayment methods, amounts, due dates not anything further than that. This is definitely lacking and only occurs in the legal collections call centre. When a client defaults, the call centre officer, explains some of the obligations to the customer but not really their rights. Facility letters are not discussed with the client in depth.	56	11%

- Some respondents (16 per cent) also confirmed that *the commercial bank has a financial education program,* which is offered free of charge at the workplace or any other institution which might require financial education. In this respect, respondents gave the following examples:
    - Presentations at companies by arranging financial fitness meetings. Presenting benefits of budgeting and living within the budget. Checking the transactional behaviour as well as credit commitments and ensuring that clients' understand the relationship. In branch when clients come for advice and financial fitness presentations.
- Other respondents (14 per cent) did not know of any methods used to explain the rights and obligations to customers, indicating that they (the respondents) were not familiar with any methods, but that the clients are given *forms* to read and sign. A few respondents (11 per cent) stressed that clients are *only explained* the repayment methods, amounts and due dates, but not anything more than that. Respondents indicated the following:
    - We have the bank forms (Terms and Conditions) that a client signs with any product. The commercial bank has a client agreement contract that the client signs which explains the rights and obligations to the customers. Do your work right and explain all form signed and T&C's. This is definitely lacking and only occurs in the legal collections call centre. When a client defaults, the call centre officer explains some of the obligations to the customer but not really their rights. Facility letters are not discussed with the client in depth. Bankers inform the client about the obligations, but [their] rights are seldom discussed.

It can be inferred from these findings that the commercial bank uses bankers, sales agents as well as self-service (The Internet and applications) to explain unsecured lending rights and obligations to customers. A smaller number of respondents indicated that there is a financial education program available to everyone, while others mentioned that forms are used but terms and conditions are not explained in detail. These mixed findings point to an inconsistency in explaining unsecured lending rights and obligations to customers.

6.3.4.8 Findings on the impact of the methods used by the commercial bank to explain consumer rights to unsecured lending customers

The findings of research question 25 depict respondents' perceptions on the impact of the methods used by the commercial bank to explain consumer rights to unsecured lending customers. These findings are depicted in Table 6.18 and can be summarised as follows:

- A significant amount of respondents (57 per cent) indicated that the impact of the methods used to explain the rights and obligations to clients is that they will be *better informed* and be able to make healthier choices on loans required. Also, that the client is likely to decide against a product as the consequences for unsecured lending outweigh its benefits. This information also ensures that customers acknowledge that they take note and are aware of their rights and obligations during the loan tenure. Respondents indicated that:
    - The customer knows the monthly instalments, duration of the instalments and total amount payable which includes interest charged on the capital amount. Customers can make a more informed decision before concluding a contract. Providing information to customers to understand the lending process and reckless lending. It increases customer understanding of their rights and value added by products (like credit life). The right advice can prevent customers from making bad financial choices and teach them to act responsibly.

Table 6.18: Findings on impact of the methods used by the commercial bank to explain consumer rights to unsecured lending customers.

Codes	Description	Occurrences	%
BETERINFO:	Impact will be that the better informed the better the client can make his decision if he really wants or need the loan. The impact is that the client is likely to forfeit the product as the consequences for unsecured lending outweigh its benefits. The client has been made aware of the terms and conditions / rights and obligations. It ensures that the client in informed. The customer knows the monthly installments, duration of the instalments and total amount payable which includes interest charged on the capital amount. Customers can make a more informed decision before concluding a contract. It ensures that the clients acknowledge that they take note and are aware of their rights. Mostly it is to protect the bank. Providing information to customers to understand the lending process and reckless lending. Increases customer understanding of their rights and value added by-products (like credit life). The right advise can prevent customers from making bad financial choices and teach them to act responsibly	292	57%
NOTHEARD:	No impact. I have never heard anyone explaining to the customers their rights but when the customers complain they will refer the customers to the Ombudsman. I do not think the clients' know their consumer rights to unsecure Lending.	144	28%

SAFEGUARD:	It is a record which safeguard the bank and the customer in the event of something going wrong. It safeguard the bank against potential losses. And claims in the future. Consumers may try to use their rights to not repay the loan and try to prove reckless lending. A signed copy of the acceptance of terms and conditions as well as consumer rights must be kept. If done telephonically, the application must be recorded. Educating clients, protecting their rights and lowering the banks risk. Regulate individual credit and enhance standards of consumer data. Disallow discriminatory credit and credit marketing methods.	73	14%

- Some respondents (14 per cent) also perceived methods used to explain consumer rights and obligations as an instrument to mostly protect the bank and, to a lesser extent, the consumer. Explaining consumer rights to customers is regarded by respondents as a method used to *safeguard* the bank and the customer in the event of something going wrong. Respondents indicated that 'a signed copy of the acceptance of terms and conditions as well as consumer rights must be kept. If done telephonically, the application must be recorded. Educating clients, protecting their rights and lowering the bank's risk. Controls individual credit and advance standards of consumer data.
- Other respondents (28 per cent) saw *no impact* or were *not sure* what the impact is.

It can be inferred from these findings that methods used to explain consumer rights to customers ensure that customers are better informed and are better able to make healthier financial decisions regarding their debt management. It is also clear that these methods are deemed to protect the credit provider instead of the client and that these methods have no impact or that their impact cannot be determined with absolute certainty. If bank employees do not believe these methods have an impact they will have little faith in implementing them. This may result in some bank employees not implementing these methods, as discussed in research question 24.

6.3.5 Consumer education models in the unsecured lending sector

The fifth part of the questionnaire contained research questions on respondents' perceptions of the consumer education models in the unsecured lending sector. The respondents' answers pertained to the following: whether customers' degree of financial education is assessed during the loan process; the impact of assessing the customers' level of financial literacy when granting them loans; methods used by customers to educate themselves in managing their finances; whether the commercial bank offers financial education to their customers and methods used by the bank to offer financial education to their customers; whether the bank offers financial education to their employees; and methods used by the bank to offer financial education to employees.

6.3.5.1 Findings on whether customers' level of financial literacy is assessed during the loan process

The findings of closed-ended research question 26 depict whether respondents assessed the level of financial literacy of their customers during the loan application process. These findings are depicted in Figure 6.7. The majority of respondents (72 per cent) indicated ‘yes’, namely that the customers’ degree of financial education are assessed during the loan process. This finding confirms that the majority of bank employees assess the financial literacy of their customers. It can be inferred from these findings that bank employees deem it appropriate to understand the degree of financial education of their clients when offering unsecured lending at the commercial bank. Assessments will lead to the appropriate advice being provided at the appropriate level of financial knowledge during the loan application process, which will benefit both the credit provider and the customer as both will know exactly what they are entering into.

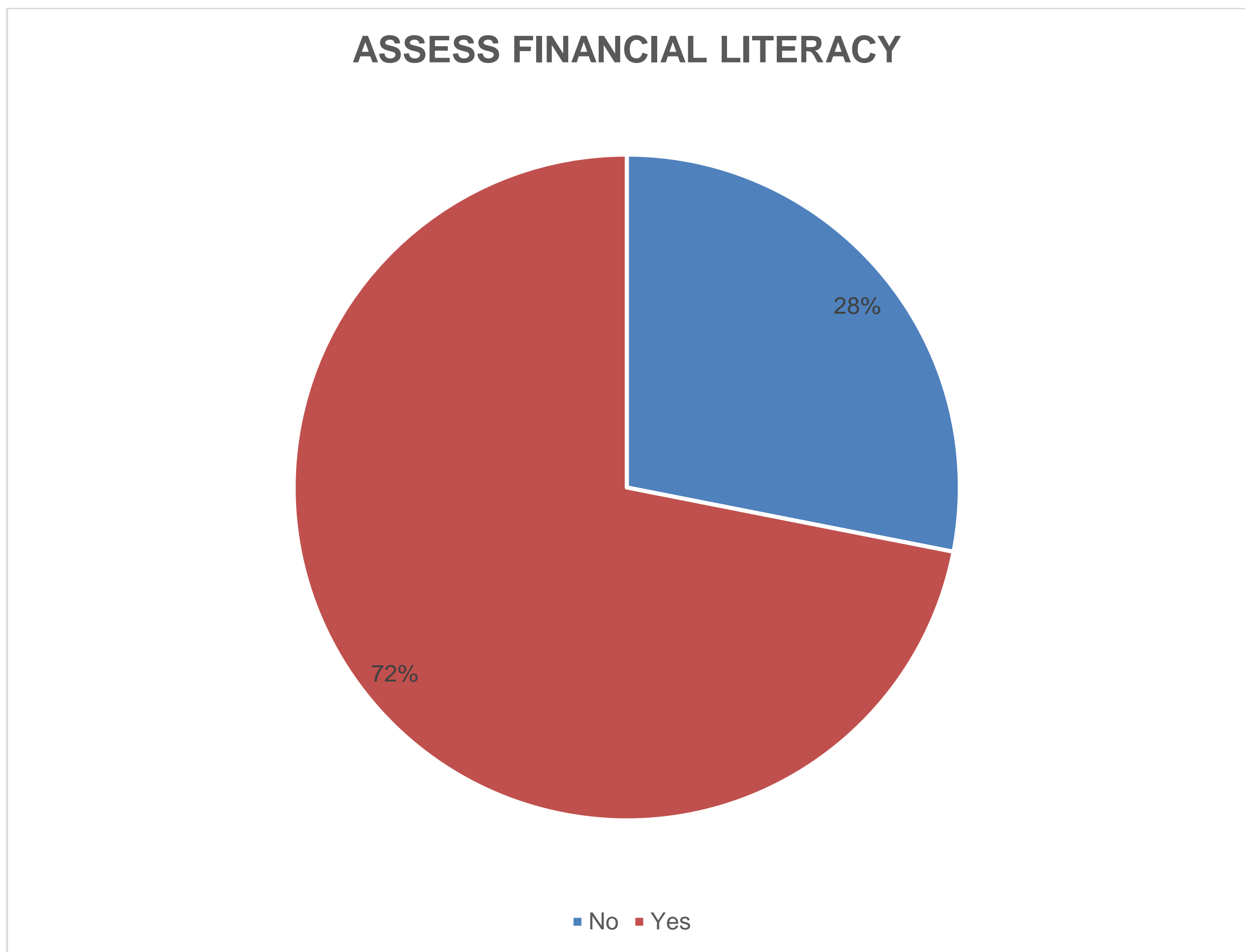


Figure 6.7: Findings on assessing financial literacy

These findings support empirical evidence by Fatoki (2015) that financial education is associated with improved financial and general life results as consumers are able to make many choices on saving and borrowing. These choices require proper assessments of economic factors such as interest rates, inflation and general conditions of loan agreements. It is therefore critical to comprehend the customers' degree of financial knowledge during the loan granting process to ensure that the customer have taken into account their overall financial positions and are in a position to afford the loan requested.

6.2.5.2 Findings on the impact of assessing the customers' level of financial literacy when granting them loans

The findings of open-ended research question 27 depict respondents' perceptions on the impact of assessing the customers' level of financial literacy when granting them loans. These findings are depicted in Table 6.19.

Table 6.19: Findings on the impact of assessing the customers' level of financial literacy when granting them loans

Codes	Description	Occurrences	%
KNOWSKIL:	Financial literacy can be considered as one of the approaches used by credit providers to supply skills and knowledge required to alter consumer attitude. Once the customer is conscious of the importance of managing money, they become disciplined in their repayment obligations. If one can clearly see that there is an issue regarding the financial literacy we assist with getting either a family member / partner to assist as a mentor - if available. If not I will not motivate the application to be processed. The better the client understand the financial, more value is placed on the ability of the jockey to run the business/ financial affairs. More confidence for bank to grant loan. This could assist in determining whether the customer understands the loan product and for future reference in determining whether to grant the loan again to the customer. Determine the clients' financial literacy. It will give an explanation or idea on what level you should explain the terms and conditions etc. to the client.	437	86%
CANOTASSE:	You cannot assess financial literacy. You can only explain and make sure the client understands the specific transaction. I noticed that I can explain over and over but client quickly forget what was said.	36	7%
DECLOANS:	Poor financial literacy would more easily lead to a declined loan. If the client is not in touch with his finances, especially if there is a habit of attaining frequent personal loans. Impact is when done advising the customer and can offer the client a loan. The client feels like you doing it on purpose to decline the loan.	18	4%
NONE	None	18	4%

These findings can be summarised as follows:

- The majority of respondents (86 per cent) indicated that financial literacy can be considered as one of the approaches used by credit providers to supply *knowledge and skills* required

to alter the financial attitude of customers. Once the customer is aware of the importance of managing their finances, they become disciplined in their repayment obligations. Understanding the level of financial literacy of a customer will help to explain at which level bankers should clarify the terms and conditions to the client. The impact is that the client will likely make better decisions with the additional funds that he/she is receiving. Respondents indicated that:

  - If one can clearly see that there is an issue regarding the financial literacy we assist with getting either a family member/partner to assist as a mentor - if available; if not I will not motivate the application to be processed. When advising the customer throughout the credit application process it assist in determining whether the customer understands the loan product and for future reference in determining whether to grant the loan again to the customer. Is the client aware of own financial situation and how will the clients' financial situation change when loan is granted. This is extremely important as the degree of financial education is directly linked to his/her responsibility and ability to repay the loan. If you make sure the client understand, it can prevent the client from going into arrears and not paying back the debt. High impact as they will be no room for assumptions. To make sure the customer understands the product and the T&C. Can make a well informed decision and spare a lot of headaches going forward and loans going in to default.

- Some respondents (four per cent) were not convinced that understanding the level of financial literacy has any impact, stating that *financial literacy cannot be assessed.* In some of these instances (four per cent) respondents indicated that this type of *assessment has no impact at all* and can lead to *loans being declined*.

The findings support empirical evidence by Coetzee (2009) that suggests that financial institutions should take responsibility to educate their customers and apply various methods when doing so. Four of South Africa's major banks (Absa, FNB, Standard Bank and Nedbank) embarked on educational programs in one form or another, which are in a simple language, clear informative and educational. These banks also conduct in-depth analyses of customers' needs at the initial interviews and are involved in informal gatherings at high-traffic taxi and train stations to educate consumers in managing their finances.

It can be inferred from these findings that there is acknowledgement that assessing the level of financial education has a considerable impact in ensuring that appropriate knowledge and skills can be provided to customers. A small number of respondents indicated that knowledge cannot be assessed, suggesting that there are still some bank employees that do not see the significance of

assessing customer financial education and will not provide financial education even if it is necessary to the customer.

6.3.5.3 Findings on the methods used by customers to educate themselves about managing their finances

The findings of open-ended research question 28 depict respondents' perceptions on methods used by customers to educate themselves about managing their finances. These findings are depicted in Table 6.20.

Table 6.20: Findings on the methods used by customers to educate themselves about managing their finances

Codes	Description	Occurrences	%
FINLIT:	Work according to a budget and only spend money after all monthly obligations have been met. Keep record of their affairs either completion of spreadsheet or keeping and book to determine expenses and income. Formulating and sticking to a financial plan. Understanding expenses and income. Create and emergency fund. Save for retirement. Clients do financial analysis with bankers, especially in the agro market whereby clients do their cash flows with bankers. This gives them the opportunity to see where they are financially. Also make sure affordability is in place when interest rates increase. Avoid borrowing for food and clothing and rather have a budget and stick to it. Borrowing to pay for living expenses.	290	57%
NOTSURE:	None. Not sure if there are any methods considering the state of debt of consumers. Calling bankers for advice - not always taking the specific advice	96	19%
NETADVERT:	So many internet banking, consultants' colleagues/ friends etc. They can just google and educate themselves a bit more. Consulting their banks and information on internet. There will be a part of the market that is financially literate and able to educate themselves through information on the internet and comparisons between products and institutions, but there will also be a part of the market that is not financially literate and not even aware of the importance of financial management. Majority of customers listen to radios and watch to programs. Clients mostly talk among themselves. Their school/university education. Family. News. Media. Enquiries at banks, word of mouth & advertisements in the media. Books, magazines.	90	18%
CRDSCO:	By checking their credit scoring and paying their accounts up to date. Customers most of them don't really have a plan they will start with a really good plan but when it does not work out they have no idea what to do. There exist various platforms from the Enterprise Development agencies. The banks also does have the same and just needs to be activated.	33	6%

Findings can be summarised as follows:

- A significant number of respondents (57 per cent) indicated that *financially literate* customers ensure that they understand fully their financial situation so that whatever decision they take, it will be taken within their financial means. From there they set financial goals and budgets. Some customers use the services of a financial manager or advisor

that is qualified or work closely with an auditor/bookkeeper (for example, monthly management statements and budgets). Some customers try to avoid borrowing for food and clothing or borrowing to pay for living expenses, while other customers save on bank charges, living within their means and keeping a good credit score by ensuring debts are paid on time. Respondents indicated the following:

  - Many customers are not financially literate and do nothing about it. Those who frequently consult with their bookkeeper/auditor/ financial advisor, in assessing past financial outcomes, planning for future financial goals and how to reach them, are doing better than the average. Some customers work according to a budget and only spend money after all monthly obligations have been met. Keep record of their affairs either completing spreadsheet or keeping a book to determine expenses and income. Formulating and sticking to a financial plan. Understanding expenses and income. Create and emergency fund. Save for retirement. Clients do financial analysis with bankers, especially in the agricultural market whereby clients do their cash flows with bankers. This gives them the opportunity to see where they are financially and also to make sure affordability is in place when interest rates increase.

- Some respondents (19 per cent) were not sure as to whether there are any methods that consider the state of debt of consumers.
- Other respondents (18 per cent) also indicated that customers use the *Internet and google searches, radio* and *television* to learn more about financial matter or educate themselves in financial management. They also learn through bank consultants, colleagues and friends. Some respondents (six per cent) indicated that customers educate themselves financially by *checking their credit scoring* and paying their accounts up to date, but most customers do not have a plan or they will start with a plan but when it fails they do not know what to do.

It can be inferred from these findings that customers use bank employees, financial advisors, accountants/bookkeepers, the Internet, radio, television and media to educate themselves about managing finances. Some customers educate themselves by checking their credit scores and ensuring they keep a good score and pay their obligations on time. Some were not sure and did not think customers are educating themselves based on the state of their debt levels, and believed that even when advice is provided to customers they do not always take the advice provided. These findings indicate that there are many options available to customers to educate themselves about managing finances, which are not being implemented adequately by both the credit providers and customers.

6.3.5.4 Findings on whether commercial bank offers financial education to their customers

The findings of research question 29 depict respondents' perceptions on whether the commercial bank offers financial education to their customers. Figure 6.8 shows that the majority of respondents (75 per cent) either agreed (41 per cent) or strongly agreed (34 per cent) that the commercial bank offers financial education to its customers. A quarter of the respondents (25 per cent) were either undecided (20 per cent) or did not believe (five per cent) that financial education is offered. These findings suggest that the majority of bank employees are of the view that financial education is offered to customers of the commercial bank.

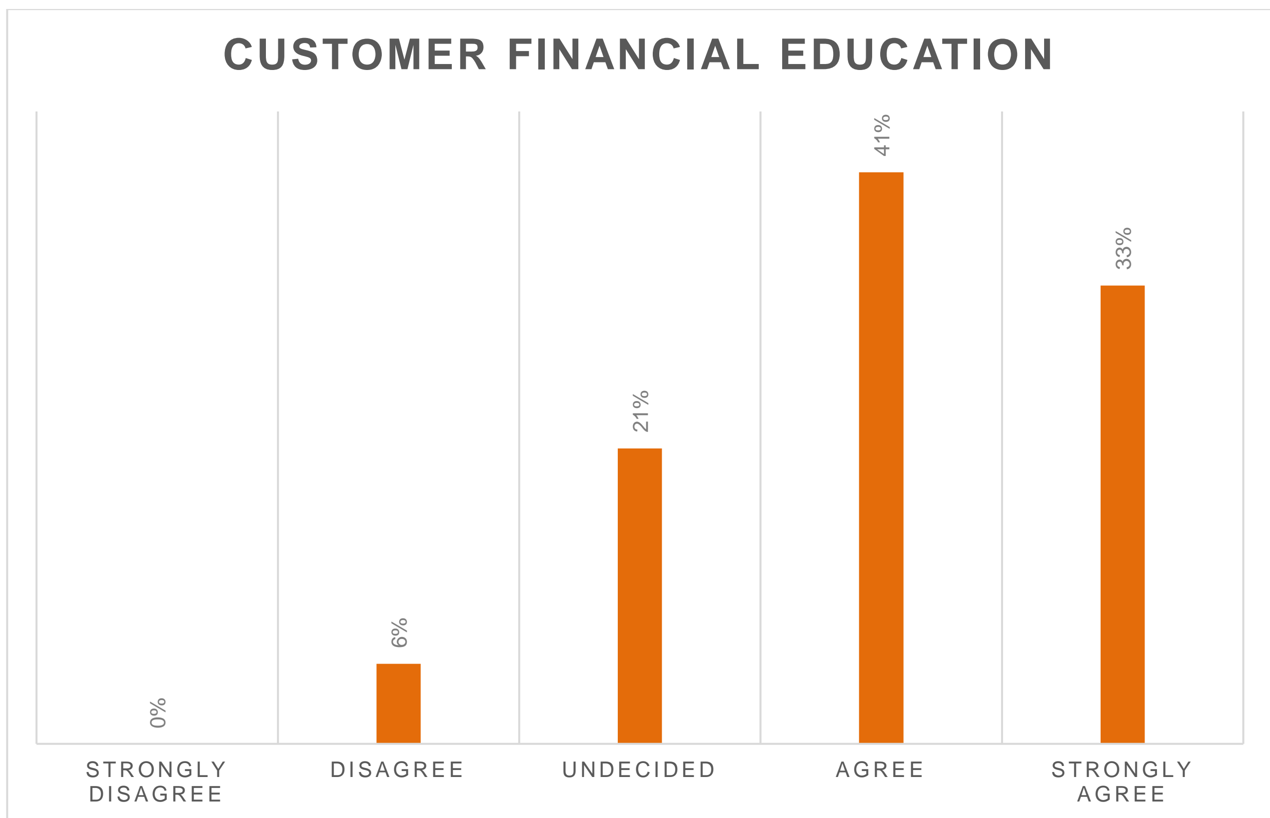


Figure 6.8: Findings on whether the commercial bank offers financial education to its customers

These findings support the empirical evidence by De Clercq (2009) that the ability to manage finances is one of the most important skills that anyone can acquire. It is critical to have the ability to understand finances, the risks and potential rewards of financial investments together with the range of available financial products to assist customers achieving their financial and life goals.

It can be inferred from these findings that financial education may be offered to customers, but not all customers are receiving financial literacy. This may result in customers who are financially

illiterate falling into debt they do not understand resulting in defaults and increasing the credit risk in the unsecured lending market.

6.3.5.5 Findings on the methods used by the commercial bank to offer financial education to its customers

The findings of open-ended research question 30 depict respondents' perceptions on the methods used by the commercial bank to offer financial education to their customers. These findings are depicted in Table 6.21.

Table 6.21: Findings on the methods used by the commercial bank to offer financial education to its customers

Codes	Description	Occurrences	%
TRAINSTAF:	Well trained staff to give the right information and also a good Internet Banking platform where they can read up on different product/features. The commercial bank has pamphlets and give training to its stuff members and consultants can educate client as there are giving advices. Explaining the reasons why financing is being declined. If a client wishes to open a product they will be given information on the product and how it works, and competitive products that it can be compared to. Banker must be FAIS compliant. To educate the client on the best finance product for his need. I think if a client is at Private bank the whole offering for the client with the financial adviser. In the agro environment, client's cash flow budgets are evaluated and discussed with them, to point out what works for the budget, what does not work or what might work better. There are programs that is offered to clients run by the commercial bank. Staff explaining products.	283	56%
PRESENTA:	Via contact sessions were there is a facilitator who takes the customers through a module on Financial Literacy. Online self-learning module offered under the program "ready to work". Work place banking / social responsibility workshops. In branch consultants bankers' education and also the external team to group discussions and also events and social media networks.	55	11%
NOFINLIT:	I am very much undecided on this matter, yes they do offer adequate information on the products and its target markets but have not encountered a session or print material on financial education. The only financial education that the commercial bank has provided is that of trainings through enterprise development department where SMMEs are selected to participate in a class room training. The commercial bank is not aggressive in the advertising of the support. We have a financial program in Enterprise space… not sure how it works.	34	7%
N/a	N/a	137	27%

The findings can be summarised as follows:

- A significant number of respondents (56 per cent) indicated that the commercial bankhas *well-trained staff* to offer correct information and that it also has a good Internet banking platform where customers can read up on different product and features. the commercial bank gives training to its staff members and consultants to enable them to educate

customers as there are giving financial advice daily. The commercial bank employees also educate customers when explaining the reasons for financing being declined and, when a customer is interested in the commercial bank products; a customer will be given information on the product and how it works, and competitive products that it can be compared to. The commercial bank employees marketing financial products must be Financial Advisory and Intermediary Services (FAIS) compliant to educate their client on the best finance product for their needs Respondents indicated that:

  - The bank has highly skilled staff members (bankers and financial planners), the commercial bank have product-specific offerings with detailed brochures. In the agricultural environment, customers' cash flow budgets are evaluated and discussed with them, to point out what works for the budget, what does not work or what might work better.

- Some respondents (11 per cent) also indicated that customers are offered financial education – *online* and through *presentations.* There are programs for customers that are offered by the commercial bank. Respondents indicated that the financial education methods included contact sessions using a facilitator who guides customers through a module on financial literacy; on-line self-learning modules; and workplace banking and social responsibility workshops.
- Some respondents (seven per cent) highlighted that they were *not aware* of customer financial information offered by the commercial bank to its customers and other respondents (27 per cent) left the research question blank. The respondents indicated that
  - I am very much undecided on this matter, yes they do offer adequate information on the products and its target markets but have not encounter a session or print material on financial education. The only financial education that the commercial bank has provided is that of trainings through enterprise development department where SMMEs are selected to participate in a classroom training. the commercial bankis not aggressive in the advertising of the financial support.

These findings support the empirical findings by Sewell (2011), which found that major banks are involved in some form of financial education, but the scale compared to what they spend on advertising unsecured lending is disproportionate. The respondents in this research who indicated that no financial education is offered, support this view.

It can be deduced that many of bank employees agree that the commercial bank has well-trained employees to offer financial education and that the bank also has online platforms for this purpose. There is a quarter of respondents that did not agree that financial education is offered; it can be

inferred from these findings that not all employees are aware of the financial education offered at the commercial bank and may result in these employees not offering financial education to customers.

6.3.5.6 Findings on whether the commercial bank offer employee financial education

The findings of closed-ended research question 31 depict respondents' perceptions whether the commercial bankoffers financial education to their employees. Figure 6.9 shows that the majority (79 per cent) of the respondents are in agreement with this view, with 45 per cent of them who agreed and 34 per cent who strongly agreed that financial education is offered to employees. This result indicates that the majority of bank employees receive financial education. A minority of the respondents disagreed (13 per cent) and eight per cent were undecided, which means that even though financial education is offered to employees, not all of them have been provided with financial education.

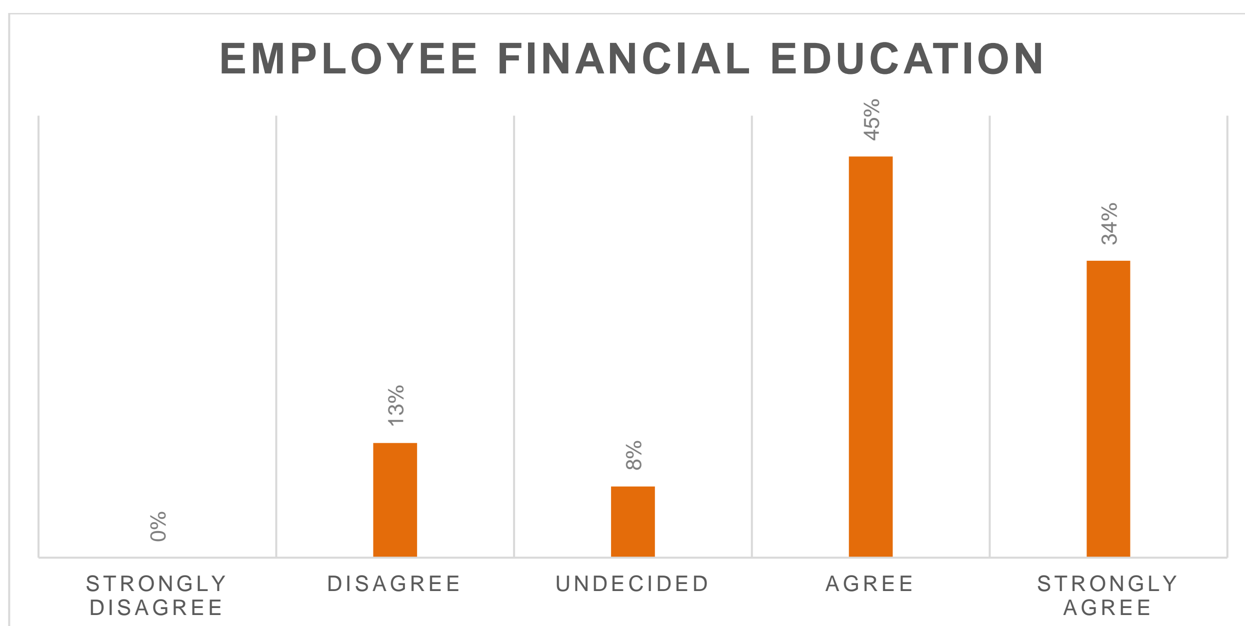


Figure 6.9: Findings on financial education of employees

The findings support the empirical evidence by Dilotsotlhe (2013) suggesting that financial education cannot be underrated as it is critical in ensuring consumers to conserve their wealth. It is therefore important to ensure that employers, especially financial institutions, offer financial education to their employees. The Financial Working Group (2017) shows that most employers agree that financial difficulties have an impact on workplace performance. Both employers and employees agree that employees would manage their finances better if they knew where to go for help and guidance when the need arises. Therefore, financial institutions should be better at ensuring financial education, not only to their customers but also to their employees.

It can be inferred from these findings that most employees receive financial education at the commercial bank, which can assist them in managing their own finances and help them to educate their customers to manage their finances better. However, the finding that some employees have not received financial education can lead to employees not being equipped to manage their own finances, and also not being able to educate customers about their finances either.

6.3.5.7 Findings on the methods used by the commercial bank to offer financial education to its employees

The findings of open-ended research question 32 depict respondents' perceptions on the methods used by the commercial bank to offer financial education to its employees. The findings are depicted in Table 6.22 below.

Table 6.22: Findings on methods used by the commercial bank to offer financial education to its employees

Codes	Description	Occurrences	%
CPD:	Yes they do. As per the Financial Service Conduct Authority (FSCA), credit providers such as the commercial bank must regularly train employees on what the FSCA calls the Continuous Professional Development (CPD) initiative so that the employee is seen as fit and proper. the commercial bank does so through organizing class room style training or sometimes they offer the online training programs for their employees to complete at a strict deadline. Training (official and on the job), exposure to customers & direct contact with credit sanctioners & experienced colleagues. In order to work for the commercial bank, an employee's financial position must be healthy and in order with no adverse records. Compulsory training (depending on your role) must be completed by the employee to ensure that they are in a position to provide the correct advice and also management their own financial affairs accordingly.	297	58%
EMPLOCARE:	It is offered through the Employee care HR. Wellness centre. Human resources and Staff banking department conducts annual financial education initiatives with employees to help them keep abreast of financial developments. Budgeting and if over indebted they offer staff loan consolidations. staff consolidation where staff need to go through staff banking and ICAS	53	10%
SELFDEV:	Self-development options and also in-house training. Sharing best practices. the commercial bank requires staff to understand their own financial position and have regular courses to assist in gaining the knowledge towards being in control of your finances. Online Training. We also have training courses that we can apply for that the commercial bank does in-house. We can also request bursaries from the commercial bank to study at a university. Banking related, financing courses. Only ones I had was in the internal agro environment where we gave and received training. We normally get emails and memos which are not helping, videos, workshops could be better	40	8%
NOTOFFER:	Not offered but one will have to talk to someone or search for answers	14	3%
N/a	N/a	105	21%

Findings can be summarised as follows:

- A significant number of respondents (58 per cent) indicated that financial education is offered to employees. This is done as per the Financial Service Conduct Authority (FSCA), which recommends that credit providers such as the commercial bank should regularly train their employees in what the FSCA calls the *Continuous Professional Development (CPD)* initiative so that employees are seen as 'fit and proper'. The commercial bank does so through organising classroom-style training or sometimes they offer online training programs to their employees that must be completed at a strict deadline. Employees are also required to have a healthy financial position when employed at the commercial bank and throughout their employment. Respondents indicated that:
  - There is a training on system and workshops as things changes so that the commercial bankemployee stay updated. There are educational programs and our systems are updating us to make sure that we are equipped with knowledge, online training programs and also meetings with team members. Training (official and on the job), exposure to customers and direct contact with credit staff members and experienced colleagues. In order to work for the commercial bank, an employee's financial position must be healthy and in order with no adverse records. In order to give the correct advice to clients, the employee should understand the importance of financial management. Compulsory training (depending on your role) must be completed by the employee to ensure that they are in a position to provide the correct advice and also management their own financial affairs accordingly.
- Some respondents (ten per cent) also indicated that financial education is offered through *employee wellness and care* within the commercial bank's Human Resources Department. Respondents indicated that 'it is offered through the employee care and wellness centre. Human resources and staff banking department conduct annual financial education initiatives with employees to help them keep abreast of financial developments. Budgeting and if over indebted they offer staff loan consolidations. Staff consolidation where staff need to go through staff banking and ICAS'.
- Only a few respondents (three per cent) indicated that is *no methods are used to offer* financial education and some respondents (21 per cent) *did not answer* the question on the methods used.
- The remaining respondents (eight per cent) indicated that the methods used to offer financial education are more *self-driven,* mostly online and employees are expected to learn and educate themselves:

- Self-development options and also in-house training. Sharing best practices. The commercial bankrequires staff to understand their own financial position and have regular courses to assist in gaining the knowledge towards being in control of your finances. Online Training. We can also request bursaries from the commercial bank to study at a university. Banking related, financing courses. Only one I had was in the internal agricultural environment where we gave and received training. Employees can do Training on the system where programs are available. We normally get emails and memos which are not helping, videos, workshops, could be better. Internal training channels - on the commercial bank Learning. Employees are in the trade and faced with numerous training and exposed to sessions of training. Regular internal e-learning training courses and a training department which present different type of financial courses.

These findings support the empirical evidence by Kallinowsky (2008) that flexible teaching methods that appeal to respondents should be employed. Regular educational and awareness talks should be conducted to keep employees abreast of current financial trends. These programs should ensure that knowledge imparting to fellow colleagues and children is critical. From an over-indebtedness and credit management point of view, the literature has shown that there is a link between personal and financial problems and employee productivity. Work-related stress, burn out, a lack of engagement, low morale, diminished productivity, and increasing sick leave days are the primary drivers of implementing wellness programs throughout the world (Bowman, 2008).

It can be inferred from these findings that financial education is offered to the commercial bank employees as part of their continuous development and furthermore that the commercial bank requires employees to maintain a healthy financial position as they work with the finances of their customers. Before an employee is hired, a background check is done to ensure they have a healthy financial position. Should the employee struggle to repay their debt during employment, they are offered assistance through the Human Resources Department to rehabilitate them back to a healthy financial position. Further support is given through employee care and wellness programs and the Human Resources Department offers annual financial programs to help employees keep abreast of financial developments. There is also an option for self-driven financial education offered online with videos and workshops. The respondents who did not agree that financial education is offered take responsibility by indicating that they will be talking to someone to find out how to obtain financial education.

6.3.6 Areas where consumers need to be educated to ensure sustainably in the unsecured lending sector

The fifth section of the questionnaire contained research questions on respondents' perceptions on areas in which South African consumers need to be educated in order for credit providers to lend more sustainably in the unsecured lending sector. The findings on the following research questions will be discussed: the impact that teaching customers in managing finances have on how they manage their finances administering financial education formally, informally, at community level, through government agencies or by any other means and the reasons for methods chosen to administer financial education; the most common language(s) that credit providers use when explaining financial choices to unsecured lending customers; the impact of the language that credit providers use when explaining financial choices to unsecured lending customers; customers who are financially literate being better off in taking advantage of financial opportunities or innovations and reasons thereof; offering unsecured lending to groups of customers applying together (group lending); the customer's culture and community affecting credit decisions by customers; the main goods and services that unsecured lending customers use unsecured loans for; bankers knowing more about managing finances than their customers and the reasons thereof; and the impact of financial education on unsecured lending defaults.

6.3.6.1 Findings on the impact that teaching customers in managing finances have on how they manage their credit

The findings of research question 33 depict respondents' perceptions on the impact that teaching customers in managing finances have on how they manage their credit. These findings are depicted in Table 6.23., and can be summarised as follows:

- A significant amount of respondents (60 per cent) indicated that when a customer has more knowledge they tend to make *better informed financial decisions*. Informed customers are also perceived by respondents to be more cautious, as education has the ability to change a customer's attitude towards credit, making them less reckless. By understanding how to manage their finances customers will live a better and fulfilling life. They will think twice before they take up credit. Financial education prevents financial stress. When customers know how to manage their finances they will also know how to pay their debt and have a good credit score and even save money. Respondents indicated that:
    - Positive impact as to manage personal finances. Customers with less knowledge about finances will not even consider on settling debt early whereas more education would have given themselves more options. The client will be more in control, will make better decisions. They will be able to take more considered, educated and planned decisions. Customers will be more disciplined and avoid over spending.

The better understanding there is with regard to proper financial management, the better the credit record will be. Proper financial management (which is an outcome of understanding financial management) is crucial when it comes to repaying debt. Education provides clients with the skills and knowledge to know how to go about managing their finances. Customers will be more conservative on how they spend their money. Will stick to a budget. Will establish an emergency fund. Take calculated risk. Good financial practices/managing personal income & expenses, lead to better financial decision-making and good credit profile. Change is not nice to everyone, when you have to change how you usual do things its tough.

Table 6.23: Findings on the impact that teaching customers about managing finances have on how they manage their credit

Codes	Description	Occurrences	%
BTTERDEC:	The better a client's knowledge the better informed decisions can be made. They are more cautious, can also change their attitude towards credit, making them less reckless. By understanding how to manage their finances they will live a better fulfilling life. They will think twice before they take up credit. Prevents financial stress. When they have the knowledge to control their finances they will know how to pay their debt and have a good credit score. Positive impact as to manage personal finances. Customers with less knowledge about finances will not even consider on settle a debt early whereas more education will would have giving you more options. The client will be more in control, will make better decisions and even save up money in investments.	304	60%
RISKAPP:	If customers can manage debt, the banks will be willing to be more risky and approve more loans. Clients going into arrears will be less. This will be a great advantage to both our clients and the institute. good credit rating at the bank and credit bureau -	90	18%
ASSIST:	The impact of teaching customers about managing finances can assist them in their credit repayments which will be beneficial to credit providers. Most SMMEs for example are not taught by the bank that they should separate their business account from their personal spending needs. As a result, when they receive payments for work done, they prioritize self-expenses over loan repayments and other important business needs. With proper education the client will stay within their agreements and have good credit records granting them access to further growth and wellness. Clients will be able to make wise decisions in terms of the credit offered to the clients. Most times it makes them aware of their financial mistakes & learned behaviours that need correcting. They become much more aware of calculating their own affordability.	79	16%
OVERSTEP:	Some clients take these discussions to heart and implement, while others think that we overstep.	18	4%
SCHOOLIMP:	If education starts at school level, it might have an impact, otherwise, if young adults have learned to spend recklessly, it might be difficult to change their ways.	18	4%

- Some respondents (16 per cent) also agreed that the impact of teaching customers about managing finances can *assist* them in their credit repayments and in reducing credit risk, which will be beneficial to credit providers. Respondents indicated that:
    - Most SMMEs, for example, are not taught by the bank that they should separate their business account from their personal spending needs. As a result, when they receive payments for work done, they prioritise self-expenses over loan repayments and other important business needs. With proper education the client will stay within their agreements and have good credit records granting them access to further growth and wellness. The advisor should have a financial education discussion with each client for any new credit application. Most of the time it makes them aware of their financial mistakes and learned behaviours that need correcting.
- Some respondents (18 per cent) indicated that financial education helps customers to manage their credit better leading to *credit providers willing to take more risks* and lend more money to these customers: Respondents indicated that:
    - If customers can manage debt, the banks will be willing to take more risks and approve more loans. This will be a great advantage to both our clients and the institute. Good credit rating at the bank and credit bureaus.
- Lastly, respondents (four per cent) indicated that education at *school level* can be more effective and also that some customers normally listen to financial advice and education while other customers think that *bank employees overstep their mark* when they talk about financial literacy and financial management. Respondents indicated that ‘some clients take these discussions to heart and implement, while others think that we overstep. If education starts at school level, it might have an impact, otherwise, if young adults have learned to spend recklessly, it might be difficult to change their ways’.

These findings corroborate the empirical evidence that financial education is one of the methods along with legislation to manage credit risk of over-indebtedness in the unsecured lending market (IMF, 2013). Education on financial issues is considered to be crucial for each individual to make important financial decisions on budgeting, saving, investing in assets and preparing for retirement. Individuals with financial knowledge can make personal decisions about matters within their control such as budgets, career choices, liabilities and assets, income and expenditure and whether to pay cash or credit for goods and services (Masilo & Marx, 2016). Financial education is believed to perform a vital task in making certain that individuals are savvy and prudent in making financial decisions (OECD, 2006). Individuals with a moderate degree of financial understanding tend to make better informed financial choices. Financial education should be used by lenders to build and maintain a strong relationship with borrowers (Moss, 2012).

It can be inferred from these findings that it is critical to teach customers about finances as it will lead to better informed financial decisions made by customers, less credit risk and credit providers willing to extend more debt to customers. Financial education is advantageous for both the customer and the lender as it will lead to both being able to have a trusting relationship because of the understanding of the impact of better financial decisions. There is significant backing for the idea that financial education should be started early in life, especially at school level, as some customers do not listen to bank employees teaching them about finances and think that bank employees are overstepping their roles.

6.3.6.2 Findings on whether financial education should be administered formally

The findings of closed-ended research question 34 depict respondents' perceptions on whether financial education should be administered formally through a school curriculum, formal classes or workshops. Figure 6.10 shows that all respondents either strongly agreed (74 per cent) or agreed (26 per cent) that financial education should be offered formally.

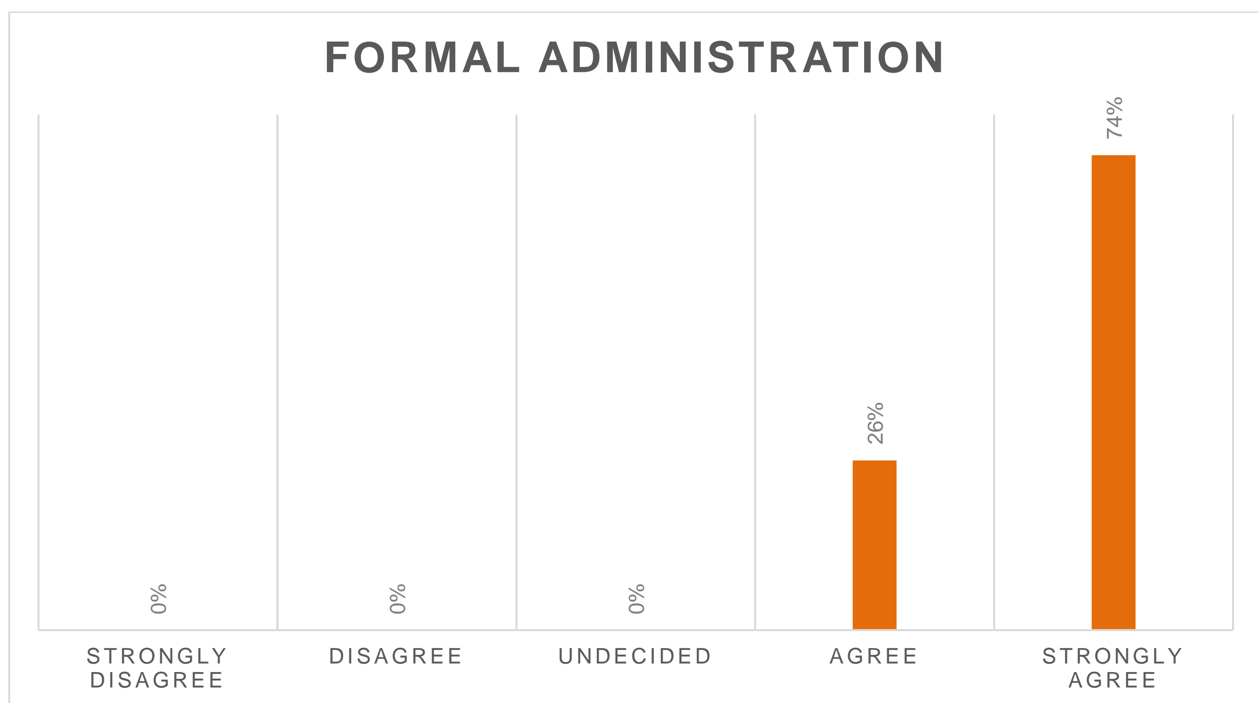


Figure 6.10: Findings on formal financial administration

These findings are in line with empirical evidence by Hoosain (2012) suggesting that it is crucial to enhance the financial education of the youth early in their lives so that they can comprehend financial matters at an early age. Furthermore, financial education has a positive impact on individuals who are entrepreneurs. Masilo and Marx (2016) also suggested that the Department of Education in conjunction with the NCR should add individual financial literacy as a subject as a portion of the school curriculum at school level; this is owing to the fact that there is a definite

requirement for a financial literacy model in the school curriculum. The personal financial literacy subject must be basic and imparted in an easy-to-understand language. .

From the above findings, it is evident that the need for formal financial education at school level cannot be underestimated. It can further be inferred that there is strong support for financial education to be part of formal administration as being part of the school curriculum.

6.3.6.3 Findings on whether financial education should be administered informally

The findings of closed-ended research question 35 depict whether respondents support the informal offering of financial education, i.e. through family members and friends who are knowledgeable about personal financial management. Figure 6.11 shows that the vast majority (82 per cent) agreed, with 44 per cent who strongly agreed and 38 per cent who agreed that financial education should be administered informally. The results indicate that although the majority of bank employees agree that financial education can be administered informally, there are a few who are opposed to informal administration, preferring formal offerings.

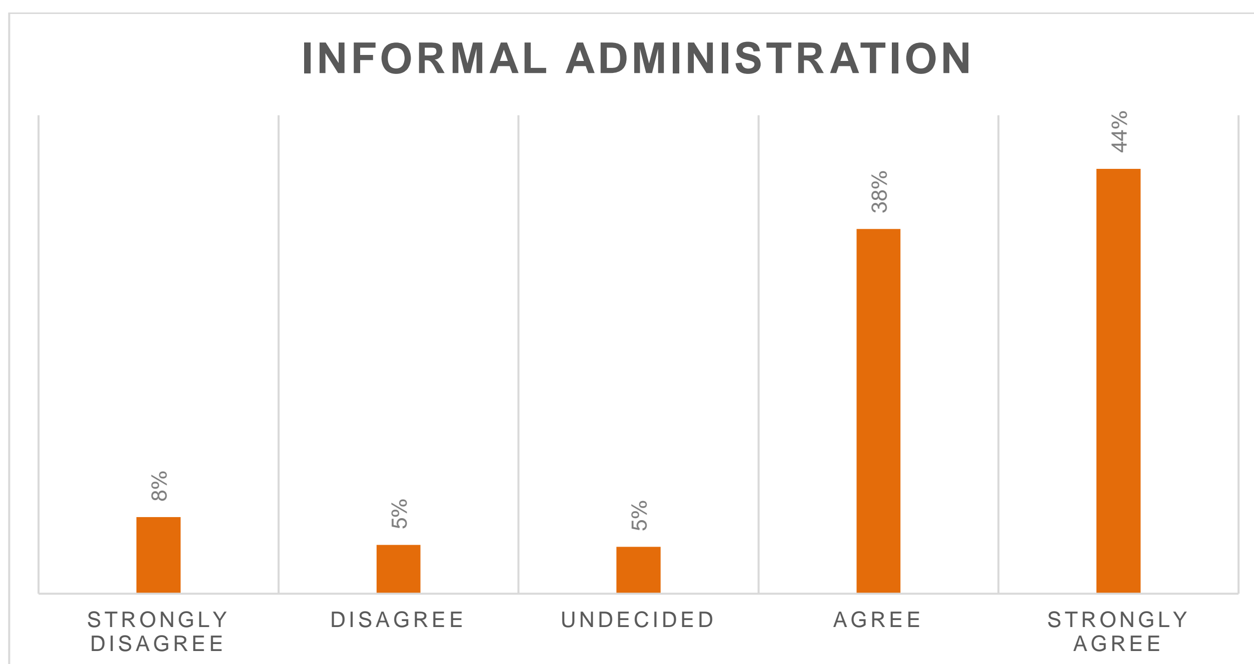


Figure 6.11: Findings on informal financial education

The findings support the empirical evidence by Moss (2012) indicating that for some consumers learning about finances may be best coming from informal networks of family and friends who have an understanding banking products, charges as well as employing a simple language understood by the community. Peer-to-peer support can be used effectively by deliver financial literacy to a community of people re-enforcing positive peer pressure to keep the group on track of financial well-being. Social influence is critical in ensuring that behavioural change is successful as the

group is likely to follow each other when they see positive changes are happening among themselves.

It can be inferred from these findings that there is an opportunity for financial education to be informally offered in the country using friends, family members and fellow employees as well as other people who are knowledgeable about financial matters.

6.3.6.4 Findings on whether financial education should be provided at community level

The findings of closed-ended research question 36 depict whether financial education should be provided at community level through workshops, community organisations and NGOs. Figure 6.12 shows that the majority (97 per cent) of the respondents agreed, with 60 per cent of them who strongly agreed and 37 per cent who agreed that financial literacy can be administered at community level. This indicates that the majority of bank employees agree that financial literacy can be provided at community level.

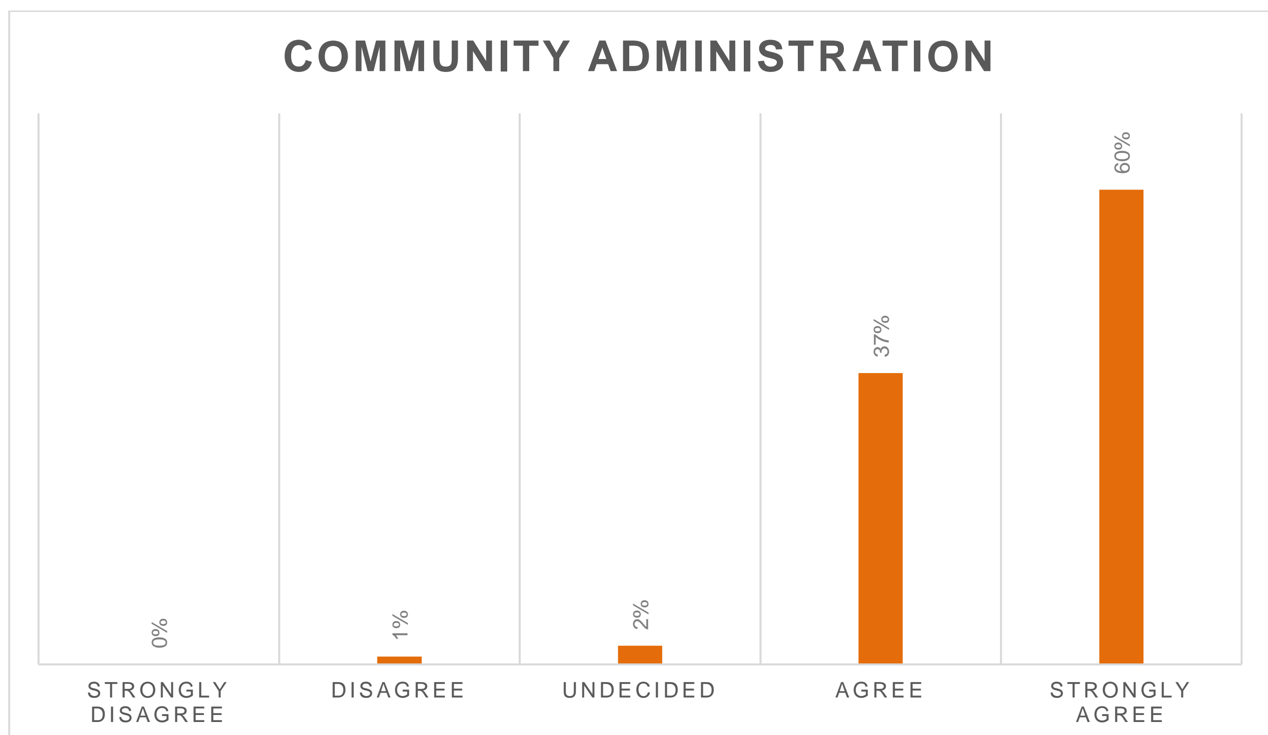


Figure 6.12: Findings on financial education at community level

These findings support the empirical evidence by Ping and Yan (2014) emphasising the importance of taking into account how individuals perceive and understand finance in the community context (locally) to ensure positive behavioural change is achieved. Financial education should be in touch to the ground realities and should adhere to specific norms, values and

conversations. These factors are influenced by social history and context, and are powerful sets of beliefs that dictate how community members interact with one another to maintain group dynamics. Failure to understand these dynamics has led to many financial education programs failing to achieve the desired results that are critical in influencing social change. Community groups, organisations and group members closer to the community are best suited to understand these ground realities and would have a greater impact on financial education than those individuals or organisations who are not members of the community.

It can be inferred from these findings that there is an opportunity for financial education to be informally provided through community members, community groups and NGOs.

6.3.6.5 Findings on whether financial education be administered by government agencies

The findings of closed-ended research question 37 depict whether respondents perceptions the provision of financial education by government agencies. These findings are depicted in Figure 6.13.

The vast majority (90 per cent) of respondents either strongly agreed (50 per cent) or agreed (40 per cent) that financial education can be offered by government agencies. This indicates that the majority of bank employees agree that government can play a role in advancing financial education in South Africa.

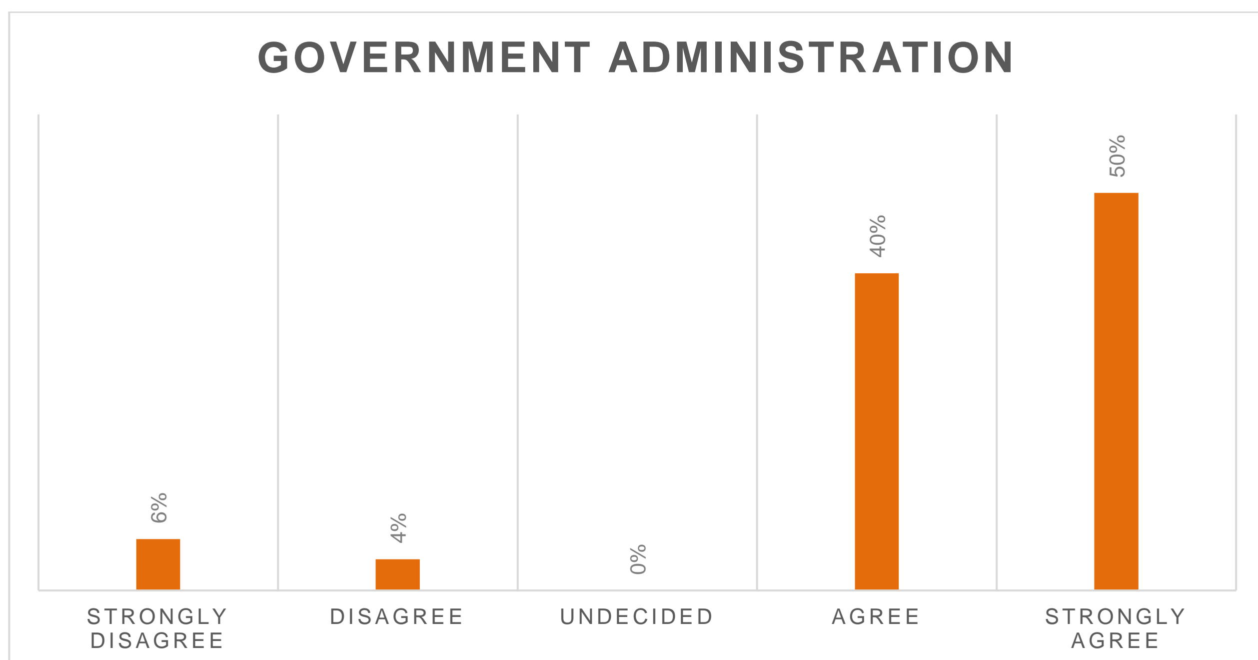


Figure 6.13: Findings on financial education administered by government agencies

This supports the empirical evidence that government is a critical role player in advancing financial education, creating a conducive environment for financial education to thrive. Policymakers need to ensure that they bring financial education to the constituencies they represent (Shuttleworth, 2011). The South African government through the NCR has been hosting educational workshops and information-sharing sessions with communities, trade unions, business chambers and many other role players. Government departments, traditional authorities, media, community based organisations (CBOs) and NGOs have been targeted to advance financial education campaigns (NCR, 2013).

It can be inferred from this finding that there is strong support for government involvement in administering financial education.

6.3.6.6 Findings on whether financial education should be administered by any other means

The findings of closed-ended research question 38 depict whether respondents support provision of financial education by any other innovative means not indicated above. These findings are depicted in Figure 6.14.

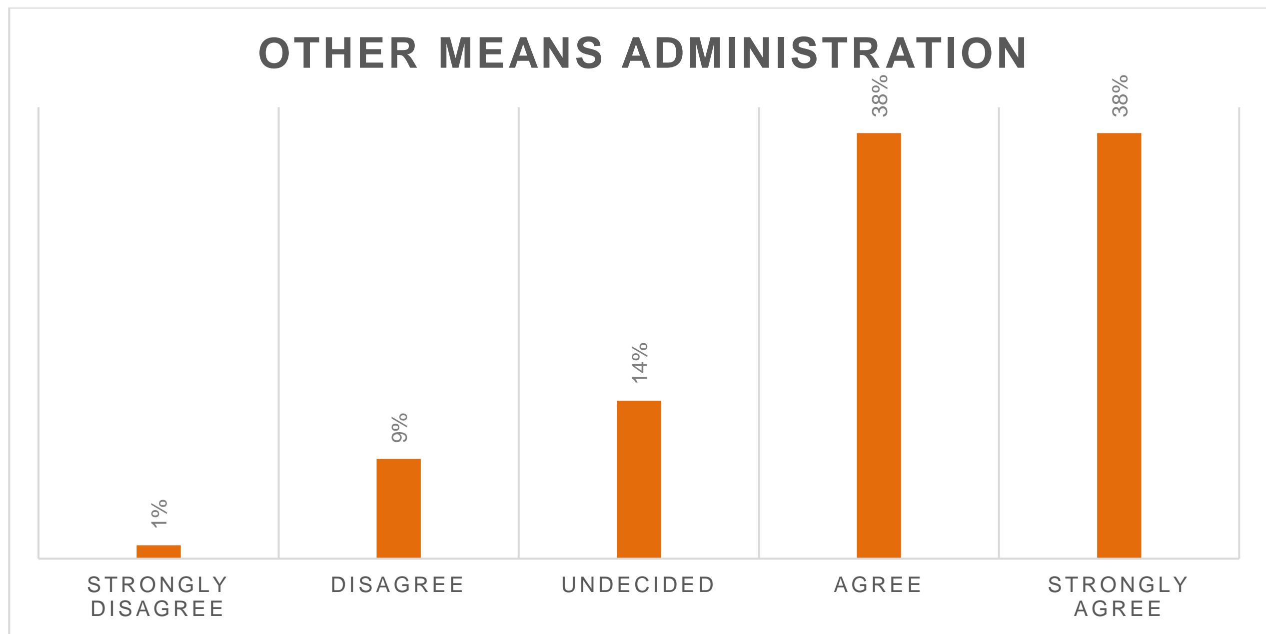


Figure 6.14: Findings on financial education any other means

The majority of respondents (76 per cent) either agreed (38 per cent) or strongly agreed (38 per cent) that financial education can be administered by other means. Only nine per cent disagreed and 14 per cent of the respondents were undecided. This finding indicates that the majority of respondents concur that other means can be used to educate unsecured lending customers.

These findings support empirical evidence that suggests that more innovation is needed in advancing financial education to ensure that as many individuals as possible accept the concept of being financially educated. Financially literate consumers are believed to make better financial decisions when relevant innovative information is provided to them. Studies show, for instance, that consumers lacking financial knowledge and education tend to save less, especially for their retirement, take less advantage of financial innovations, borrow at high interest rates and tend to be more over-indebted than those who are more financially literate (HKSFL, 2015).

It can be inferred from these findings that other innovative means need to be employed to ensure the provision of financial literacy to as many people as possible.

6.3.6.7 Findings on the reasons financial education should be administered

The findings of open-ended research question 39 depict responses on the reasons financial education should be offered in South Africa. These findings are depicted in Table 6.24 below and can be summarised as follows:

- Forty per cent of respondents indicated that *sharing more information* will result in consumers making better choices. Providing financial education can lead to less bad debt and lower debt levels in the community. The more people who are financially educated the better their decisions will be regarding credit. Financial education can ensure that a healthy economy is encouraged. Financial education can teach people how to save, to plan for their retirement, and make good investments and how to cope with their salaries. It will prevent them from being over-indebted. Respondents indicated that:
    - It is essential for individuals to understand financial literacy. How to manage money with confidence and allocate funds to goals and limiting debt. Most of the South African population is not confronted in having to know financial management. These are the potential clients of the future and that of the bank. Therefore to have a good economy it is pivotal that the people in South African are educated correctly. If all consumers are educated on the basic of credit lending/credit behaviour it leaves little room for failures. Understanding your current financial condition. Develop personal and financial objectives. Formulate and stick to a financial plan. Create an emergency fund. Save for retirement. Employers should have a financial fitness program for employees.

Table 6.24: Findings on the reasons financial education should be offered

Codes	Description	Occurrences	%
MORINF:	The more info shared the better the choices consumers can make. Less bad debt and also less high debt levels in the community. The more people are financially educated the better their decisions will be regarding credit. To encourage a healthy economy. Financial education can teach people how to save. How to plan for their retirement, make good investments and how to cope with their salaries. It will prevent them from being over-indebted. How to manage money with confidence and allocate funds to goals and limiting debt. These are the potential clients of the future.	206	40%
CORADMIN:	All the above are pivotal in ensuring that financial education is administered correctly. My opinion is to have education administered in stages, at school / university - those whom has access to these facilities. Then education by the employer - just basics when salary gets paid - give some direction with budgeting tips. In a perfect world - formal administration would be 1st prize. Financial education should be administered by qualified People/ Organisation accredited by SAQA or that are in the Financial Industry. There should be a standardised formal modules accredited by SAQA.	125	25%
EARLIER:	Earlier education can help the nation, streamline the economy also then assist Government in achieving their targets of saving and educating the nation on better living standards. The earlier and the more financial education is part of our day to day living whether at home in school or the outside it will just be beneficial to anyone to have know-how, when and what the reasons might be spent your money on. Education should start from a young age so I think it is better that it be implemented in schools, government institutions, etc.	78	15%
WRMOUTH:	Word of mouth & formal training becomes a learned culture and is easily adopted if it's normalised instead of it being treated like a science - which will make it only for a certain class of people. Although there is currently some forms of financial education by above authorities, it is not always applied. The Individual can decide what to do with the information offered. We have a history of bad debt in our community so I do not think that friends and family would necessarily give great credit advice.	28	6%
N/a	N/a	72	14%

- Other respondents (25 per cent) also indicated that all the above methods of administering financial education are pivotal in ensuring that *financial education is administered correctly.* In other words, education should be provided at any level by a person(s) who is qualified to provide financial education. The use of technology and awareness creation to reach as many people as possible is critical in delivering financial education effectively. Respondents indicated the following:
    - My opinion is to have education administered in stages, at school/university – those who have access to these facilities. Then education by the employer – just basics when salary gets paid – give some direction with budgeting tips. In a perfect world formal administration would be 1st prize. Financial education should be administered by qualified people/organisation accredited by SAQA or that are in the

financial industry. There should be a standardised formal modules accredited by SAQA. The more levels of financial education there are around us, from different sources, the better the knowledge will ‘sink in’ and make a lasting difference. Learn by repetition is knowledge best remembered. Advertising is critical and use of technology such as apps to foster financial education. Advertising on all media outlets to ensure financial education reaches as many people as possible. Affects most South Africans as many of them are over indebted.

- Some respondents (15 per cent) also asserted that education at an *earlier age* can help the nation, streamline the economy, and assist government in achieving their targets of saving and educating the nation on better living standards. Financial education will result in a society that acts less on impulse and more on planning, evaluating and budgeting. Providing financial education early will help customers to make important decisions early in their lives and help them to become financially independent. Respondents indicated that:
  - The earlier and the more financial education is part of our day to day living whether at home in school or the outside it will just be beneficial to anyone to have know-how, when and what the reasons might be spent your money on. Education should start from a young age so I think it is better that it be implemented in schools, government institutions, etc. We have a history of bad debt in our community so I do not think that friends and family would necessarily give great credit advice. Good financial planning and decision making should be introduced at school level, teach to act responsibly with finances. Families should teach children from an early age on how to manage finances. Financial education is crucial at an early age to ensure children grow with the understanding and make healthier financial choices earlier in life.
- Respondents (six per cent) indicated that *word of mouth and formal training*, as individuals becomes financial educated they will start educating others as well. Financial education becomes a learned culture and is easily adopted if it is normalised instead of being treated like a science, which will make it only for a certain class of people. Respondents indicated that education is important, suggesting that people are never too old to learn as there are always changes in the financial world:
  - Many customers only have minimal financial education and thus the reason for e.g. increase use of personal loans can lead to personal bankruptcies. Educate customers on the importance of financial planning and budgeting and keeping to the budget. Financial education will assist communities to make healthier financial choices and be relieved of the current over-indebtedness. It is the safe and quick

way to help clients to understand the risks involved. It will help the community and the students to learn about the finances, and in that manner most people will be able to manage their finances better.

- Lastly, respondents indicated that although there are some forms of financial education offered in South Africa, it is not always applied by individuals who receive financial education; individuals can decide what to do with the information offered sometimes applying financial education offered and sometimes not applying it.

It can be inferred from these findings that ensuring financial education is offered results in better informed consumers who make better financial choices. There is strong support for education to be provided at an early age, formally at school level to ensure consumers are aware and can apply better financial management from an early age. Informal education is also supported, through friends, informal networks and word of mouth can be effective as the language used is simple and consumers can easily grasp and relate.

6.3.6.8 Findings on the most common language(s) that credit providers use when explaining financial choices to unsecured lending customers

The findings of open-ended research question 40 depict respondents perceptions on the most common language(s) that credit providers use when explaining financial choices to unsecured lending customers. These findings are depicted in Table 6.25 below.

Table 6.25: Findings on the most common language(s) used when explaining financial choices to customers

Codes	Description	Occurrences	%
NCP	According to The NCA / CPA / etc.	3	1%
BAJ	Bank jargon	17	3%
ENG	English	461	91%
ENGAF	English and Afrikaans	13	3%
ENGCPL	English or in the client's preferred language	6	1%
SIMPLA	Simply language that the customer will understand, mostly English	9	2%

The findings can be summarised as follows:

- An overwhelming number of respondents (91 per cent) indicated that English is the most commonly used language. This means English is the most used language by bank employees during the loan application process.

Respondents who indicated that using a simple language supports the empirical evidence by Shuttleworth (2011) who suggests that financial education should be administered in a simple

language commonly used by consumers. As mentioned earlier, a clear requirement for an educational model for financial education in the school curriculum was recommended. This should be taught in a simple language that is commonly used and understood clearly by individuals. Financial literacy can also be incorporated in subjects such as Economics and Mathematics to create the link and improving individuals' ability to understand finances. When financial advice is provided, the language used is critical.

It can be inferred from these findings that bank employees are aware that the use of plain language that is easily understood is critical when financial choices are explained to customers. The fact that English is the most used language does not necessarily assist those customers who do not understand English and it does not make it easier for them to grasp financial choices because of the language barrier that might exist.

6.3.6.9 Findings on the impact of the language that credit providers use when explaining financial choices to unsecured lending customers

The findings of research question 41 depict respondents' perceptions on the impact of the language that lenders use when explaining financial choices to unsecured lending customers. These findings are depicted in Table 6.26 below. Findings can be summarised as follows:

- A number of respondents (42 per cent) indicated that the **impact of speaking the language the customer understands is positive**. Mother tongue or the language understood by customers is said to lead to fewer misunderstandings during communication. Some customers might not understand English or Afrikaans. If a customer does not understand fully it can lead to poor financial decisions. Personal relationships are fostered between customers and credit providers when the language used is understandable. Respondents commented:
    - Some English words are too deep to understand as a Xhosa or Sepedi-speaking person, hence a mother tongue can assist to mitigate the risk of misunderstanding. Language has a huge impact as some customers might find it difficult to understand English or Afrikaans. Very important that the customer understands fully what is explained to them. Understanding and how to deal with the information. Reckless lending can result if clients do not understand. The language will determine whether the client understands the financial choices explained. Confusion with clients who aren't necessarily educated with the facts provided. It's creating a personal relationship when speaking in the client's preferred language.

Table 6.26: Findings on the impact of language that credit providers use when explaining financial choices to unsecured lending customers

Codes	Description	Occurrences	%
IMPACT:	The impact of speaking the language the customer understands is positive. Some English words are too deep to understand as a Xhosa or Pedi speaking person, hence a mother tongue can assist to mitigate the risk of misunderstanding. Huge impact as some customers might find it difficult to understand English or Afrikaans. Very important that the customer understands fully what is explained to them. The client does not understand fully, and then makes poor decisions. Reckless lending. The language will determine whether the client understands the financial choices explained. Confusion with clients whom aren't necessarily educated with the facts provided. It's creating a personal relationship when speaking in the client's preferred language.	214	42%
LANGBAR:	There can be language barriers, which everybody does not understand. People will understand or they will not. When using a universal language it is important to determine if the client understands what is being explained. It is often not the first language of many customers and they might not understand everything explained to them. It becomes foreign and not understood - to a degree may mean not intended for them if they are not in their language of choice. We assume that the client do understand the meaning of the bank terminology and it can cause misunderstanding. Credit providers use a financial language and not all the customers do understand the language - it is important to make sure there is no misunderstanding	160	31%
EASYUND:	Important to explain in an easy and understandable level so that it is comprehensive and understandable. Language must be plain and basic, without banking jargon, otherwise the client will "get lost" amongst words they do not understand. To ensure that an applicant understands the terms, conditions rights etc. of a credit agreement. The most effective way is normally in a person's first language, especially when a person is not financially literate. It is important to speak in the language of the consumers choice to ensure effective understanding	135	27%

- Other respondents (31 per cent) indicated that using a universal language or language that is not the mother tongue of a customer may result in *language barriers*. Furthermore, bank language or bank jargon often leads to misunderstandings as credit providers assume customers understand, while they do not understand properly what is being explained. Respondents indicate that it:
    - Can be language barriers, which not everybody understands. People will understand or they will not. When using a universal language it is important to determine if the client understands what is being explained. It is often not the first language of many customers and they might not understand everything explained to them. It becomes foreign and not understood - to a degree may mean not intended for them if they are not in their language of choice. We assume that the client understands the meaning of the bank terminology and it can cause misunderstanding. Most customers don't understand business jargon. Unable to

    speak customers' mother language can cause wrong choices. Credit providers use a financial language and not all the customers do understand the language - it is important to make sure there is no misunderstanding.

- Other respondents (27 per cent) indicated that the impact of the language that credit providers use when explaining financial choices to unsecured lending customers is that it makes it *easy to understand* what is being discussed, especially with regard to terms and conditions on credit agreements. It also helps avoid bank jargon and a lack of true understanding is also avoided. Respondents indicate that:
    - Language must be plain and basic, without [using] banking jargon, otherwise the client will 'get lost' amongst words they do not understand. To ensure that an applicant understands the terms, conditions rights etc. of a credit agreement, it is important to make sure that the applicant fully understands you. The most effective way [to communicate] is normally in a person's first language, especially when a person is not financially literate. It is important to speak in the language of the consumer's choice to ensure effective understanding.

It can be inferred from these findings that the biggest impact of using the language understood by customers during the loan application process is that it helps avoid misunderstandings that can be caused by language barriers. Misunderstandings can lead to poor financial management, as well as non-adherence to the terms and conditions of the unsecured credit contract that were not properly understood.

6.2.6.10 Findings on whether financially literate customers are better equipped in taking advantage of financial opportunities or innovations

The findings of closed-ended research question 42 depict whether respondents perceive that financially literate customers are better equipped in taking advantage of financial opportunities and innovations compared to those customers who are not financially literate. Figure 6.14 shows that the majority (86 per cent) of the respondents either agreed (28 per cent) or strongly agreed (58 per cent) with this statement. This indicates that the majority of bank employees agree that financially literate customers are better equipped in taking advantage of financial opportunities or innovations.

This supports empirical evidence by Griffiths (2006) indicating that a lack of financial literacy and distorted financial information has largely disadvantaged consumers in that most consumers were found to lack adequate skills to understand, negotiate and manage financial agreements.

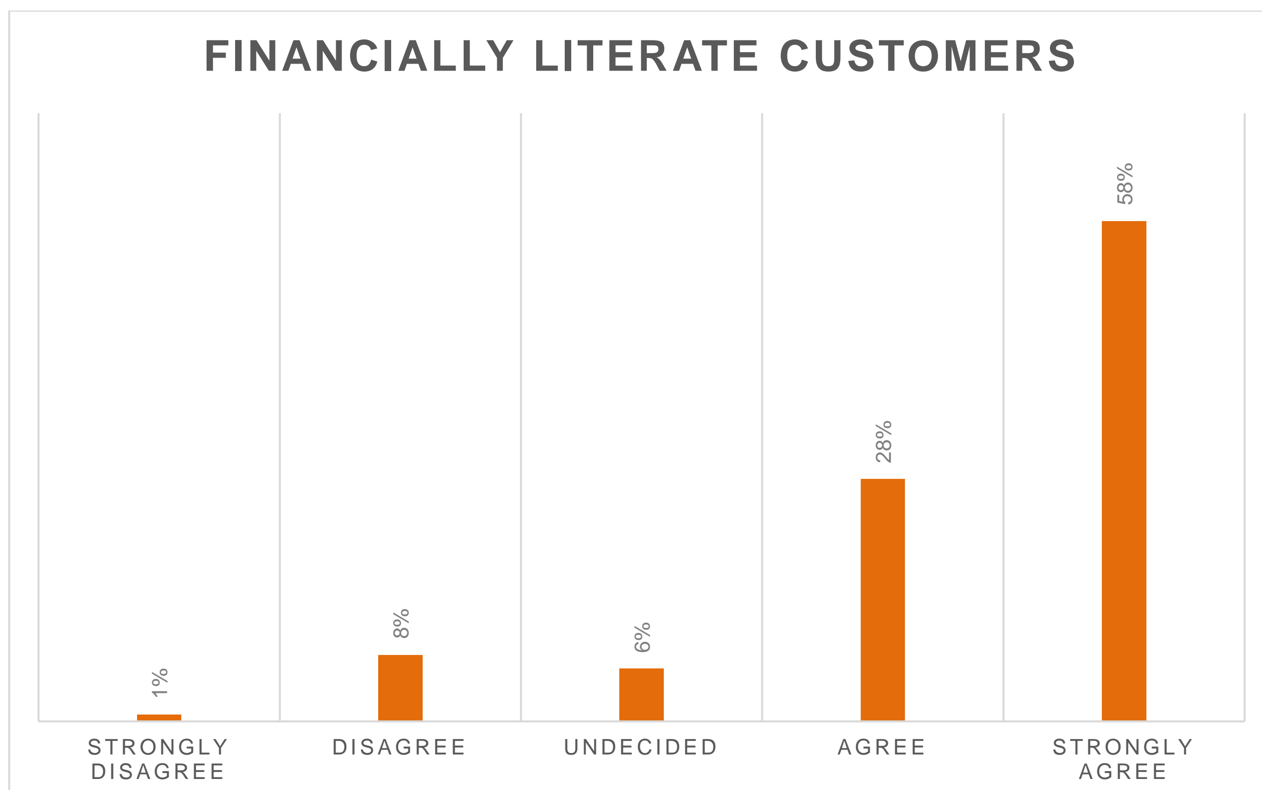


Figure 6.15: Findings on financially literate customers

It can be inferred from these findings that it is essential to ensure financial literacy is provided for as many people as possible to ensure they take advantage of financial opportunities and manage their finances better.

6.3.6.11 Findings on the reasons financially literate customers are better n taking advantage of financial opportunities or innovations

The findings of open-ended research question 43 depict respondents' perceptions on the reasons financially literate customers are better in taking advantage of financial opportunities or innovations. These findings are depicted in Table 6.27 below and can be summarised as follows:

- A number of respondents (55 per cent) indicated that financially literate customers are better at taking advantage of financial opportunities or innovations because financial literacy assists them to make *better and well-informed decisions.* To be successful the customer must understand their own finances or that of their business should they have their own business. Financially literate customers always know how to manage their finances and invest where necessary. They also have realistic expectations in financial opportunities they might want to explore. Respondents indicated that:
    - The more literate you are, the better you will be to identify the pros and cons of any opportunity. The less likely you will also be to take risky chances. Because they understand the risks/benefits etc. they will be more likely to make use of these

opportunities to better their financial stance. It will help them to retire comfortably one day. Customers will rather be cautious, they will rather look at interest rates; terms and condition etc. - and decide to use their savings instead or look for other options. They can make informed and calculated decisions. They know products that can suit their financial needs. The client will know to choose the best product for his/her need.

Table 6.27: Findings on the reasons financially literate customers are better in taking advantage of financial opportunities or innovations

Codes	Description	Occurrences	%
BETTEINFO:	Customers can make healthier and well informed choices. To be successful you must understand the finance side of business. They always know on how to manage their finances and invest were necessary. They have realistic expectations in opportunities they get into. The more literate you are, the better you will be to identify the pros and cons of any opportunity. The less likely you will also be to take risky chances. Because they understand the risks/benefits etc. they will be more likely to make use of these opportunities to better their financial stance. It will help them to retire comfortably	281	55%
FINLIT:	Yes very much, as mentioned before, when you are financially literate, you approach credit providers or any financial institution with information and are in a position to ask the representative on information that you do not understand before committing to anything. He/she is better off than the one who has yet to learn about financial literacy. They do not just accept what is provided to them. They will ask about the rate - uneducated will ask what is the instalment.	92	18%
OPPRTUN:	They will be able to see opportunities compared to those that are not financially literate. They have a better opportunity to build wealth. A person who is financially literate, can take advantage of an opportunity where it makes financially sense, but can also be hesitant where the opportunity does not make financial sense. Opposed to this, someone who does not fully understand the financial implications of an opportunity, can take advantage of an opportunity without realising of considering the financial implications.	85	17%
DISCIPLIN:	It depends on client's discipline which does not have anything to do with literacy. Some yes as they know but does not do it, others do and control themselves, so it’s a 50/50 split. Customers might have a financial background but can lack the industry specific knowledge to identify or act on opportunity.	51	10%

- Some respondents (18 per cent) also indicated that when a customer is *financially literate,* they will approach credit providers or any financial institution already prepared and are in a

position to ask the representative for information that they do not understand before committing to anything. Respondents indicated that:

  - The financially educated customer will ask about the rate – the uneducated customer will ask about the instalment on the loan. Yes, very much, as mentioned before, he/she is better off than the one who has yet to learn about financial literacy. They know the limitations and boundaries they should operate within. They know what their limits are not to overcommit. They know what is needed to get them to move forward. They do not just accept what is provided to them. When customers are financially literate, they have more tools available to their disposal, and therefore can understand certain things like term or interest rates, better than someone who does not understand that.

- Other respondents (17 per cent) indicated that financially educated customers are able to see *opportunities* compared to those who are not financially literate. They have a better opportunity to build wealth. A person who is financially literate can take advantage of an opportunity where it makes financially sense, but can also be hesitant where the opportunity does not make financial sense. A financial literate person may also be too analytical, which can prevent him/her from seeing an opportunity or innovation. The respondents indicated that:

  - Someone who does not fully understand the financial implications of an opportunity, can take advantage of an opportunity without realising or considering the financial implications. A special blend of financial knowledge and opportunism is required to identify financial opportunities and innovations. Financial literacy alone cannot guarantee success of an opportunity and innovation. More willing to take opportunities as they understand and know the risk involve. They see the opportunities and negotiate.

- Lastly, ten per cent of the respondents also highlighted that the *discipline* of the customer plays a part and even when a customer is financially literate they may lack industry knowledge to take advantage of opportunities: 'It depends on a client's discipline which does not have anything to do with literacy. Some yes, as they know but do not do it, others do and control themselves. Customers might have a financial background but can lack the industry-specific knowledge to identify or act on opportunity'.

It can be concluded from these findings that financially educated customers are able to make better financial decisions, which in turn can help them avoid financial risks. Financially literate customers furthermore approach the credit provider already prepared and will not commit to a loan unless they fully understand what it entails. There were mixed reactions from respondents on the issue of

customers taking advantage of financial opportunities. Some respondents believed that financially literate customers are better at taking advantage of financial opportunities than those who are financially illiterate, while others indicated that it depends on the discipline and experience of a customer and not on financial education. This group argued that experienced customers are better off at taking advantage of financial opportunities as they understand their industry better.

6.3.6.12 Findings on offering unsecured lending to groups of customers applying together (group lending)

The findings of open-ended research question 44 depict whether respondents' perceptions on offering unsecured lending to groups of customers applying together (group lending). These findings are depicted in Table 6.28.

Table 6.28: Findings on offering unsecured lending to groups of customers applying together (group lending)

Codes	Description	Occurrences	%
NOGOOD:	It's not a good idea due to there is unforeseen circumstances. Not a good idea as the repayment will always be a challenge. I do not vote for this as you have to take responsibility for the actions of others, this can have a negative impact on you. There are other options to look at as well as the type of entity you are part of. Not in support thereof. You don't do it as information is confidential and you cannot link a group to one payment option. I would not offer unsecured lending to groups. Risky in some way, because if the group has a quarrel and split up, repayment are at risk when some might not worry any more. This is trouble and risk due to members that can forfeit repayments.	202	40%
CANWRK:	As long as everyone in the group pulls their weight, it can work. Reduces risk of non - repayment. The risk will be spread between the individuals. All depends on the purpose, need, source of repayment and total group exposure. Cross surety to be signed so that all parties involve are responsible for debt. I have to understand what the benefit of each member in the group is and what that person is bringing to the deal. The offering still needs to be explained, understood, and accepted by the whole group	129	25%
NOTKNOW:	N/a not familiar with it at all. Not enough knowledge to answer this	106	21%
ASSESIND:	Such an endeavour will require the bank to assess them on an individual basis despite them applying as a group. As much as it is a group, not all of them will exercise financial discipline and that will affect the repayment. It is a better prospective facility as more individuals can have context of what the terms and conditions are and what they commit to. Each individual will be assessed on the merit of their own financial position. In bank terms this is usually very good business and should be seen as such. The NCA forces lenders to determine affordability bases on individual income profiles. Spouses can also apply jointly.	72	14%

The findings can be summarised as follows:

- A significant number of the respondents (40 per cent) indicated that group lending is *not a good idea* and also that it is very risky for credit providers to consider group lending. Taking responsibility for others seems to be a challenge, as some respondents are not familiar with the concept of group lending at all:
    - It is not a good idea due to there are unforeseen circumstances. Not a good idea as the repayment will always be a challenge. I do not vote for this as you have to take responsibility for the actions of others, this can have a negative impact on you. There are other options to look at as well as the type of entity you are part of. Not in support thereof. I would not offer unsecured lending to groups. Risky in some way, because if the group has a quarrel and split up, repayment are at risk when some might not worry anymore. This is trouble and risk due to members that can abandon repayments. By taking security but I think it's a very risky task, it will be difficult to hold all of them accountable for the loan.
- Some respondents (14 per cent) indicated that group lending will require the bank to *assess the group on an individual basis* despite them applying as a group. Other respondents (25 per cent) indicated that as long as everyone in the group pulls their weight, *group lending can work*. The risk of non-repayment can be reduced by spreading the risk among individuals as cross sureties can also be signed by group members to ensure that each member in the group takes responsibility for the debt. Respondents indicated that:
    - As much as it is a group, not all of them will exercise financial discipline and that will affect the repayment. It is a better prospective facility as more individuals can have context of what the terms and conditions are and what they commit to. Each individual will be assessed on the merit of their own financial position. In bank terms this is usually very good business and should be seen as such. The NCA forces lenders to determine affordability based on individual income profiles. Spouses can also apply jointly. All depends on the purpose, need, source of repayment and total group exposure. Cross surety to be signed so that all parties involve are responsible for debt. I have to understand what the benefit of each member in the group is, and what that each person is bringing to the deal. The offering still needs to be explained, understood, and accepted by the whole group. I perceive it to be more weary and will have a proper due diligence conducted, as group lending might open the bank up to fraud, however, I also perceive it to approach it with an open mind, as great business started off with customers putting their funds together and applying for a business loan in a similar manner.

- Lastly a number of respondents (21 per cent), indicated that they were not familiar with or did not know the concept of group lending at all.

These findings contradict empirical evidence by Mashigo (2012) who found that in addition to financial literacy, group lending can be used to overcome problems of high transaction costs, collateral, moral hazard and adverse selection that deter the delivery of financial services to the majority in South Africa. Group lending can be a critical catalyst to mitigate adverse selection and information asymmetry and can facilitate the more finances in the economy, especially to those previously excluded from the economic mainstream and those with no assets to offer as collateral (Dilotsotlhe, 2013). Group lending has been successfully implemented in countries such as Ghana, Bangladesh, Indonesia, and Kenya where loans are disbursed to small groups who are collectively responsible to repay the loan (Mashigo, 2012). Financial education can be effective in group lending when it is offered by a member of the group or by a community member. This is because borrowers in a group typically approach one another for advice and are thus likely to pay attention and follow advice given by their counterparts instead of listening to or accepting advice from an expert who is not part of the group or community (Kodongo & Kendi, 2013).

It can be inferred from these findings that there is some support for group lending. These respondents indicated that, if group lending is perceived to be successful, it can reduce the risk of repayment as it will be spread among group members. Those who did not support the idea indicated that it can increase the risk to the credit provider as they might perceive taking responsibility for others in the group as a challenge.

6.2.6.13 Findings on whether the culture of the community from where the customer comes affect the customer's credit decisions

The findings of research question 45 depict whether respondents perceive that the culture of the community from where the customer comes influences the credit decisions that the customer makes. These findings are depicted in Figure 6.16. The majority of the respondents (73 per cent) agreed with this statement – 37 per cent of them strongly agreed and 36 per cent agreed. A number of respondents (18 per cent) were undecided and nine per cent disagreed. These results indicate that the majority of the respondents opine that the culture of the community a customer comes from affects their credit decisions.

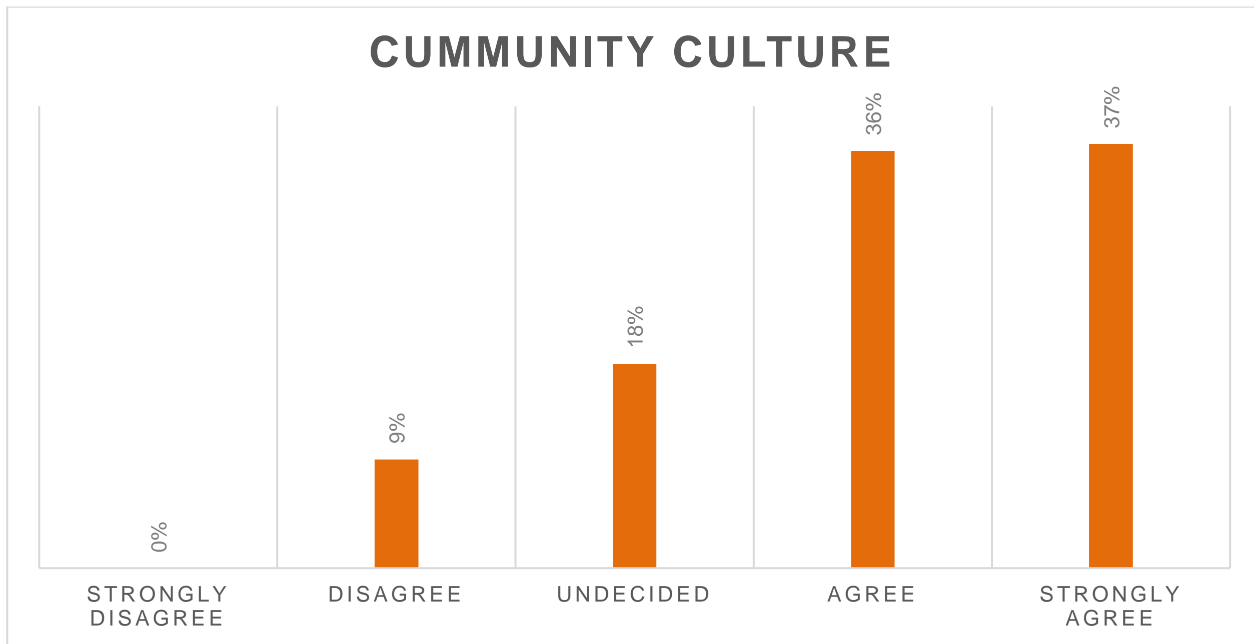


Figure 6.16: Findings on the culture of the community

These findings support the empirical evidence by Guérin (2012) suggesting that the social status of consumers also has an impact on their use of credit; they want to preserve, strengthen and maintain their status, identity and social ties. Financial connections are fundamental to these practices due of their social implications. Credit constitutes social connections between people, conveying emotions and feelings, which include dignity, prestige, respect, or conversely, humiliation and shame.

It can be inferred from these findings that the culture of the community where the customer comes from influences the financial decisions the customer makes. This means customers will normally prioritise their spending on things that the community deems important and also that customers will normally try to keep up with their community members to maintain their ties as well their status in the community.

6.3.6.14 Findings on the main goods and services that unsecured loans are used for

The findings of the open-ended research question 46 depict the responses on the main goods and services used by customers of unsecured loans. These findings are depicted in Table 6.29 below.

Table 6.29: Findings on the main goods and services that unsecured loans are used for

Codes	Description	Occurrences	%
ACQASSET:	Acquiring assets which are not catered for in the normal process. Vehicle repairs, vehicle service. Buying vehicles (old) that the bank cannot finance on vehicle finance agreements/vehicle repairs/. Appliances purchase, Household equipment, Furniture. It varies from person to persons. Applying for unsecured loans should be to fund an unfortunate event that has come your way or to just to have some liquidity. Medical, Unforeseen/ unexpected expenses. It is about the financial knowledge they have. It will depend from the individual and how much she does or he knows. Funerals and just taking out credit because it was offered to them. Education. To pay for school fees, or other expenses for their children. Paying for student loans. tertiary education, school accommodation	230	45%
LUXURY:	Luxury items. Expensive holidays, clothes and shopping sprees. Weddings, holidays, and leisure. Personal use. Living expenses. Food, phones. Other special occasions. Entertainment, phones and expensive brands of clothes; travel costs. Vacations, Another important reason is to fund lobola fees or weddings. However, some use the unsecured funding to fund a fancy life style.	119	23%
RENOV:	Renovations, home improvements, Mostly to renovate their houses- clients would rather take no unsecured loans because of the fact that home loans request too much paperwork. Cosmetic home improvements. improving their homes,	71	14%
BUSINESS:	Working capital/ purchasing a business / goodwill. Business start-up or small business finance. Consolidate debt; Arrear rental, debt consolidations, paying off other debts, paying off additional debts. Paying other debts	46	9%
N/a	N/a	43	8%

The findings can be summarised as follows:

- A substantial number of respondents (45 per cent) indicated that unsecured loans are used for *acquiring assets and vehicle-related financing* while some respondents (14 per cent) indicated that unsecured loans were used for home repairs, renovations, improvements, education and for unforeseen expenses such as medical and funeral expenses. These include second-hand vehicles, furniture, household appliances, and vehicle service. Respondents indicated that:
    - They are used for acquiring assets which are not catered for in the normal credit process. Vehicle repairs, vehicle service. Buying vehicles (old) that the bank cannot finance on vehicle finance agreements. Appliance purchases, household equipment, furniture. It varies from person to person. Applying for unsecured loans should be to fund an unfortunate event that has come your way or to just to have some liquidity. Medical, unforeseen or unexpected expenses. It is about the financial knowledge they have. It will depend from the individual and how much she or he knows. Funerals and just taking out credit because it was offered to them. Renovations, home improvements, mostly to renovate their houses – clients would

rather take an unsecured loans because of the fact that home loans request too much paperwork. Cosmetic home improvements. To pay for school fees, or other expenses for their children. Paying for student loans. Tertiary education, school accommodation.

- Other respondents (23 per cent) indicated that unsecured lending customers spend their unsecured loans mainly for *consumption on luxury items,* such as expensive holidays, clothing and shopping excursion: 'Holidays and leisure. Personal use. Living expenses. Food, phones. Entertainment, phones and expensive brands of clothes; travel costs. Another important reason is to fund lobola fees or weddings. However, some use the unsecured funding to fund a fancy life style'.
- A small percentage of respondents (nine per cent) indicated that unsecured lending is used to *fund businesses* and to consolidate loans or pay other debts. These respondents mentioned that unsecured loans are used for 'working capital, purchasing a business or goodwill. Business start-up or small business finance. Consolidate debt; arrear rental, debt consolidations, paying off other debts, paying off additional debts'.

This supports empirical evidence by De Wet, Botha and Booyens (2015) that suggests that when unforeseen adverse external shocks happen, they normally push consumers to indebtedness. Funerals – not only the funeral costs per se but also the costs of looking after those left behind should the breadwinner pass away – are also highlighted as a main reason for over-indebtedness in the unsecured lending market. Empirical evidence by Janse van Vuuren (2011) also supports these findings, asserting that other unsecured lending usage can be ascribed to fire or loss of a home or property, injury, violent crimes, theft and illness. Emergency loans introduced by several unsecured lenders have proved to be popular, but have at the same time caused over-indebtedness. Hoosain (2012) also supports these findings by indicating that the culture of consumption spending has been highlighted as a major concern. Borrowing to self-employed individuals for their small businesses has been minimal. Some consumers use these loans to improve their lives by either renovating their houses, building backrooms for rental income purposes or expanding their houses – in some cases, this could include a business room in the household such as a tuck shop or hairdressing salon. Two other reasons for using unsecured loans stem from the pressure from family members to buy material goods, such as clothing, appliances and furniture, and pressure to support extended families.

6.3.6.15 Findings on whether bankers know more about managing finances than their customers do

The findings of research question 47 depict whether respondents perceive that bankers know more about managing finances than their customers. These findings are shown in Figure 6.17. The majority of respondents (68 per cent) either agreed (43 per cent) or strongly agreed (25 per cent) that bankers know more about managing finances than their customers. This means that most bank employees agree that they know more about managing finances than their customers, which means that bank employees can play a pivotal part in financial literacy of their customers on how to manage their finances effectively.

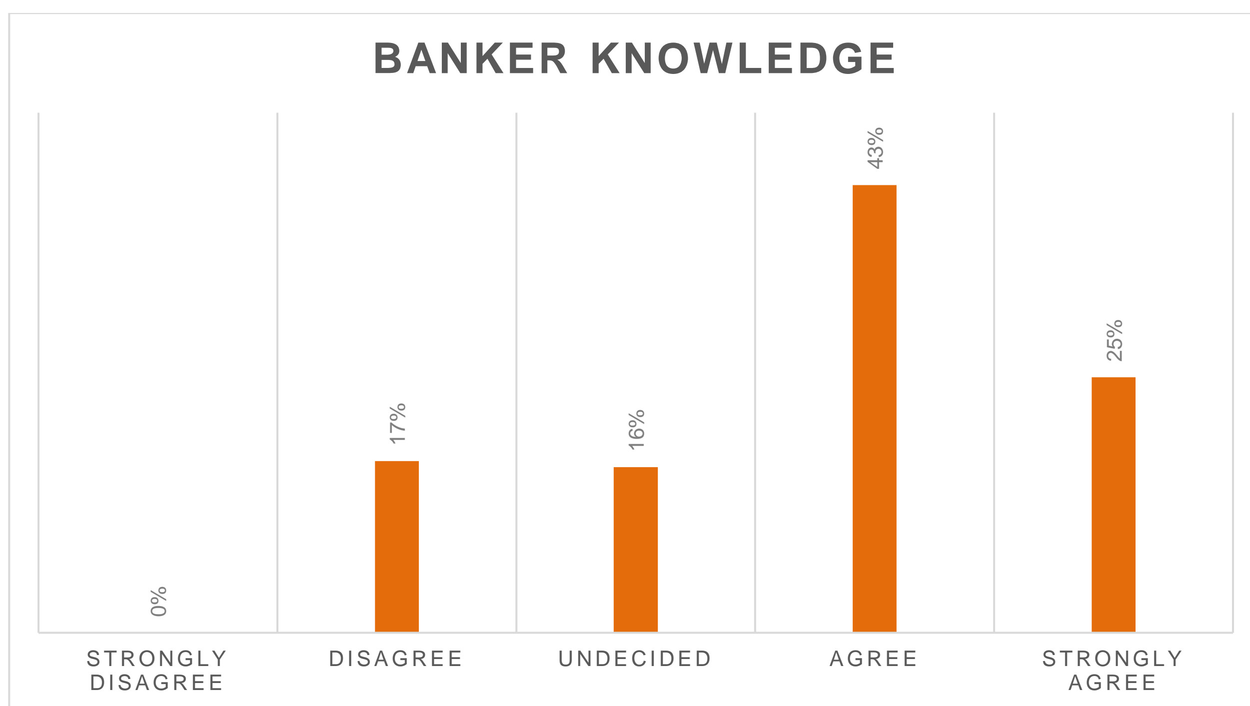


Figure 6.17: Findings on bankers' knowledge

This finding supports the empirical evidence by Moss (2012) that defaults are driven primarily by some lenders' inability to educate borrowers along with reckless lending by these lenders. The volume of information that lenders have on their customers and their knowledge of legislation and its loopholes means that they are in a superior position than their customers to employ this information to their advantage and, at times, at the expense of consumers' financial health. Earlier research revealed that when lenders adjust credit scores, this is not done in conjunction with consumer credit education about what they can afford. The non-payment behaviour of consumers can be attributed to a lack of knowledge of the financial system and credit contracts due to financial illiteracy (Fanta et al., 2016).

It can be inferred from these findings that bankers who have superior knowledge of finances compared to their customers can play a pivotal part in making sure that their customers are financially educated to make the best financial decisions.

6.3.6.16 Findings on the reasons that bankers know more about managing finances than their customers do

The findings of research question 48 depict reasons respondents perceive bankers know more about managing finances than their customers do. These findings are depicted in Table 6.30 and are summarised as follows:

- The majority of respondents (78 per cent) indicated that the *background and knowledge of* bankers makes it easy for them to see loopholes and red flags. Bankers apply their knowledge to prevent irresponsible spending, because they are the ones who offer unsecured lending to customers and provide advice. Bankers have the ability to learn from training experience sometimes and also form customers' mistakes. Respondents indicated that:
    - My view might be different to others but I definitely know that the the commercial bank team of bankers know their financial positions and manage them accordingly. Bankers are better financially educated; they keep abreast with developments within the financial sectors. Bankers know what the risks are and the consequences of their actions. According to me yes, bankers advising their clients to mitigate and control finances which is why clients come to them for advice. Most bankers' do the same things that the customer does but I do think with the knowledge they have they do tend to make better decisions. Training, exposure and experience over a wide variety of industries. We look at all holistically. Working for a financial institution you should be more responsible to give guidance to your customers. Bankers need to be FAIS complaint – understand the client's need and advise the best product for the client.
- A minority of the respondents (14 per cent) *disagreed,* indicating that the way bankers manage finances is often suboptimal compared to their clients. Bankers provide advice but do not normally practise what they preach. Respondents indicated that:
    - They disagree fully, although a study has not yet been done, bankers too face misfortunate events where their poor financial management has led them to bad credit records. They (bankers) are sometimes worse than those without any financial literacy. The bankers have knowledge of how finances should be managed but they do not apply it in their own lives. Looking at the lifestyle and financial achievements of some, I doubt. I hope they do, but it could not always be the case.

Bankers are trained to know the benefits and consequences of managing finances; this does not mean they practise what they preach. It is easy to preach but not easy to practise if unforeseen things happen in life and you need a way out.

Table 6.30: Findings on the reasons that bankers know more about managing finances than their customers do

Codes	Description	Occurrences	%
KNOWLE:	With our background and knowledge it is easy to see loop holes and red flags. If you can apply your knowledge you can prevent bad spending. My view might be different to others but I definitely know that the the commercial bank team of bankers knows their positions and manages it accordingly. Because they are the ones who offer unsecured to clients and provide an advice. Better financially educated / they keep abreast with developments within the financial sectors. Bankers know what the risk are and the consequences of their actions. According to me yes, we advising our clients to mitigate and control finances which is why clients come to us for advice. They learn on their way sometime also form customers mistakes. Most bankers do the same things that the customer does but I do think with the knowledge they have they do tend to make better decisions. Training, exposure and experience over wide variety of industries. We look at all holistically. Working for a financial institution you should be more responsible to give guidance to your customers. Bankers need to be FAIS complaint - understand client's need and advise the best product for client.	398	78%
DISAGRE:	Disagree fully, although a study has not yet been done, bankers too face misfortunate events where their poor financial mismanagement has led them to a bad credit records. They (bankers) are sometimes worse than those without any financial literacy. The bankers have knowledge of how finances should be managed but they do not apply it in their own lives. Looking at the lifestyle and financial achievements of some, I doubt. I hope they do, but it could not always be the case. NO - my client knows the industry, the industry cycle… my client knows best. I use the information he gives me and work together to find a solution. There are customers who are well educated on Financials (Bookkeepers etc.) Bankers are also well educated in Finances and the products, which can make the difference.	71	14%
UNSURE:	N/a. I hope they do, but it could not always be the case. It should be - but cannot answer on behalf of other bankers	40	8%

- Lastly, respondents (eight per cent) were either unsure or undecided. These respondents mentioned that there are customers who are better financially educated than bankers, such as accountants and bookkeepers.

These findings support the empirical evidence by Fatoki (2015) that failure to pay is largely propelled by lenders' lack of ability to educate consumers, and that incorporating financial literacy into financial services will safeguard borrowers and reduce defaulting risk. Financial literacy also has an impact on how banks and/or investors assess loans for new ventures; a good level of financial literacy is favoured as it is deemed to reduce default risk. Personal financial management

knowledge can help consumers to be independent and enable them to plan for and deal with unpredictable events, such as labour market changes, retirement, and personal income changes (Masilo & Marx, 2016).

It can be inferred from these findings that bankers generally know more about managing finances than their customers do, because they work with finances all the time and are trained (financially educated). There are other respondents who did not agree with the research question, mentioning that although bankers face the same financial challenges as their customers they (the bankers) do not seem to manage finances better at all. There is recognition that some customers know more than bankers as these customers have a sound understanding of the industries in which they work.

6.2.6.17 Findings on the impact of financial education on unsecured lending customers' defaults

The findings of open-ended research question 49 depict respondents' responses on the impact of financial education on unsecured lending customers' defaults. These findings are depicted in Table 6.31 and can be summarised as follows:

- The majority of respondents (58 per cent) highlighted that *financial education* will decrease the tendency to default, as planning towards repayment would have been done more thoroughly. Educated customers have a better understanding of the consequences and debt obligations. Respondents indicated that:
    - It can prevent defaults. It can reduce defaults. Customers who have better knowledge make better decisions; will understand the seriousness and consequences. Critical - the client understands the impact thereof and at times try to avoid it. The more financially educated the client is the more he will understand the risk involved. Will understand repayment and budget better. Customers who have sound financial education know the impact of defaults thus will by all means manage their unsecured lending better. Financially literate customers will be able to budget their income and expenses and hopefully prevent any default situation. Lack of financial education and understanding. Customers not understanding their financial situation and the importance of budgeting to avoid defaults. Change of living standards, peer pressure and living up to the Jones's.

Table 6.31: Findings on the impact of financial education on unsecured lending customers' defaults

Codes	Description	Occurrences	%
FINLIT:	Financial education will decrease the tendency to default, as planning towards repayment would have been done more thoroughly. Educated customers have a better understanding of the consequences and the obligations. It can prevent defaults, it can reduce defaults. Customers that have better knowledge make better decisions. Will understand the seriousness and consequences. Critical - the client understand the impact thereof & at times try to avoid it. The more financial educated the client is the more he will understand the risk involved. Will understand repayment and budget better.	293	58%
CRDREC:	Bad /deteriorating credit records, higher risk towards the lender and more borrowers that will not stay within their agreements. If the ratio of defaults on unsecured lending is increasing, the bank will make credit lending for unsecured loans more strict. Long term repayments/ balloon repayments make customers regret the purpose for the lending and by time make them neglect the repayments. Client's to do not understand the implication of not repaying their debt. Unfortunately a good credit record is not as important to everyone, especially if they are not planning to purchase a home or car in future where a good record is required.	108	21%
UNSURE:	N/a /Not sure	72	14%
DISAGRE:	I do think that customers with financial education know the consequences and will default less than other customers with no education. Financial Literacy and financial management is important without any doubt, but having it does not automatically assume that one is going to implement it. Customers can be well equipped with the knowledge and will lack the discipline required on a loan repayment.	36	7%

- Some respondents (21 per cent) indicated that a lack of financial planning may lead to *bad or deteriorating credit records,* a higher risk for the lender and more borrowers that will not stay within their agreements. If the ratio of defaults on unsecured lending increases, the bank will make credit lending to unsecured loans more strict. Respondents indicated that:
    - Long-term repayments/balloon repayments make customers regret the purpose for the lending and by time make them neglect the repayments. Clients do not understand the implication of not repaying their debt. Unfortunately a good credit record is not as important to everyone, especially if they are not planning to purchase a home or car in future where a good record is required. Clients need to know the consequences of non-payment of their loans. This should be used as a tool to show the urgency and intent to first pay your obligations with the bank.
- Lastly, a small number of respondents (seven per cent) highlighted that they did not think that customers with financial education are necessarily aware of the consequences of defaulting on loans and will default less than those customers with no financial education. Customer behaviour can be influenced by lender complicity. Some respondents (14 per

cent) did not respond to the question or indicated that they were unsure of the impact of financial education on customer defaults. Respondents indicated that:

- Financial literacy and financial management is important without any doubt, but having it does not automatically assume that one is going to implement it. Customers can be well equipped with the knowledge and will lack the discipline required on a loan repayment. Lenders who still offer the customers loans even if they are over-indebted. Customers who overcommit themselves. Not sure of the impact.

It can be inferred from these findings that financial education can help to reduce defaults as customers who are financially educated fare normally better with financial planning in comparison to those who are financially illiterate. The lack of financial planning results in defaults and increased credit risk. Those respondents who did not think financial education can reduce defaults indicated that customer defaults can also be influenced by lender complicity where lenders over-indebt their customers through reckless lending.

6.3.6.18 Findings credit providers' actions do to reduce credit defaults in the unsecured lending market

The findings of open-ended research question 50 depict suggestions offered to credit providers to reduce credit defaults in the unsecured lending market. These findings are shown in Figure 6.32 and can be summarised as follows:

- A number of respondents (43 per cent) indicated that credit providers should have strict measures in place when allowing loans to clients. The respondents advised that credit providers should do a *proper financial assessment,* making provision for a larger portion for living expenses when they calculate affordability. Credit providers should perform credit checks on the borrower. Regulated lenders should adhere to the same standards and criteria in offering loans and should not provide credit if the customer cannot afford the loan. Respondents indicated that:
    - Better screening and learning to say no. True assessments, strong sense of establishing the level of knowledge the individuals have towards the facilities applied for. Make sure they do not over indebt clients by doing a thorough financial analysis and prevent clients to spend more than 30 per cent of income on loans etc. Perform credit checks on the borrower, check judgments. Client should not be over-indebted already. Check if client is currently under debt counselling. Assess whether a customer's current credit profile and granting of additional loans, not lead to over-indebted position. Determine whether alternative loan solutions are

available that might relieve cash flow pressure. Be careful for reckless lending, confirm income and expenses.

- Some respondents (39 per cent) also advocated *proper advice and education* on lending products. They advised that customers should be educated and given advice on how to manage their financial positions. Respondents indicated that
  - Educated customers have a better understanding of the consequences and the obligations. Ask for some form of security, educating customer in what can happen if they do not repay. Provide basic guidelines and training. Give a full explanation on any new product opened or applied for. Credit providers must provide comprehensive credit information. Make clients more aware what the impact will be when they default on their loans and how it will impact their credit record. After sales Edu-calls, basic credit lending education. Educate people and give them proper advice on how to manage their finances. They should give a pre-loan consultation to discuss only the clients' debt before they make the appointment to apply for the loan.

Table 6.32: Findings on by credit providers' actions to reduce credit defaults in the unsecured lending market

Codes	Description	Occurrences	%
BETRSCRN:	Better screening and learning to say NO. True assessments, strong sense of establishing the level of knowledge the individuals have towards the facilities applied for. Have strict measures in place in giving loans to clients. Regulated lenders should adhere to same standards and criteria in offering loans. Do not provide credit if you see that the customer cannot afford it. Make sure they don't over indebt clients by doing a thorough financial analysis and prevent clients to spend more than 30% of income on loans etc. Perform credit checks on the borrower, check judgements. Credit providers can decrease the credit or default risk by employing to credit risk management (CRM). An example of a technique (CRM) is the Five C's of credit used to carry out an evaluation of credit affordability of the applicant. The Five Cs of credit evaluation are Character, Capacity, Collateral, Capital and Conditions.	221	43%
EDUCAT:	Educate people and give them proper advices on how to manage their financials. Have a better understanding of the consequences and the obligations. Ask for some form of security, education customer in what can happen if they do not repay. If customers can get more education on saving and how important it is it will help through the tough times and they can use their savings to reduce defaults. Provide basic guidelines and training. Give full explanation on any new product opened or applied for. Banks and Credit Providers must provide comprehensive credit information. After sales Edu-calls. They should give pre-loan consultations to discuss only the client's debt before they make the appointment to apply for the loan.	198	39%
KYC:	Know your client. Be close and stay to your client. Spend time with client at business. Bankers and consultants not to manipulate the system to get loans approved. Make sure the client does not already show signs of defaulting or missing payments habits.	90	18%

- Other respondents (18 per cent) indicated that it is important for a credit provider to *know their customers.* According to these respondents, banking systems should not be manipulated to get loans approved. It is also difficult to force customers to become more financially savvy. Respondents explained that:
    - It is essential to devote time with a customer. Stay close to the customer, take time to explain the terms and conditions on how to manage your loan in detail with the client. Bankers and consultants [should] not manipulate the system to get loans approved. One can't force a client to become financially more literate and sometimes trying to educate and adult is too late. If they have nothing to lose (no asset bonded), there will always be risk, so I presume one should thus only lend to those who are financially literate enough.

It can be inferred from these findings that a proper assessment (screening) of the customer's financial position is crucial during the loan application process in order to avoid defaults. Financial education and providing proper advice cannot be take too lightly as it is essential in making sure that the customer understands what their expected behaviour should be under the loan contract. It is also important that credit providers know their customers and to stay closely connected to them. In doing so a credit provider will be quicker to be pro-active and to provide solutions should a customer experience financial difficulties.

The next section depicts the findings of the Chi-square test conducted to determine whether there is an association between financial education and unsecured lending.

6.3.7 Chi–square statistical findings

The Chi-square test was performed to determine whether financial literacy could be a useful tool in reducing the credit risk of over-indebtedness in the unsecured lending market. A list of links between questions, two at a time, was put forth to assess. From SPSS, the mean factor responses identified statistically meaningful relationships where the f-statistic had a probability (p-value) of less than 0.05. Two factors were compared for research questions by using a two-way χ^2 (Chi-square) test to determine statistical significance.

In the first instance, research questions 9 and 7 were combined. Collectively, these research questions assessed whether customers insist that they can repay the unsecured loan even when the credit assessment indicates otherwise, and customers applying for unsecured loans despite the fact that they are already over-indebted. Another statistically significant association with a p-value of less than 0.05 was found by linking research questions 42, 45, and 47 and plotting them

in relation to the research question on whether bankers are more knowledgeable than their customers when it comes to financial decisions. These research questions related to the fact that bankers with superior knowledge about managing finances compared to their customers are able to assist their customers in managing their finances better. All questions were combined with the respondents' gender and ethnicity to determine whether questions are statistically significant. Only those outcomes with a Chi-square statistical probability lesser than 0.05 will be discussed here.

6.3.7.1 Findings on whether the customers insist they can repay their unsecured loans even when the credit assessment indicates otherwise correlates with whether customers apply for unsecured loans even when over-indebted

A comparison was made between research questions 9 and 7 to determine whether the response to the question about *insist can repay* is affected by the response to the question about *already over-indebted*.

	No	Yes
No	15	2
Yes	0	492

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a relationship between the customers who insist they can repay loans even when the credit assessment indicates otherwise and customers applying for loans even when they are already over-indebted. It can be inferred from these findings that respondents perceived that customers do not consider their over-indebtedness seriously and will apply for loans even when they are already over-indebted. This may result in increased over-indebtedness, high default rates, and an increased risk in the unsecured lending market. It can also be inferred from these findings that customers do not know (are not financially educated) the implications of taking out loans that they cannot afford. This leads to them making wrong decisions insisting on over-indebting themselves.

6.3.7.2 Findings on whether customers who are financially literate are better equipped in taking advantage of financial opportunities or innovation, correlates with whether bankers know more about managing finances than their customers.

A comparison was made between research questions 42 and 26 to determine whether the response to the question about *financially literate better equipped* is affected by the response to the question about *financial literacy*.

	No	Yes
Strongly disagree	4	0
Disagree	1	15
Undecided	4	5
Agree	12	41
Strongly agree	118	309

p-value = 0.004 which is significant

The Pearson Chi-square (p-value of 0.004) indicates that there is a relationship between assessing customers' degree of financial education and financially literate customers being better off in managing their finances than those that are financially illiterate. It can be inferred from these findings that when assessing the financial knowledge of customers during the loan application process and providing them with appropriate advice based on their level of knowledge improves customers' financial knowledge. In other words, it leaves customers in a better position in managing finances than those customers who are financially illiterate. Bankers who assess their customers' financial knowledge during the loan application process will ensure that customers have appropriate financial knowledge of the unsecured loan they are entering into.

6.3.7.3 Findings on whether the customers' level of financial literacy correlates with whether the culture of the community the customers come from affects their credit decisions

A comparison was made between research questions 45 and 26 to determine whether the response to the question about the *culture of the community* is affected by the response to the question about *financial literacy*.

	No	Yes
Disagree	35	14
Undecided	44	59
Agree	25	74
Strongly agree	35	223

p-value = 0 which is significant

The Pearson Chi-square value (p-value of 0.000) means that there is a correlation between the customers' degree of financial literacy (when granting them loans) and the culture of the community the customer comes from affecting credit decisions by the customer. It can be inferred from these findings that bankers with financial knowledge are able to determine to which extent a customer's community influences a customer's request for an unsecured loan. This insight can assist bankers to provide the appropriate advice to customers who are trying to keep up with the status expected of their community instead of managing their own finances appropriately. In the process bankers can help to improve customers' financial positions.

6.3.7.4 Findings on whether financial literacy of the customer is assessed correlates with whether bankers know more about managing finances than their customers

A comparison was made between research questions 47 and 26 to determine whether the response to the question about *bankers know more* is affected by the response to the question about *financial literacy*.

	No	Yes
Disagree	67	40
Undecided	5	43
Agree	36	118
Strongly agree	31	169

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between assessing customers' financial education and bankers knowing more about managing finances than their customers. It can be inferred from these findings that when bankers know more about managing finances than their customers, they will ensure that they assess the financial knowledge of their customers during the loan application process. Bankers with superior financial knowledge compared to their customers will also ensure that their customers have appropriate financial knowledge about the unsecured loan they are entering into. This is a crucial finding because the level of explanation and education in managing credit can be lender-specific, i.e. it depends on their level of financial knowledge.

6.3.7.5 *Findings on whether customers applying for loans even when they are already over-indebted correlates with respondents' gender*

A comparison was made between research questions 7 and 1 (Gender) to determine whether the response to the question about *already over-indebted* is affected by the response to the question about *Gender*.

	F	M
No	0	11
Yes	323	175

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between the respondents' perceptions on whether customers are applying for loans even when over-indebted and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that customers apply for loans even when they are already over-indebted.

6.3.7.6 *Findings on whether customers insist they can repay an unsecured loan even when the credit assessment indicates otherwise correlates with respondents' gender*

A comparison was made between research questions 9 and 1 (Gender) to determine whether the response to the question about *insist can repay* is affected by the response to the question about *Gender*.

	F	M
No	12	23
Yes	311	163

p-value = 0 which is significant

The Pearson chi-square (p-value of 0.000) means that there is correlation between respondents' perceptions on whether customers insist they can repay an unsecured loan even when the credit assessment indicates otherwise and the respondents' gender. It can be inferred from these findings that both genders (male and female respondents) agree that customers insist they can repay an unsecured loan even when the credit assessment indicates otherwise.

6.2.7.7 Findings on whether comprehensive financial information and supporting documents are important during the loan application process correlates with respondents' gender

A comparison was made between research questions 16 and 1 (Gender) to determine whether the response to the question about *documents important* is affected by the response to the question about *Gender*.

	F	M
Undecided	0	6
Agree	29	7
Strongly agree	294	173

p-value = 0 which is significant

The Pearson chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether comprehensive financial information and supporting documents are important during the loan application process and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that comprehensive financial information and supporting documents are important during the loan application process.

6.3.7.8 Findings on whether bank employees assess the customers' level of financial literacy when granting them unsecured loans correlates with respondents' gender

A comparison was made between research questions 26 and 1 (Gender) to determine whether the response to the question about *financial literacy* is affected by the response to the question about *Gender*.

	F	M
No	82	61
Yes	241	125

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether bank employees assess the customers' level of financial literacy when granting unsecured loans and the respondent's gender. It can be inferred from these findings that

both genders (male and female respondents) agree that bank employees assess the customers' level of financial literacy when granting them unsecured loans.

6.3.7.9 Findings on whether the commercial bank offers financial education to their customers correlates with respondents' gender

A comparison was made between research questions 29 and 1 (Gender) to determine whether the response to the question about *financial education to customers* is affected by the response to the question about *Gender*.

	F	M
Disagree	24	0
Undecided	85	22
Agree	125	82
Strongly agree	89	82

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means there is a correlation between respondents' perceptions on whether the commercial bank offers financial education to their customers and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that the commercial bank offers financial education to their customers.

6.2.7.10 Findings on whether the commercial bank offers financial education to their employees correlates with respondents' gender

A comparison was made between research questions 31 and 1 (Gender) to determine whether the response to the question about *financial education to employees* is affected by the response to the question about *Gender*.

	F	M
Disagree	58	8
Undecided	3819	3
Agree	173	105
Strongly agree	54	70

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether the commercial bank offers financial education to their employees and the

respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that the commercial bank offers financial education to their employees.

6.3.7.11 Findings on whether financial education should be administered formally correlates with respondents' gender

A comparison was made between research questions 34 and 1 (Gender) to determine whether the response to the question about *administered formally* is affected by the response to the question about *Gender*.

	F	M
Agree	108	26
Strongly agree	215	160

p-value = 0.005 which is significant

The Pearson Chi-square (p-value of 0.005) means that there is a correlation between respondents' perceptions on whether financial education should be administered formally (i.e. in school curricula; classes; workshops) and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that financial education should be administered formally.

6.3.7.12 Findings on whether financial education should be administered informally correlates with respondents' gender

A comparison was made between research questions 35 and 1 Gender to determine whether the response to the question about *administered informally* is affected by the response to the question about *Gender*.

	F	M
Strongly disagree	3	25
Disagree	20	16
Undecided	25	0
Agree	154	40
Strongly agree	121	105

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether financial education should be administered informally (i.e. personally, family, friends, co-workers or fellow students) and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that financial education should be administered informally.

6.3.7.13 Findings on whether financial education can be administered at community level correlates with respondents' gender

A comparison was made between research questions 36 and 1 (Gender) to determine whether the response to the question about *administered at community level* is affected by the response to the question about *Gender*.

	F	M
Disagree	12	0
Agree	113	72
Strongly agree	198	114

p-value = 0.013 which is significant

The Pearson Chi-square (p-value of 0.013) means that there is a correlation between respondents' perceptions on whether financial education can be administered at community level (i.e. workshops; NGOs; community organisations) and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that financial education can be administered at community level.

6.3.7.14 Findings on whether financial education can be administered by government agencies correlates with respondents' gender

A comparison was made between research questions 37 and 1 (Gender) to determine whether the response to the question about *can be administered by agencies* is affected by the response to the question about *Gender*.

	F	M
Strongly disagree	0	33
Disagree	11	1
Agree	148	53
Strongly agree	164	99

P-value = 0 which is significant.

The Pearson Chi-square (p-value of 0.000) means there is a correlation between respondents' perceptions on whether financial education can be administered by government agencies and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that financial education should be administered by government agencies.

6.3.7.15 Findings on whether financial education can be administered by other means not indicated above correlates with respondents' gender

A comparison was made between research questions 38 and 1 (Gender) to determine whether the response to the question about *administered by other means* is affected by the response to the question about *Gender*.

	F	M
Strongly disagree	3	3
Disagree	24	12
Undecided	74	0
Agree	85	111
Strongly agree	137	60

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether financial education can be administered by other means not indicated above and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that financial education can be administered by any other means.

6.3.7.16 Findings on whether customers who are financially literate are better equipped in taking advantage of financial opportunities or innovations correlates with respondents' gender

A comparison was made between research questions 42 and 1 (Gender) to determine whether the response to the question about *financially literate better equipped i*s affected by the response to the question about *Gender*.

	F	M
Strongly disagree	4	0
Disagree	27	12

Undecided	14	17
Agree	100	42
Strongly agree	178	115

p-value = 0.02 which is significant

The Pearson Chi-square (p-value of 0.02) means that there is a correlation between respondents' perceptions on whether customers who are financially literate are better equipped in taking advantage of financial opportunities or innovations and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that customers who are financially literate are better equipped in taking advantage of financial opportunities or innovations.

6.3.7.17 Findings on whether the culture of the community the customer comes from affect their credit decisions correlates with respondents' gender

A comparison was made between research questions 45 and 1 (Gender) to determine whether the response to the question about *culture of community* is affected by the response to the question about *Gender*.

	F	M
Strongly disagree	11	9
Disagree	12	34
Undecided	80	13
Agree	133	51
Strongly agree	87	79

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether the culture of the community the customer comes from affect their credit decisions and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that the culture of the community the customer comes from affect the credit decisions by customers.

6.3.7.18 Findings on whether bankers know more about managing finances than their customers correlates with respondents' gender

A comparison was made between research questions 47 and 1 (Gender) to determine whether the response to the question about *Bankers know more* is affected by the response to the question about *Gender*.

	F	M
Disagree	39	45
Undecided	75	8
Agree	148	70
Strongly agree	60	63

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether bankers know more about managing finances than their customers and the respondent's gender. It can be inferred from these findings that both genders (male and female respondents) agree that bankers know more about managing finances than their customers.

6.3.7.19 Findings on whether customers apply for loans even when they are already over-indebted correlates with respondents' ethnicity

A comparison was made between research questions 7 and 2 (Ethnicity) to determine whether the response to the question about *already over-indebted* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
No	11	0	0	0
Yes	144	93	22	239

p-value = 0.001 which is significant

The Pearson Chi-square (p-value of 0.001) means that there is a correlation between respondents' perceptions on whether customers apply for loans even when they are already over-indebted and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South Africans, white, coloured and Indian) agree that customers still apply for loans even when they are already over-indebted.

6.3.7.20 *Findings on whether customers insist they can repay an unsecured loan even when the credit assessment indicates otherwise correlates with respondents' ethnicity*

A comparison was made between research questions 9 and 2 (Ethnicity) to determine whether the response to the question about *insist can repay* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
No	11	0	0	24
Yes	144	93	22	215

p-value = 0.004 which is significant

The Pearson Chi-square (p-value of 0.004) means that there is a correlation between respondents' perceptions on whether customers insist they can repay an unsecured loan even when the credit assessment indicates otherwise and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that customers insist they can repay an unsecured loan even when the credit assessment indicates otherwise.

6.3.7.21 *Findings on whether comprehensive financial information and supporting documents are important during the loan application process correlates with respondents' ethnicity*

A comparison was made between research questions 16 and 2 (Ethnicity) to determine whether the response to the question about *documents important* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Undecided	6	0	0	0
Agree	27	24	12	12
Strongly agree	122	69	10	227

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether comprehensive financial information and supporting documents are important during the loan application process and the respondent's ethnicity. It can be inferred from

these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that comprehensive financial information and supporting documents are important during the loan application process.

6.3.7.22 Findings on whether bank employees assess the customers' level of financial literacy when granting them unsecured loans correlates with respondents' ethnicity

A comparison was made between research questions 26 and 2 (Ethnicity) to determine whether the response to the question about *financial literacy* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
No	74	33	12	24
Yes	81	60	10	215

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether bank employees assess the customers' level of financial literacy when granting unsecured loans and the respondent's ethnicity. It can be inferred from these findings that all respondents from all ethnicities (black South African, white, coloured and Indian) agree that bank employees assess the customers' level of financial literacy when granting them unsecured loans.

6.3.7.23 Findings on whether the commercial bank offers financial education to their customers correlates with respondents' ethnicity

A comparison was made between research questions 29 and 2 (Ethnicity) to determine whether the response to the question about *financial education to customers* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Disagree	5	24	0	0
Undecided	35	12	12	48
Agree	36	39	10	122
Strongly agree	79	18	0	69

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether the commercial bank offers financial education to their customers and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black African, white, coloured and Indian) agree that the commercial bank offers financial education to their customers.

6.3.7.24 Findings on whether the commercial bank offers financial education to their employees correlates with respondents' ethnicity

A comparison was made between research questions 31 and 2 (Ethnicity) to determine whether the response to the question about *financial education to employees* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Disagree	27	27	12	0
Undecided	5	0	0	36
Agree	61	66	10	125
Strongly agree	62	0	0	78

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether the commercial bank offers financial education to their employees and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that the commercial bank offers financial education to their employees.

6.3.7.25 Findings on whether financial education should be administered formally correlates with respondents' ethnicity

A comparison was made between research questions 34 and 2 (Ethnicity) to determine whether the response to the question should *be administered formally* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Agree	26	60	0	48
Strongly agree	129	33	22	191

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means there is a correlation between respondents' perceptions on whether financial education should be administered formally (i.e. school curricula; classes; workshops) and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that financial education should be administered formally.

6.3.7.26 Findings on whether financial education should be administered informally correlates with respondents' ethnicity

A comparison was made between research questions 35 and 2 (Ethnicity) to determine whether the response to the question about *can be administered informally* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Strongly disagree	26	2	0	0
Disagree	12	0	0	24
Undecided	13	0	12	0
Agree	43	79	0	72
Strongly agree	61	12	10	143

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether financial education can be administered informally (i.e. personal, family, friends, co-workers or fellow students) and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that financial education should be administered informally.

6.3.7.27 Findings on whether financial education can be administered at community level correlates with respondents' ethnicity

A comparison was made between research questions 36 and 2 (Ethnicity) to determine whether the response to the question about *can be administered at community level* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Disagree	5	0	0	0
Undecided	0	0	0	12
Agree	24	63	0	98
Strongly agree	126	30	22	129

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether financial education should be administered at community level (i.e. workshops; NGOs; community organisations) and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black African, white, coloured and Indian) agree that financial education should be administered at community level.

6.3.7.28 Findings on whether financial education can be administered by government agencies correlates with respondents' ethnicity

A comparison was made between research questions 37 and 2 (Ethnicity) to determine whether the response to the question about *should be administered by agencies* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Strongly disagree	22	12	0	12
Disagree	11	12	0	0
Agree	29	50	0	122
Strongly agree	93	19	22	105

p-value = 0 which is significant.

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether financial education should be administered by government agencies and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that financial education should be administered by government agencies.

6.3.7.29 Findings on whether financial education can be administered by other means not indicated above correlates with respondents' ethnicity

A comparison was made between research questions 38 and 2 (Ethnicity) to determine whether the response to the question about *be administered by other means* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Strongly disagree	12	0	0	0
Disagree	6	3	0	36
Undecided	12	2	0	60
Agree	65	62	0	65
Strongly agree	66	26	22	78

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether financial education can be administered by other means not indicated above and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that financial education can be administered by other means not indicated above.

6.3.7.30 Findings on whether customers who are financially literate are better equipped in taking advantage of financial opportunities or innovations correlates with respondents' ethnicity

A comparison was made between research questions 42 and 2 (Ethnicity) to determine whether the response to the question about *financially literate better equipped* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Strongly disagree	0		0	0
Disagree	3	12	0	24
Undecided	7	12	0	12
Agree	52	42	0	48
Strongly agree	93	27	22	155

p-value = 0.000 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether customers who are financially literate are better equipped in taking

advantage of financial opportunities or innovations and the respondent's ethnicity. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that customers who are financially literate are better equipped in taking advantage of financial opportunities or innovations.

6.3.7.31 Findings on whether the culture of the community the customer comes from affects their credit decisions correlates with respondents' ethnicity

A comparison was made between research questions 45 and 2 (Ethnicity) to determine whether the response to the question about *culture of community* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Strongly disagree	20	0	0	0
Disagree	34	0	0	12
Undecided	31	3	12	40
Agree	18	83	0	87
Strongly agree	52	7	10	100

p-value = 0 which is significant

The Pearson Chi-square (p-value of 0.000) means that there is a correlation between respondents' perceptions on whether the culture of the community a customer comes from affects the credit decisions made by customers and the respondent's gender. It can be inferred from these findings that respondents from all ethnicities (black South African, white, coloured and Indian) agree that the culture of the community the customer comes from affect credit decisions by customers.

6.3.2.7.32 Findings on whether bankers know more about managing finances than their customers correlates with respondents' ethnicity

A comparison was made between research questions 47 and 2 (Ethnicity) to determine whether the response to the question about *bankers know more* is affected by the response to the question about *Ethnicity*.

	A	C	I	W
Disagree	54	6	0	27
Undecided	15	28	0	36
Agree	58	50	12	100

Strongly agree 28 9 10 76
p-value = 0 which is significant

6.3.8 Congeneric reliability

In this part the objective is to define to what degree particular pairs of questions measure a similar thing. This is centred around factor analysis – an effort is made obtain an underlying factor explaining the answers to a group of questions as a whole. The measures computed here are linked to the well-known Cronbach'sα, but deemed more accurate.

Reliability measures less than 0.7 indicates that several concepts are being measured; whereas measures above 0.95 indicates that precisely the same matter is being asked in using altered words. When measuring different concepts a reliability analysis is undertaken to assess whether the respondents understood the distinctions used, and the reliability scores were used to determine this. In this study we assess reliability for a single pair of questions. The congeneric reliability analysis is depicted on figure 6.18, table 6.34, 6.35 and 6.36 below:

- The general/maximum is 0.61;
- Maximum/minimum is 1.42.
- The mean percent general is 0.2;
- standard deviation of 0.14;
- Coefficient of variation of 0.68.
- The explained Common Variance of the general factor of 0.2.
- The degrees of freedom are 25 and the fit is 0.95.
- The number of observations was 502 with Chi Square of 468.61 with probability density < 2.4e-83.
- The root mean square of the residuals is 0.07
- The Root Mean Square Error of Approximation (RMSEA) index is 0.188 and the 10 % confidence intervals are 0.174 - 0.203.

The RMSEA takes into account the model complexity, the value smaller than 0.05 indicating an excellent convergence fit to the analysed data by the model. The RMSEA value between 0.05 – 0.08 indicating a fit close to good and between 0.08 – 0.10 indicating a fit that is neither good nor bad (Cangur & Ercan, 2015). The 0.188 RMSEA of the study is acceptable. Alpha of 0.74 indicates that the data and the model used is reliable, this is because alpha should be greater or equal to 0.7 (alternatively 0.8). The omega total of 0.84 which is better that the alpha of 0.74 also attests to this reliability.

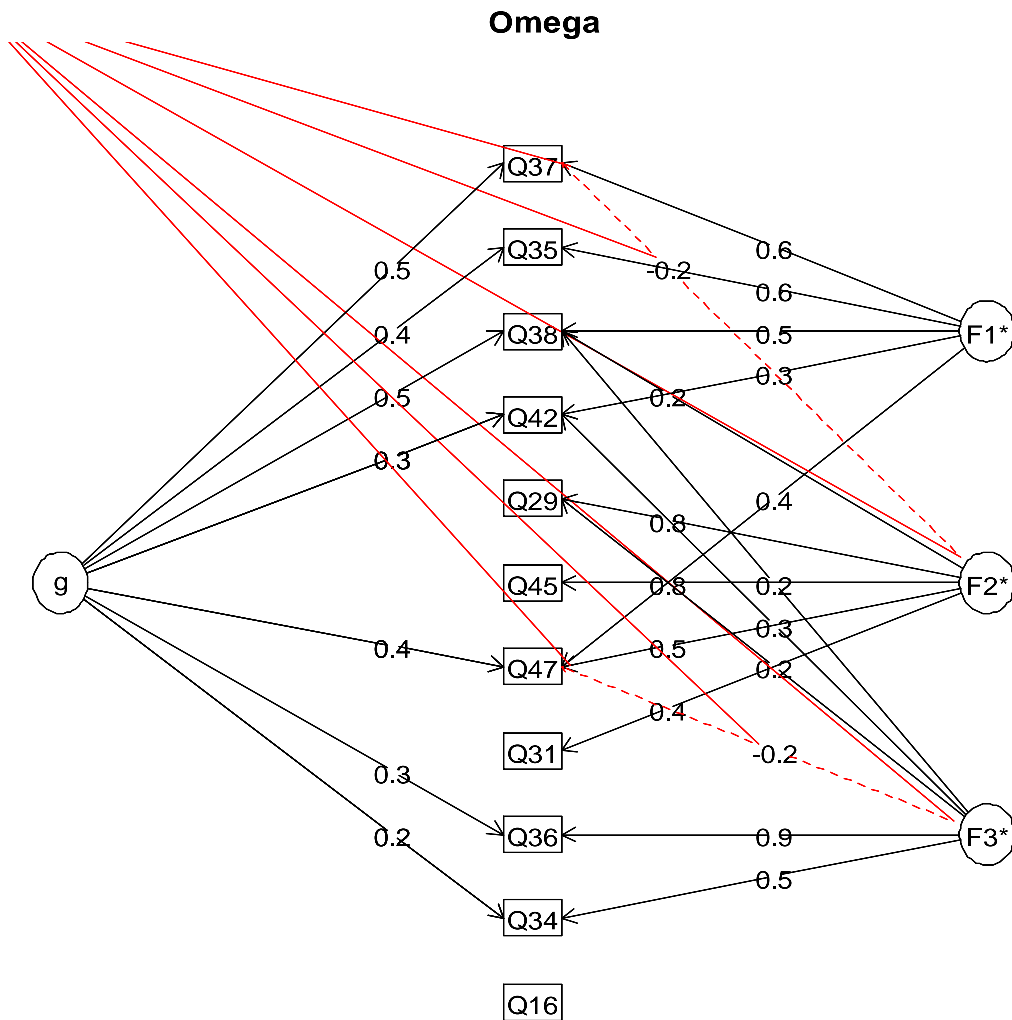


Figure 6.18: Congeneric reliability

Omega

Call: omegah(m = m, nfactors = nfactors, fm = fm, key = key, flip = flip, digits = digits, title = title, sl = sl, labels = labels, plot = plot, n.obs = n.obs, rotate = rotate, Phi = Phi, option = option, covar = covar).

Table 6.33: Omega Factors

Alpha:	0.74
G.6:	0.84
Omega Hierarchical:	0.28
Omega H asymptotic:	0.34
Omega Total	0.84

Schmid Leiman Factor loadings greater than 0.2

Table 6.34: Schmid Leiman Factors

Schmid Leiman Factor	g	F1*	F2*	F3*	h2	u2	p2
Q16					0.06	0.94	0.15
Q29			0.79	0.24	0.72	0.28	0.01
Q31			0.36		0.21	0.79	0.17
Q34	0.21			0.51	0.33	0.67	0.13
Q35	0.43	0.56			0.51	0.49	0.37
Q36	0.29			0.88	0.86	0.14	0.09
Q37	0.52	0.64	-0.22		0.76	0.24	0.35
Q38	0.46	0.46	0.21	0.21	0.52	0.48	0.41
Q42	0.27	0.28		0.26	0.24	0.76	0.30
Q45			0.76		0.60	0.40	0.03
Q47	0.39	0.45	0.54	-0.25	0.70	0.30	0.22
With eigenvalues of:	1.1	1.3	1.8	1.4			

Measures of factor score adequacy

Table 6.35: Measures of factor score adequacy

Factor score adequacy	g	F1*	F2*	F3*
Correlation of scores with factors	0.61	0.73	0.91	0.92
Multiple R square of scores with factors	0.37	0.54	0.83	0.84
Minimum correlation of factor score estimates	-0.26	0.08	0.65	0.68

Total, General and Subset omega for each subset

Table 6.36: Total, General and Subset omega

Total, General and Subset omega	g	F1*	F2*	F3*
Omega total for total scores and subscales	0.84	0.74	0.78	0.59
Omega general for total scores and subscales	0.28	0.31	0.08	0.07
Omega group for total scores and subscales	0.36	0.42	0.71	0.51

6.3.9 Correlations

The Pearson correlation was used between pairs of questions to see which are answered in similar ways, or answered in contrary ways. Positive correlations highlight responses that are likely to vary (move around) in a similar direction. Negative correlations are an sign of responses going opposite to one another. Correlations that are not statistically different from zero are shown like that with a cross in table 6.37 below. It can be determined from table 6.37 the following research questions have positive correlations: 16 & 31; 29 & 31; 29 & 45; 29 & 47; 31 & 16; 31 & 31; 34 & 36; 35 & 37; 35 & 38; 35 & 47; 36 & 29; 36 & 34; 36 & 37; 36 & 38; 36 & 42. While the following research questions have negative correlations: 29 & 35; 29 & 37; 29 & 42; 45 & 37. This indicates

that the majority of the research questions were asking different questions improving the validity of the study.

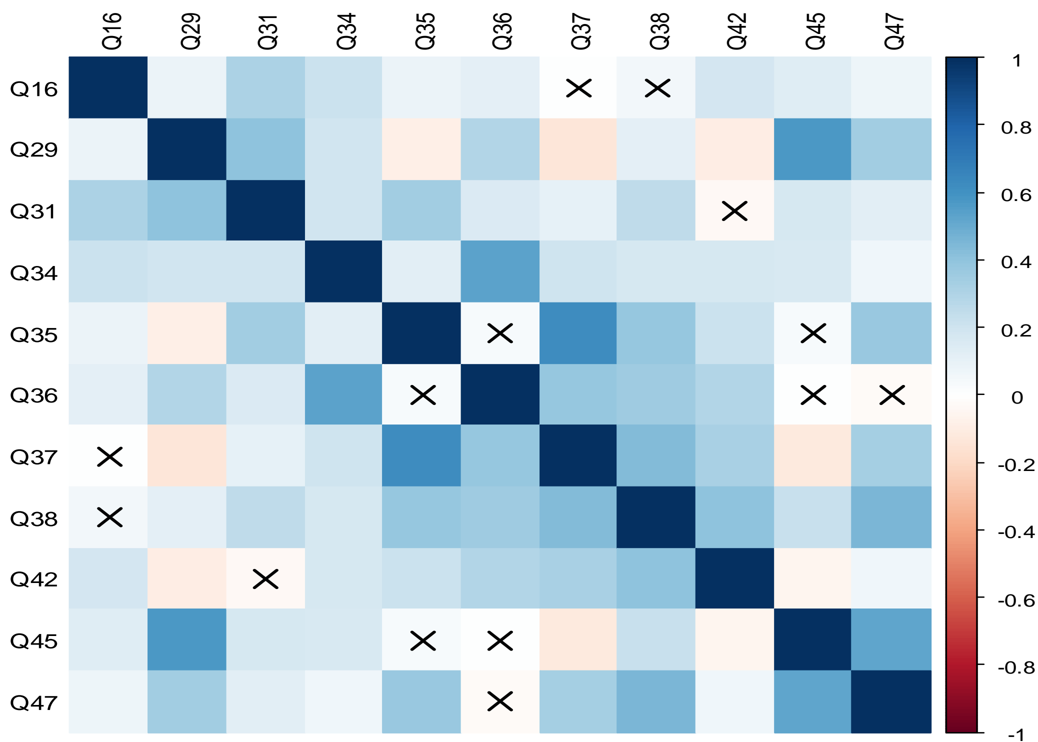


Figure 6.19: Correlations

6.4 CONCLUSION

This chapter presented research results and discussions on the findings of the study. The impact of financial education in helping improve the credit risk of over-indebtedness in the unsecured lending market was investigated using quantitative methods of research. The study had 50 research questions, 19 were closed-ended and 31 open-ended questions. The questionnaire was divided into 5 sections with the first section being demographic information, the second section being on analysing the unsecured lending sector, the third section being on the overview of role of legislation in the South African unsecured lending sector, the fourth section being on consumer education models in the unsecured lending sector, and the last section being on overview areas where South African consumers need to be educated in order for credit providers to lend more sustainably in the unsecured lending sector. The chi–square statistical findings of responses were also conducted on the study.

Employees working in the unsecured lending market at the commercial bank in the Free State, Northern Cape and North West Provinces of South Africa respondents in the study, and 87% of

the 588 employees responded adequately to the research questions. The gender composition of employees working in the unsecured lending market comprises of females at 63% and the male respondents were 37%. The ethnicity of employees in the unsecured lending market was found to be mainly white South Africans (47%) followed by black South Africans (31%), Coloured South Africans (18%), and Indian South Africans (4%). All employees sampled indicated that they were South African and no foreigners were found in the sample.

The importance to discuss and understand the purpose of the loan during the loan application process is supported by the findings, and also that unsecured loans are the easiest types of loans for customers to get from credit providers in Central South Africa. Many of their customers are applying for loans even when over-indebted and insists that they can repay loans even when the credit assessment indicate they cannot repay. Customers apply for loans even when over-indebted because they are chasing status, are not financially educated, are not financially disciplined, or are desperate for money. Customers insist they can repay unaffordable loans due to the emotional attachment to the need that the loan is going to fulfil, already have a pre-conceived ideas of how the loan will change their lives, commitments already made, have unavoidable pressing personal problems and the bank being the last resort of aid.

The main causes of unsecured lending customers defaulting on their loans are that customers are over-indebted, keeping a certain status and lifestyle that is unaffordable, have no assets to lose as collateral, loss of income, unforeseen circumstances, divorce or retrenchments. Some defaults are due to loan structures and borrower behaviour, where respondents' highlighted high interest rates, inadequate loan sizes and improper client selection.

Credit providers that are dominant in unsecured lending in Central South Africa are commercial banks such as “Absa, FNB, Nedbank, Standard Bank, African Bank, Capitec, Old Mutual and Samba”. Capitec and African Bank are perceived by respondents to be the leaders in unsecured lending. Cash loans and loan sharks are perceived by respondents to also dominate the unsecured lending market in Central South Africa as well as micro lenders. The credit providers that are the easiest to get unsecured lending from in Central South Africa as micro lenders; Capitec and African Bank, Bayport Direct Axis as well as loan sharks. The reason the abovementioned credit providers are the easiest to get unsecured loans is because it is easy to get loans approved are readily available throughout the country to offer unsecured lending to clients and are also available for face to face visits and require no collateral when loans are provided. Comprehensive financial

information and supporting documents are important during the loan application process because this creates awareness of how important affordability is; ensures appropriate credit assessment are done by the credit provider to ensure that the reckless lending is prevented.

Customers applying for unsecured loans do not fully understand credit agreements they are entering into as customers are normally impatience or desperation. The impact of consumer credit legislation (NCA, CPA etc.) on unsecured lending is that it reminds everyone that reckless lending is dangerous, and restricts lenders from lending money recklessly; give some comfort to both the institution and the lender that there are rules that needs to be operated in. Option(s) available should customers have a problem in repaying the loan include payment holidays or payment arrangements with the credit provider or existing creditors, debt restructure or debt consolidation. Other options include applying for debt counselling or for debt review; take out an insurance policy against the unsecured loan; to be placed under administration and also using financial wellness to ensure customers understand how to handle their finances effectively. The impact of debt counselling on financial literacy of unsecured lending customers include the support to the individual customer and assisting with the restructure of repayments and also learning good financial habits from the process; Other respondents have a different view indicating that debt counselling has no impact. These respondents perceive that debt counsellors do not normally explain to customers these consequences thoroughly.

Methods used by the commercial bank to explain consumer rights and obligations to customers include using the agent, consultant or banker servicing the customer; using the commercial bank's financial education program, using online "ready to work program" on financial education. Some respondents seem not to know any methods used to explain rights and obligations to customers indicating that they are not familiar with any methods, they stress that customers only gets explanation on repayment methods, amounts, due dates not anything further than that. Respondents indicate the impact of the methods used by the commercial bank to explain consumer rights to unsecured lending customers is that customers will be better educated and be able to make better choices on loans required.

Customers' levels of financial literacy is assessed by bank employees. The impact of assessing the customers' levels of financial literacy when granting them loans is that it makes it easier for the credit provider to provide knowledge and skills needed to change financial attitudes of customers. Methods used by customers to educate themselves about managing their finances include using the services of a financial manager or advisor that is qualified or work closely with an auditor/book keeper (for example monthly management statements and budgets); customers use the internet,

advertising on radio and television to learn about financial education Some respondents are not sure whether there are any methods that they can use to educate themselves about managing finances. Financial education is offered to the commercial bank customers. The methods used by the commercial bank to offer financial education to their customers include using the commercial bank's well trained staff; internet banking platform; through presentations and also online. Financial education is offered to the commercial bank employees through Continuous Professional Development (CPD) offered to the commercial bank employees so that the employee is seen as fit and proper; through organising classroom style training or sometimes they offer the online training programs; and through employee wellness and care within the commercial bank's human resources department. The impact of teaching customers about managing their finances on how they manage their credit include customers having better knowledge; making better informed financial decisions; reducing credit risk. Financial education makes customers manage their credit better leading to credit providers willing to take more risks and lend more money to these customers.

Financial education should be offered formally, informally, at community level, by government agencies and by other innovative means. This should be done because sharing more information will result in consumers making better choices; ensure that financial education is administered correctly. Although there is currently some forms of financial education by above authorities, it is not always applied. The most common language that credit providers use when explaining financial choices to unsecured lending customers is English. Language that is easy to understand and comprehend is favoured by the study respondents. Financially literate customers are better off in taking advantage of financial opportunities or innovations, this is because financial literacy assist them to make superior and more well informed choices. Group lending received mixed views in the study, some respondents indicating that that they support group lending and others indicating that it is risky and not supported. The culture of the community the customer comes from affect credit decisions by customers; respondents are of the opinion that culture has an impact on credit decisions, some are either not sure (undecided) or disagree. Unsecured lending customers use unsecured lending to acquire assets, vehicle and home repairs, renovations, improvements, education as well for unforeseen expenses such as medical and funeral expenses, consumption on luxury items, expensive holidays, clothes, shopping sprees and weddings.

Bankers know more about managing finances than their customers because the background and knowledge bankers have makes it easy to see loop holes and red flags; bankers apply their knowledge to prevent bad spending. Some respondents disagree indicating that bankers face the same challenges as customers and some bankers are worse in managing finances than their

customers. The impact of financial education on unsecured lending customers' defaults is that financial education will decrease the tendency to default. Credit providers can reduce credit defaults in the unsecured lending market by doing proper financial assessment and including a larger portion for living expenses when calculating affordability. Regulated lenders should adhere to the same standards and criteria in offering loans and should not provide credit if you see that the customer cannot afford. Educate people and give them proper advice on how to manage their financial position. Customers do not take their over-indebtedness seriously and will apply for loans even when already over-indebted and insist that they can afford loans even when already over-indebted even when the credit assessment indicates that they cannot afford. Assessing the financial knowledge of customers during the loan application process and providing them with appropriate advice based on their knowledge improves customers' financial knowledge. Bankers with financial knowledge are able to determine the level of community influence on customers requesting unsecured loans. Both genders all ethnicities agree that:

- Customers apply for loans even when already over-indebted;
- Customers insist they can repay an unsecured loan even when the credit assessment indicates otherwise;
- Comprehensive financial information and supporting documents are important during the loan application process;
- Bank employees assess the customers' levels of financial literacy when granting them unsecured loans;
- The commercial bank offers financial education to their customers; that the commercial bank offers financial education to their employees;
- Financial education be administered formally, informally, at Community level, by Government Agencies, and by other innovative means;
- Customers who are financially literate better off in taking advantage of financial opportunities or innovations; that the culture of the community the customer comes from affect credit decisions by customers; and
- Bankers know more about managing finances than their customers.
- The culture of the community the customer comes from affect credit decisions by customers; and that bankers know more about managing finances than their customers.

The reliability of the data was determined using congeneric reliability and the data was found to be reliable. Research conclusions and recommendations will be outlined in the next chapter.

CHAPTER 7:
RESEARCH CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

The primary objective of the study was to develop a comprehensive financial education framework as a means to prevent the credit risk of over-indebtedness in the unsecured lending market in the Free State, Northern Cape and North West provinces, focusing on a commercial bank. As the South African financial sector is highly regarded globally, it is essential to ensure that its sustainability is enhanced. The study went into the heart of the unsecured lending market by obtaining insights from employees working in the unsecured lending market at the commercial bank branches in the Free State, Northern Cape and North West provinces. As explained in Chapter 1, the study formulated 50 research questions, 31 of which were open-ended and 19 closed-ended. Five-hundred and eighty-eight (588) employees were surveyed and 509 employees responded adequately to the research questions, yielding a response rate of 86 per cent. Most participants were female (63 per cent) and the rest were male. The ethnic composition of the participants was as follows:

- Black African (31 per cent);
- Coloured (18 per cent);
- Indian (four per cent); and
- White (47 per cent).

All participants indicated that they were South African citizens.

In the introductory chapter of this study, it was indicated that there is a significant credit risk in the unsecured lending market in South Africa. The credit risk was argued to have been caused mainly by over-indebtedness of the South African consumer, which resulted in one of the major unsecured lenders, African Bank, collapsing in 2014 due to unsecured lending consumers who were unable to repay their debt. It was also indicated that the over-indebtedness of the South African consumer is caused by the culture of consumption, which has a profound impact on the behaviour of the South African consumer when it comes to using credit. The psychological impact of credit on individuals was studied from the behavioural finance perspective, which formed the theoretical basis of the study. In order to address both the credit risk of over-indebtedness and the psychological impact of credit on individuals' behaviour, financial literacy has been identified as a useful tool to coordinate the interface between human behaviour (psychology) when it comes to

managing their finances and managing over-indebtedness (credit risk) in the unsecured lending market.

In South Africa, financial literacy is being advocated as part of the development of the nation's overall skills. Although many financial literacy methods and models have been put in place (see Chapter 4), there seems to be more focus on financial literacy awareness instead of a formal financial literacy program that can be taught in schools, at universities or by employers through employment assistant programs (EAPs), by community groups and community organisations. In addition, the study found that financial education is a complicated phenomenon, and that it is not always offered or transferred in a user-friendly, easy-to-understand manner. To address the primary objective, the study focused on the following secondary objectives:

- To discern over-indebtedness;
- To analyse the unsecured lending sector in South Africa;
- To provide an overview of the role of legislation in the unsecured lending sector in South Africa;
- To provide a synopsis of consumer education frameworks for the unsecured lending sector;
- To ascertain areas in which South African consumers need to be educated in order for credit providers to lend more sustainably in the unsecured lending sector;
- To analyse the perceptions of market participants on the impact of consumer education on over-indebtedness;
- To ascertain the perceived impact of consumer credit education in reducing over-indebtedness; and
- To design a comprehensive financial education framework for the unsecured lending market.

This chapter presents an overview of the literature and empirical results survey research conclusions as well as the overall recommendations.

7.2 LITERATURE OVERVIEW AND EMPIRICAL RESULTS

The research problem addressed in the study pertained to the need to lessen the significant credit risk of over-indebtedness in the unsecured lending market by means of financial education to ensure that lending in this market is sustainable. The study followed two approaches to determine whether financial education can be a useful tool to curb the credit risk of over-indebtedness in the unsecured lending market: the first was a literature review and the second a research survey. The conclusions of the literature review are discussed next followed by the conclusions emanating from the research survey.

7.2.1 Literature review conclusions

The theoretical foundations of the study were laid in the literature review contained in Chapters 2 to 4. The literature review was conducted by consulting dissertations, books, theses, technical reports, and periodical articles. These secondary sources of information were consulted to examine whether prior studies can contribute to the research topic being studied and whether there is a need for more research on the topic. Chapter 2 examined the challenges caused by over-indebtedness in South Africa. The scourge of over-indebtedness that has plagued the South African consumer along with the argument that financial literacy can be one of the crucial solutions to curb this dilemma were discussed in Chapter 2. A comprehensive analysis of over-indebtedness in the country was presented along with financial education methods that can be used to ensure lending is sustainable in the unsecured lending market. An analysis of how the credit assessment practice as well as costs related with the impact of credit on over-indebtedness was provided; and that unsecured lending, when used effectively, can play an essential role in achieving higher levels of financial inclusion – empowering consumers who would otherwise need collateral to participate in the economy, and paving the way for them to be integrated in the economic mainstream.

Chapter 3 delineated the role of consumer credit legislation in the unsecured lending market. The evolution of consumer credit regulation in South Africa, from the Usury Acts (No. 37 of 1926 and No. 73 of 1968) to the National Credit Act (NCA) (Act No. 34 of 2005), was discussed in Chapter 3. During those years there were various amendments to the Usury Act, the most important being the replacement of the concept 'interest' with 'finance charges' in 1968, and the two exemption notices in 1992 and 1999. The former excluded the interest rate cap on transactions worth less that R6 000 and the latter exempted those less that R10 000. The Credit Agreement Act (Act No. 75 of 1980) was introduced and affected the financing of movable assets and consumer credit. In 2000, the *in duplum* rule was also introduced, curbing the interest rates that were charged beyond the initial capital of the loan granted. In June 2007, the NCA became effective replacing the Usury Act. The NCA regulated interest rates and was enacted to protect consumers from unscrupulous lenders. The NCA was amended in 2014 with the promulgation of the National Credit Act Amendment Bill No. 19 of 2014, which tightened compliance regulations for credit providers. The National Credit Act Amendment Bill of 2014 required credit providers to be very cautious when granting credit. Some tightening included revised and standardised affordability assessment regulations; improved standards and training requirements for debt counsellors; automatic removal of adverse consumer information; enhanced regulation of payment distribution agencies; and a further clampdown on illegal credit providers by requiring that all credit providers regardless of size be enlisted with the National Credit Regulator (NCR). Chapter 3 demonstrated the considerable impact that regulation has had on unsecured lending in South Africa and the necessity to rely on

other methods to curb the credit risk of over-indebtedness as legislation alone has proved to be inadequate.

Chapter 4 examined consumer education methods and highlighted some of the many financial education initiatives that have been adopted throughout the world. This chapter also examined behavioural finance, which formed the theoretical foundation of this study, by providing an analysis of consumer credit behaviour. Political and economic perspectives were examined, which provided an assessment on government intervention in the consumer credit industry and the behaviour of lenders in granting loans, as well as the economic anthropology that highlights the importance of designing financial education programs after considering how people think and perceive finance. Key role players in consumer credit education, including employers, the formal education system, financial institutions, and the NCR were also discussed. Employers were deemed to be instrumental in ensuring the credit health of their employees through EAPs and other initiatives. In addition, the critical need to include financial literacy in the school curriculum was pointed out. It was noted that the government, through the NCR in particular, can also play a pivotal role in financially educating individuals. Other methods were highlighted including group lending and stokvels in particular. These initiatives give a good indication on what can be done from a consumer education point of view to ensure sustainability of the unsecured lending market.

Behavioural finance has made two important inputs to empirical research and to the field of finance. The first one is to show that individuals assess financial outcomes according to the prospect and the utility theories. There are many anomalies in preferences resulting from heuristics applied when prospects to facilitate decision-making are considered. Behavioural finance draws insights from cognitive psychology and denotes that individuals use heuristics when assessing information or forming beliefs, and that these heuristics are difficult if not impossible to overcome. Human beings process information by using emotional filters and shortcuts. This influences decision-makers to sometimes act in an irrational manner and to make suboptimal decisions violating the traditional finance theory of rationality. The impact of this irrational decision-making has implications for the efficiency of markets, performance of corporations and personal wealth. Research indicates that when there is more impartiality in making the judgement, the likelihood of biases in decision-making decreases. It was pointed out that human behaviour has caused many unsecured lending customers to behave irrationally. They do not consider unforeseen circumstances when taking out more debt than they can afford, which in turn lead to over-indebtedness.

7.3 SURVEY RESEARCH CONCLUSIONS

Survey research was performed to uncover the opinions of employees working in the unsecured lending market on whether financial education can be a useful tool to curb the credit risk of over-indebtedness. From the literature review it was evident that there is a necessity to also collect data from unsecured lending consumers in future research. The research methodology used for this research was explained in Chapter 5. Questionnaires were sent to respondents via email for completion. The data preparation, statistical analyses, and the constraints in the process of data gathering were explained. Although the research findings were presented and discussed in depth in Chapter 6, an outline of the main findings of the research will be given in the next sections, linking them with the research objectives outlined in Chapter 1.

7.3.1 Over–indebtedness discernment in the unsecured lending sector

When discerning over-indebtedness in the unsecured lending market the findings of this study confirm that credit providers should first and foremost understand the purpose of the loan application. This means that bank employees working in the unsecured lending market should be aware of the importance of the loan purpose during the credit application process to make sure that they provide the right type of credit and advice to the customer. Other reasons for the importance of understanding the purpose of the loan include to ensure affordability and to avoid defaults in the unsecured lending market; and to understand the behaviour patterns of those individuals who apply for unsecured loans so that the credit provider can guide borrowers to make the appropriate financial decisions. Lastly, the credit provider should make sure that lending results in customers being in a better financial position afterwards, and that the funds are not used for illegal activities.

The findings indicate that it is the easiest to obtain personal loans from credit providers in the central region of South Africa (the Free State, North West and the Northern Cape). However, it was found that it is also easy to obtain other types of unsecured loan, such as credit cards, clothing accounts, revolving loans, and overdrafts. Respondents also made the point that any loan should be easily approved by credit providers as long as affordability can be proved. This finding shows that bank employees believe that credit risk in unsecured lending has been exacerbated by the relative ease and speed at which these loans can be obtained.

The majority of respondents confirmed that there are customers who are already over-indebted applying for loans insisting that they can repay even if their credit assessment indicates otherwise. The study also found a correlation between those customers insisting they can repay loans even when the credit assessment indicates that they cannot, and those customers who are already over-

indebted but still applying for loans. It can also be inferred from these findings that these customers are not financially educated or that they do not realise the implications of taking out loans that they cannot afford. These circumstances may result in increased over-indebtedness, high default rates and an increased risk for the unsecured lending market.

The study also found that the main reason that customers apply for loans even when over-indebted is that they have exhausted their debt capacity, become over-indebted and still believe they can apply for more debt. Most of these customers are trying to compete with their family, neighbours and friends and then struggle to maintain these living standards. Without proper financial education, budgeting and planning, customers lose track of their finances and end up lacking affordability required when the loan is applied for. Low salaries or income loss due to an ailing economy has also rendered some consumers to fall behind on their financial commitments and obligations. Some customers lack the financial discipline required to live a financially healthy life and continue to believe that they will be able to settle their debts in future without a plan or the discipline required. The fact that unsecured lending requires no collateral leads to many customers applying for these loans as they have nothing in the form of assets or security to lose. Other causes of customers defaulting on their loans include fraud or crime, an increase in instalments, and those customers prioritising other purchases instead of paying off their loans. A lack of financial knowledge, arrogance, blaming credit providers, an emotional attachment to their financial aspirations, and lying or being in denial about their deprived financial situation are the main causes given of customers insisting that they can afford loans even when they cannot. Bank employees who work with unsecured loans are often confronted with these responses.

Other related findings suggest that many customers' loans are declined due to being over-indebted, low credit scorings, poor affordability, including adverse listings and judgments, and customers having poor repayment histories. Once again, over-indebtedness has been shown by respondents to be the primary cause of credit applications being declined.

7.3.2 Unsecured lending sector analysis

When analysing the unsecured lending sector in the Free State, Northern Cape and North West provinces in South Africa, the findings indicate that, at the time of the study, Capitec, microloan credit providers, and African Bank dominated the unsecured credit market in those provinces. Although commercial banks (the so called 'big four', which are Absa, Standard Bank, FNB and Nedbank) and Old Mutual and Samba were mentioned, they were not perceived by respondents to be as dominant in the unsecured lending market. Other well-known and well-marketed credit providers were mentioned (such as Direct Axis, Wonga.com etc.) as well as local credit providers

(such as Letsatsi Finance and Finance World), indicating that there is a variety of credit providers in the unsecured lending market, ranging from international and national credit providers to provincial and local credit providers.

There was a strong sense among respondents that it is easier to obtain unsecured loans from these dominant unsecured lending credit providers. Some of them, especially micro-lenders and loan sharks, are not perceived by respondents to follow a robust credit assessment process compared to the larger credit providers. Findings indicate that unsecured lending customers prefer credit providers from whom it is quick and easy to access loans, and who are available and located closer to them so that they can visit in person and have personal interactions with the employees of the lender.

Most respondents indicated that obtaining comprehensive financial information and supporting documents from customers is important during the loan application process. Educated customers will also be able to manage the risk of unexpected events, and to prevent reckless lending, money laundering and fraudulent transactions. Comprehensive financial information is thus crucial to determine the customer's overall credit profile and needs in order to offer appropriate credit solutions.

7.3 THE ROLE OF LEGISLATION IN THE UNSECURED LENDING SECTOR

Regarding the role of legislation in the unsecured lending market, the majority of respondents indicated that most unsecured lending customers do not understand fully the credit agreements they are entering into even though credit providers are required by credit regulations to ensure that their customers do understand. Customers are normally desperate and only interested in the funds, not the agreement. It was found that consumer credit legislation in unsecured lending has created an awareness of the dangers and consequences of reckless lending. It also gives comfort that there is adherence to rules and regulations whereas the absence of regulations might lead to the credit system being open to abuse. Respondents pointed out an inconsistency in the application of consumer credit regulations and that regulations sometimes have unintended consequences of limiting access to credit. Some respondents indicated that legislation has very little impact. Others were unsure as the overall economic circumstances in the country contribute to consumers' distress and their insisting on loans despite their adverse credit history.

On instances where customers have difficulty in repaying their unsecured loans, the findings of the study indicate that debt arrangements are crucial and should be done early, i.e. when a customer first encounters difficulty in repaying the loan. Other options that can

be considered should customers struggle to repay their loans include credit insurance that can pay out to cover the loan and debt counselling to rehabilitate the customer so that they can return to a healthy financial position. When a customer is unable to repay a loan, it will have a negative impact on their credit profile, so much so that the customer will be flagged as having a negative credit record. The findings also highlight that, by explaining the available options to these customers, it will not only improve their financial knowledge and their overall financial management, but it will also equip them with the information and knowledge on how to react should they encounter difficulty in repaying the loans. Explaining the options to customers will also improve the rapport between the borrower and lender, thus reducing the credit risk to the lender and avoiding the borrower to simply discontinue their payments.

On the issue of debt counselling, the study reveals mixed views among respondents, with some indicating that debt counselling is a good intervention, helping consumers them to recover and return to a financially healthy position through financial education, reducing instalments on loan repayments, and ensuring that no new loans are taken that may increase the customer's debt levels while already under debt counselling. Other respondents indicated that debt counselling add no value and, in some cases, has even driven customers into further financial distress, because the behaviour of customers is difficult to change and debt counsellors are not deemed to be successful in changing customers' behaviour for the better. Debt counsellors are perceived by respondents not to be very honest with their customers in explaining the debt counselling process to them – 'reducing' instalments is perceived to result in the loan being paid over a longer term and therefore costing customers more interest.

Regarding consumer rights and obligations, the findings indicate that the commercial bank makes use of bankers, sales agents as well as self-service (the Internet and banking applications) to explain unsecured lending rights and obligations to customers. A smaller number of respondents indicated that there is a financial education program available to everyone, while others mentioned that forms are used but that terms and conditions are not explained in detail. These mixed findings point to inconsistency in explaining unsecured lending rights and obligations to customers. Methods used to explain consumer rights to customers ensure that customers are informed and are better able to make sound financial decisions when it comes to their debt management. It is also clear from the findings that these methods are deemed to protect the credit provider instead

of the customer and also that these methods have no impact, or that their impact cannot be determined with absolute certainty. If bank employees do not believe these methods have any effect, they will have little faith in implementing them, resulting in some bank employees not using the methods to explain consumer rights to unsecured lending customers.

7.3.4 Consumer education models in the unsecured lending sector

As far as consumer education methods are concerned, the findings of the study highlight that the customers' degree of financial education is assessed during the loan application process by the commercial bank bank employees working with unsecured lending. Assessing the level of financial education has a major impact on ensuring that appropriate knowledge and skills can be provided to customers. A small number of respondents indicated that knowledge cannot be assessed, arguing that there are still bank employees who do not understand the significance of assessing customer financial education and will not provide financial education even if it is necessary to their customers. The study also found a correlation between assessing customers' level of financial literacy and financially literate customers being better equipped in managing their finances than those who are financially illiterate. Assessing customer's level of financial education ensures customers better equipped in managing finances than those customers who are financially illiterate.

On the methods used by customers to learn more about managing their finances, it was found that customers consult bank employees, financial advisors, accountants/bookkeepers, the Internet, radio, television and other media to educate themselves in managing their finances. Some customers educate themselves by inspecting their credit scores and making sure they maintain a good score and that they pay their obligations timeously. Some respondents in the study were not sure and did not believe customers educate themselves given the high debt levels in South Africa; instead, they believed that even when advice is provided, customers do not always accept it. These findings indicate that although many options are available to customers to educate themselves in managing their finances, these options are not being implemented adequately by both the credit providers and customers.

On the question whether the commercial bank offers financial education, the findings indicate that the commercial bank indeed offers financial education to both its employees and customers. However, some respondents were unsure and mentioned that they do not receive financial education from the credit provider or offer financial education to the customers. These findings indicate that financial education is offered to the commercial bank employees and customers, but that not all employees and customers necessarily receive financial education. This may have a

spiral effect in that employees who are not financially educated and their customers who are financially illiterate can result in these customers falling into debt that they do not understand, which in turn result in defaults and an increased credit risk in the unsecured lending market.

It was also found, however, that the commercial bank has online platforms and well-trained employees offering financial education. Respondents indicated that financial education is offered to the commercial bank employees as part of their continuous professional development (CPD) and that the commercial bank requires their employees to always have a healthy financial position given that they work with the finances of their customers. Before an employee is hired, a background check is done to ensure that the applicant has a stable financial position. Also, should the employee struggle to repay their debt once they are employed, assistance through the Human Resources Department to rehabilitate them back to a healthy financial position is offered. There is also support through employee care and wellness programs by the Human Resources Department, which offers annual financial initiatives to help employees keep abreast of financial developments. Employees also have the option for self-driven financial education that is offered online.

7.2.6 Financial education aspects for credit providers to lend more sustainably in the unsecured lending sector

Financial education is valuable to both the customer and the lender as it leads to a mutual trusting relationship between them owing to the fact that both understand the positive impact of sound financial decisions. There is strong support to start with financial education early, especially at school level, as it was found that some customers do not listen to bank employees teaching them about finances; many think that bank employees overstep their roles. Education in financial matters is crucial for each individual to be able to make important financial decisions on budgeting, saving, investing in assets and preparing for retirement. The study found strong support for financial education being formally administered, by including it as part of the school curriculum. Support was also found for informal financial education by consulting friends, family members and fellow employees as well as people who are knowledgeable about financial matters. Respondents indicated that financial education can also be offered by community groups or community-based organisations such as NGOs, the government, and any other innovative means to make sure that as many people as conceivable receive financial literacy. The need for formal consumer credit education at school level cannot be emphasised enough. Financial education is believed to be an invaluable skill in life, especially for young individuals. For some consumers learning about finances it may be best coming from informal networks of family and friends who may know banking products, costs and a language that the community will understand. Peer-to-peer support can be

used effectively in offering financial literacy to a couple of people in a group re-enforcing positive peer pressure to keep the group on track of financial well-being. Social influence is critical in ensuring that behavioural change is successful as the group is likely to follow one another when they see positive changes are happening among themselves. The personal financial education subject should be taught in an easy-to-understand language. The most important impact of using the language understood by customers during the loan application process is that it helps avoid misunderstandings that can be caused by language barriers. Misunderstandings can lead to poor financial management, as well as non-adherence to the terms and conditions of the unsecured credit contract that were not properly understood.

Furthermore, it was established that financially literate customers are better equipped in taking advantage of financial opportunities and innovations. Financially literate customers are regarded by respondents as being able to make better financial decisions that can help them avoid financial risks. These customers approach the credit provider already prepared and will most likely not commit to a loan unless they understand the loan fully. A few respondents indicated that it depends on the discipline and experience of a consumer, not on financial education. These respondents reported that experienced customers are better at taking advantage of financial opportunities as they understand their industries better. It can be concluded that a lack of financial education and distorted financial information has placed many consumers in a disadvantaged position whereby most of them were found to lack adequate skills to understand, negotiate and manage financial agreements. This unfortunate situation has led to individuals saving less, especially for retirement, taking less advantage of financial innovations, borrowing at high interest rates, and tending to be more over-indebted compared to those who are financially literate.

As far as group lending is concerned, some support was found for the concept. Respondents indicated that if it can work, it can reduce the risk of repayment as it will be spread among group members. Respondents who did not support the idea of group lending indicated that it can increase the risk to the credit provider as these respondents perceived taking responsibility for others in the group to be a challenge. Other respondents were cautious and not familiar with the concept of group lending at all. Group lending can be a critical catalyst to mitigate against adverse selection and information asymmetry and facilitate the needed finance to the economy, especially to those previously excluded from the mainstream economy and those with no assets to offer as collateral. Financial education can be effective in group lending when it is delivered by a member of the group or a community member. This is because borrowers in the group normally go to one another for advice and are likely to pay attention and follow advice given by their counterparts instead of a lecture/advice from an expert who is not part of the group or community.

On the impact of a community's culture the findings indicate that the community where the customer comes from has an impact on the financial decisions of the customer. This means customers will normally prioritise their spending on things that the community deems important and that customers will normally try to keep up with community members to maintain community ties and their status in the community. The study also found a correlation between bankers assessing customers' degree of financial education when granting loans and the culture of the community the customer comes from, which affects credit decisions by the customer. This insight can assist bankers to provide the appropriate advice to those customers who are trying to uphold the status expected in the community instead of managing their finances appropriately. This signals that the social status of consumers also influences their use of credit: they want to preserve, strengthen, and maintain status, identity and social ties. Financial connections are fundamental to these practices due to their social significance. Credit constitutes social connections between people, spreading emotions and feelings, which include prestige, respect, dignity, or alternatively, humiliation and shame.

On the main uses of unsecured lending, the findings indicate that unsecured lending is mainly used for luxury items such as holidays, weddings, funerals and living expenses. It is also clear that unsecured loans are used to acquire assets that banks are not willing to finance (e.g. old cars and household appliances), to pay for educational expenses and home renovations. When unforeseen adverse external shocks happen (such as fire or loss of home or property, injury, violent crime, theft, and illness), they normally push consumers to indebtedness. Another use of unsecured lending is pressure from the family to buy material goods (clothes, appliances, furniture etc.) and pressure to support extended families. Funerals, not only the funeral costs, but also the costs of looking after those left behind should the breadwinner pass away, are also highlighted as driving over-indebtedness in the unsecured lending market. The culture of consumption spending (on holidays, weddings, living expenses etc.) has been highlighted as a major reason for over-indebtedness. Some consumers use these loans to improve their lives, by either renovating their houses, or building additional rooms for rental income or other business purposes.

On bankers' financial literacy, the findings indicate that bank employees have superior knowledge in managing finances compared to their customers and that they can perform an crucial part in making sure that customers are financially educated and make the best financial decisions. Bankers know more about managing finances than their customers, because they work most of their time with finances and are trained and financially educated to effectively manage finances. Some respondents did not agree with this statement, indicating that bankers face the same financial challenges as their customers and do not seem to manage them better at all. There is

recognition that some customers know better as they understand the industries in which they work better than bankers. Other respondents were unsure who has better knowledge between bankers and customers. The non-payment attitude of some consumers can be ascribed to a lack of knowledge of the financial system and credit contracts because of financial illiteracy. The study also found a correlation between bankers assessing customers' level of financial literacy and bankers knowing more about managing finances than their customers. The correlation means that bankers with superior knowledge compared to their customers will ensure that customers have appropriate financial knowledge of the unsecured loan they are entering into. This is crucial because the level of explanation and education in managing credit can be specific to the lender based on their degree of financial understanding.

Regarding the impact of financial education on unsecured lending defaults the findings show that financial education can help to reduce defaults as customers who are financially literate are better at financial planning compared to those who are not financially educated. The lack of financial planning has resulted in defaults and an increased credit risk. Respondents who do not believe that financial education can reduce defaults indicate that customer defaults are also influenced by lender complicity where lenders over-indebt their customers through reckless lending. Proper assessment (screening) of the customer's financial position is crucial during the loan application process to avoid defaults. Financial education and providing proper advice cannot be underestimated as it is vital that the customer understands what the expected behaviour is under a credit agreement.

7.4 RESEARCH RECOMMENDATIONS

The study underscored the importance of consumer credit education in curbing the risk of over-indebtedness in the unsecured lending market. The financial situation of the South African consumer was presented in the literature review, together with the impact of regulation and practical methods or models to educate consumers. The behavioural finance theory, the impact of heuristics and biases in particular, underpinned the theoretical basis and arguments of the study. The research methodology used entailed quantitative research methods. The research adds value by making a contribution to the body of knowledge on this topic in South Africa and in practice to financial institutions, policymakers and consumers who rely on the unsecured lending market. The framework created by this research can be employed by financial institutions and other role players to educate customers and employees to ensure they make prudent financial decisions.

The study offers a number of recommendations. These are summarised in Table 7.1 and elaborated on in the ensuing sections. It is accompanied by a detailed explanation of the recommendations emanating from the proposed comprehensive financial education framework.

Table 7.1: Summary of recommendations

1. The credit risk of over-indebtedness can be mitigated in the South African unsecured lending industry, by understanding the purpose of the loan and customer behaviour during the loan application process and after the loan has been granted.	2. Credit providers should understand the risks in the unsecured lending sector to avoid systemic credit risk in the South African financial sector.
3. The legislation in the unsecured lending sector in South Africa must be obeyed by lenders and be used together with financial education to ensure lending is sustainable.	4. Methods to deliver consumer education should be embedded in South Africa to ensure lending in the unsecured lending sector is sustainable
5. Areas in which South African consumers need financial education should be ascertained in order for credit providers to lend more sustainably in the unsecured lending sector	6. The input from market participants on the impact of consumer financial education on over-indebtedness must be considered to be able to embed financial education
7. A proposed financial education framework to ensure that lending in the unsecured lending market is sustainable	

7.4.1 The credit risk of over-indebtedness can be mitigated in the South African unsecured lending sector by understanding the purpose of the loan and customer behaviour during the loan application process and after the loan has been granted

The unsecured lending market has been commended for both its social effect on alleviation of poverty and for its profitability. Empirical evidence outlined in Chapter 1 suggests that enhanced access to finance is not only terrific for the country's economic growth, but that it is also good for the poor and the vulnerable. Over-indebtedness among unsecured lending customers, however, puts both achievements at risk. Together with outside influences it demonstrates the accountability of unsecured credit providers in pushing consumers into over-indebtedness and the part customers involuntary perform in over-indebting themselves. Over-indebtedness is therefore one of the most significant risks facing the unsecured lending market, endangering both the good intended social impact and the stability of the unsecured lending industry.

To reduce and mitigate the credit risk of over-indebtedness the study recommends that credit providers need to first understand and verify the purpose of the loan during the loan application process. Understanding and verifying the purpose of the loan will ensure the right type of loan products and proper advice is provided to customers. By understanding and verifying the purpose of the loan, the credit provider will know what the loaned money is needed for to make sure that

the lending results in the consumer being in a better financial position (reducing over-indebtedness) and to avoid that funds are used for illegal activities such as money laundering.

Secondly, the study recommends that credit providers should understand the impact of human behaviour when granting unsecured loans and reduce over-indebtedness in the process. This is because the study found that there are customers who are already over-indebted applying for loans and insist that they can repay these loans even if their credit assessment indicates otherwise. This will ensure that unsecured loans (such as personal loans) are carefully granted as these loans are the easiest to obtain by unsecured lending customers. The study revealed that customers' financial decisions are shaped by their feelings and their psychological stance at the time the loan is applied for. Therefore, instead of relying on factual and accurate data based on financial knowledge that the bank produces indicating that the loan is unaffordable, feelings and emotions take centre stage and become the driving factor for decision-making in that customers still insist that they can afford the loans. Credit providers should thus be aware of the following behaviours:

- Customers pursue status to compete with their family, neighbours and friends. They are not able to live within their means and struggle to maintain these living standards;
- Customers can become arrogant and blame credit providers. They are emotionally attached to their financial dreams and tend to lie or are in denial about their financial situation;
- Customers without proper financial education, budgeting and planning lose track of their finances and end up lacking affordability required when they apply for a loan; they fall behind with their financial commitments and obligations because of a loss in income due to economic circumstances; and
- Customers lack the financial discipline that is needed to live a financially healthy life, or customers with poor financial management skills continue to believe that they have the ability to settle their credit in the future without a plan in place or the necessary discipline.

The factors mentioned above are some of the major causes of defaults, which lead to over-indebtedness. It can be mitigated when credit providers are aware of these behaviours and are able to educate or provide appropriate advice to customers. The study recommends that artificial intelligence (AI) is used through behavioural finance to understand customer behaviour in unsecured lending and to use these insights to offer appropriate financial education specific to a customer or group of customers.

7.4.2 Credit providers should understand the risks in the unsecured lending sector to avoid systemic credit risk in the South African financial sector

The literature review in Chapter 1 highlighted that the collapse of ABIL in 2014 in South Africa placed unsecured lending and the systemic risk it posed to the financial services sector in the spotlight. The ABIL debacle also illustrated the paradox of balancing financial inclusion of the poor and vulnerable with avoiding reckless lending. The downfall of ABIL showed that South Africa's unsecured lending industry and most of its customers and their families can be plunged into a deep crisis of over-indebtedness when lending in this market is not done prudently. The granting of unsecured loans when done effectively, can perform a pivotal part in realising higher degrees of financial inclusion by empowering and integrating individuals who would otherwise need collateral to participate in the economy. Financial inclusion must not imply reckless or irresponsible lending to individuals who could not pay for the loans. Although there are disputes among researchers regarding the poverty reduction role of unsecured lending, there is still an argument to be made that it is a powerful tool to ensure access to finance. Access to financial services can play a pivotal part in decreasing household vulnerability. Insurance, savings, and credit facilities can assist households to distribute many risks over a greater number of people. Financial services can be employed to build households' assets and therefore decrease their vulnerability to external shocks.

The study recommends, thirdly, that all credit providers adhere to robust credit affordability assessment processes as recommended by the NCA Amendment Bill of 2014. All credit providers should be easily accessible as the study found that unsecured lending customers prefer accessible credit providers, including being able to personally access the credit provider and to have face-to-face interactions. Regulators, especially the NCR, should have robust processes to root out unregistered credit providers, and those who do not adhere to credit regulations. To ensure accessibility and convenience, credit assessments should be available online (via Internet banking and apps), through the commercial bank call centres (by voice) and at branches (personal interaction).

The fourth recommendation of the study is that unsecured lending credit providers should obtain comprehensive financial information and supporting documents from customers during the loan application process. Comprehensive financial information means that every aspect about the consumer's financial affairs is considered during the loan assessment process. This process ensures that customers will be better educated about the importance of affordability and that they will be able to manage the risk of unexpected events. Obtaining comprehensive financial information from the customer will also prevent reckless lending, money laundering and fraudulent transactions.

7.4.3 The legislation in the unsecured lending sector in South Africa should be adhered to by credit providers and should be used together with financial education to ensure lending is sustainable

The literature review highlighted that regulation has played a significant role in the growth of the unsecured lending market in South Africa. Many lenders are in the credit market for profit purposes, but they provide questionable services to the consumers. These include expensive charges, inadequate adherence to legislation, and a poor understanding of the consumers. The NCA provides for debt counsellors who also charge fees on the already over-indebted consumer. It is clear that even with the existence of the NCA, the unsecured lending industry is still not sufficiently regulated and malpractices are still rife; the consumer and the lender are not on equal footing.

The fifth recommendation of the study is that credit providers should ensure that unsecured lending customers understand fully the credit agreements they are entering into as required by credit regulations. This is important as the study found that unsecured lending customers are mostly desperate, interested in the funds only, and not the credit agreement. Credit providers should ensure that their customers are also aware of the consumer credit legislation that protects them. Consumer credit legislation creates awareness of the dangers and consequences of reckless lending, gives comfort that there is adherence to rules and regulations and absence of regulations might lead to the credit system being open to abuse. Credit providers should be consistent in applying consumer credit regulations to avoid that the regulations can lead to unintended consequences of reduced access to credit. Consumer credit legislation assists customers through affordability assessments to live within their means. Legislation also ensures that customers understand the criteria used by the credit provider to assess unsecured lending applications. When customers can prepare a budget and live within their means they can also make better financial decisions.

The sixth recommendation of the study is that credit providers should consider payment holidays and debt arrangements as they are crucial and need to be done early when a customer has difficulty in repaying the loan. Other options that can be considered when customers are struggling to repay unsecured loans include credit insurance that can pay out to cover the loan when the customer cannot repay; debt counselling to rehabilitate the customer back to a healthy financial position. Therefore, customers need to be given options available to them should they default, as many of them seem to be struggling with unanticipated deterioration in their circumstances such as lower income, higher interest rates or lower asset prices. Credit providers should assist in educating their customers to rather renegotiate and refinance their debt or reduce their repayment burdens by using measures such as debt consolidation. Credit providers should also be aware that

most people suffer from availability bias, which is a cognitive heuristic whereby people rely on readily available information rather than to evaluate other options available. Explaining the options available should customers be unable to repay loans improve customers' financial knowledge and their overall financial management skills. Explaining options also enhances the rapport between the borrower and lender, thus reducing the credit risk to the lender and ensuring that the borrower does not merely terminate their payments but instead consider the options available to them.

The seventh recommendation of the study is that debt counselling should be managed more effectively through the NCR. Debt counsellors are considered to be good for consumers in helping them to recover and return to a financially healthy position by means of financial education, reduced instalments on loan repayments, and ensuring that no new loans are taken out that may further increase the customer's debt level while already under debt counselling. There are also perceptions that debt counselling adds no value and, in some cases, even place customers in further financial distress, because the behaviour of customers is difficult to change and debt counsellors are not deemed to be successful in changing customers' behaviour for the better; neither are they perceived to be completely honest with their customers in explaining the debt counselling process to them A reduction in instalments is perceived to result in the loan being paid over a longer term and therefore costing customers more interest. Credit providers should work hard to gain the understanding of their customers, and encourage them to call on their assistance. Credit providers should assist them not only when they are doing well but also when they face financial hardships. A range of options should be afforded to the customers to ensure that they have the ability to pay back their credit and, if all else fails, credit providers should ensure that customers are not only informed, but also encouraged to go through debt counselling. This is vital because debt counselling is an alternative to a sequestration order and has been implemented as one of the mechanisms by the NCA to manage the over-indebtedness issue. To accomplish accountability and to avoid customers being taken advantage of credit providers should ensure their customers use registered debt counsellors.

The eighth recommendation of the study is that credit providers should make use of their employees, well-trained sales agents, and self-service methods (e.g. the Internet and banking apps) to explain the unsecured lending rights and obligations to customers. The study emphasised that all employees should be financially educated for them to have the ability to transfer their financial understanding to their customers. In this way customers will be better informed and will have the ability to make better financial choices, especially regarding to their debt management. The methods used by credit providers to educate customers about their rights and obligations under the credit agreement were deemed by respondents to protect the credit provider instead of

the customer. Furthermore, some respondents indicated that these methods have no impact or that the impact cannot be determined with absolute certainty. If bank employees do not believe these methods have an impact, they will have little faith in implementing them, resulting in some bank employees not being implementing the methods to explain consumer rights to unsecured lending customers.

7.4.4 Methods to deliver consumer education should be embedded in South Africa to ensure that lending in the unsecured lending sector remains sustainable

The literature review of the study revealed that, from a consumer credit finance point of view, behavioural finance provides an analysis of consumer credit behaviour. Political and economic perspectives provide an assessment on government intervention in the individual credit industry as well as the behaviour of lenders in granting credit. Economic anthropology highlights the importance of designing financial education programs after considering how people think and perceive finance. This is important, because consumer social networks have an influence on financial behaviour. Behavioural finance indicates that behaviour of consumers is a critical factor in managing credit consumption, because from an individual over-indebtedness perspective a lack of self-control, temptation and impulsivity, procrastination, overestimating one’s own capacity and social norms are fundamental underlying causes of over-indebtedness. As alluded to earlier, social status influences consumers’ use of credit: they want to preserve, strengthen and maintain their status, identity and social ties in their respective communities.

The ninth recommendation of the study is that credit providers should evaluate the degree of financial literacy of their customers when granting them loans. This is because it is crucial to comprehend the customer’s degree of financial knowledge during the loan granting process to ensure that the appropriate level of financial education can be provided. The study found that when a customer’s level of financial literacy is assessed and appropriate education is provided, the customer manages their finances better. These assessments should also be available on the Internet banking facility and apps, on call centre voice channels, and through face-to-face interactions.

The tenth recommendation of the study is that credit providers should offer financial education to both their employees and customers. If credit providers fail to do so, it may result in employees and customers who are financially illiterate falling into debt that they do not necessarily understand. This may lead to defaults and an increased credit risk in the unsecured lending market. Financial education should be offered through well-trained employees and online platforms. Flexible teaching methods that appeal to respondents should be employed. These methods should include

self-driven financial education programs offered online, as well as videos and workshops that should be available to all employees. As indicated above, the study recommends the use of AI through behavioural finance to offer financial education. Regular educational and awareness talks should be conducted to keep employees abreast of financial trends. The programs should ensure that knowledge imparting to employees and their children is critical. From an over-indebtedness and credit management point of view, the literature has shown that there is a link between personal and financial issues and employee productivity. Work-related stress, burn-out, a lack of engagement, low morale, diminished productivity, and increasing sick leave days are the primary reasons that wellness programs have been introduced globally. The study found that when financial education is offered to bank employees, they are more inclined to inform and educate their customers as well, as they perceive themselves to have more knowledge of banking products and financial management compared to their customers. Financial education should be offered formally to bank employees as part of their CPD. Furthermore, bank employees are required to always be in a healthy financial position given that they work with the finances of their customers. Employees should be offered financial education at least once a year as a compulsory course with an assessment afterwards to ensure employees are kept updated with the latest advancements and trends in financial education. The practice of doing background inspections before hiring bank employees should be kept intact as it ensures that prospective employees have a sound financial record. Should an employee struggle to repay their debt while employed they should continue to be supported through the Human Resources Department to rehabilitate them back to a healthy financial position.

7.4.5 Areas in which South African consumers need financial education should be ascertained in order for credit providers to lend more sustainably in the unsecured lending sector

It is recommended that the following aspects should be part of financial education:

- Formal administration – school curriculum:
    - The need to offer financial education formally in South Africa cannot be estimated enough. Financial education should be part of the school curriculum, and it should incorporate all aspects related to a healthy financial life, such as financial planning, budgeting, investments, and credit management. The need to educate the youth early in their lives in managing their finances can have a positive impact on how they invest, borrow, and plan their finances to avoid over-indebtedness in the future.
    - Financial education offered at schools or by educational institutions can improve the financial health of students and lead to a better life and financial outcomes for

them. This can be achieved by teaching students in managing their personal finances, and focusing on financial planning.

    - An educational model for financial literacy in the school syllabus is called for. The subject matter should be taught in a simple language that is commonly used and understood clearly by participating learners. The knowledge levels of participants should be taken into account and literacy should begin at a basic level and be raised as the knowledge of the participants improves.

- Informal administration – community groups and non-governmental organisations (NGOs):
    - Financial education offered by community members and community groups can have a helpful effect on people in the community. This is because credit constitutes social ties among people, spreading emotions and feelings such as respect, prestige and dignity, or alternatively, humiliation and shame. These emotions are entrenched in holistic obligations and entrustments. Financial connections are fundamental to these practices because of their social significance.
    - Calculation frameworks in this context have socio-cultural and normative components. When financial education is offered through community members or groups who understand these social ties and their meaning, it tends to be effective and can go a long way to ensure that individuals have a financially healthy life.
- Government administration –agencies such as the NCR and others:
    - The government's role is to ensure that the NCA and other consumer regulations are enforced.
    - The NCR should also create awareness about consumer credit regulation through the media, by, for instance, doing roadshows and offering workshops. Government through its agencies such as the NCR can perform a big part in ensuring financial education is facilitated and embedded in South Africa. The NCR is the custodian of consumer lending in South Africa and can use the data it has of consumer credit performance to create the necessary awareness on the credit health of consumers. The NCR can also facilitate consumer education through consumer credit legislation.
- The role of financial institutions:
    - Financial institutions should focus on formal financial literacy to their employees and should further ensure that financial education is provided to their customers. The education should be formal and compulsory instead of merely raising awareness or using advertisements to sell more unsecured lending products.

- Financial institutions should also account for the language used and that the language is well understood by customers to overcome any possible language barriers. Therefore, financial education should be offered in all official languages in South Africa.
- There is a pressing necessity to focus on what consumers should do to escape the debt trap. Even if the credit provider is prepared to make debt arrangements with a consumer when debt problems arise, the literature shows that most customers are ill-equipped to have this conversation. They regard credit and credit products as intricate and the entities in the credit market as equally intricate. Individuals do not feel competent in their capability to comprehend financial matters or to manage their budget constraints. This sense of incompetence limits their confidence in asking the right questions or doing research before engaging with their credit providers when in dispute.
- An important fact is that sometimes one provides education just at the correct time with the correct amount of information needed. For example, when a customer is taking out a loan the opportunity can be used to educate them in how the loan works compared to other forms of financial aid. By understanding that consumers are different and that they have different educational needs, banks can develop tailor-made solutions to them, thereby forming lasting relationships and a win-win scenario for both the individual and the financial institution. The study recommends that the credit provider adopts a personal cash flow manager on its Internet banking and app to ensure that the customer's income and expenditure can be monitored for appropriate financial education when the time arises. The use of the insights from the personal cash flow manager will ensure that the right amount and level of financial education is provided to the customer based on their financial behaviour.

- The impact of employee assistance programs:
  - Employers are deemed key role players who contribute to the credit health of their employees by offering EAPs and other initiatives. Respondents in this study indicated that over-indebted customers reported high stress levels and that their productivity at work was below par.
  - Much more consumer credit education through EAPs is needed to encourage a culture of responsible spending and to start with the debt counselling process much earlier should employees find themselves in an over-indebtedness situation.

    - Employee assistant programs should be offered on online platforms, through call centres, and through traditional face-to-face interactions to ensure that the programs reach as many employees as possible.
- Other innovative means to deliver financial education:
    - Consumer credit education can be offered by using any other innovative means.
    - To reach the masses of consumers in South Africa more innovation is needed, which includes using digital platforms and radio and television platforms to ensure financial education reaches the majority of those who need it most.
    - With the use of AI and a personal cash flow manager accurate, appropriate and updated financial information can be targeted at an individual or at a group of individuals.

These recommendations are made in the light of the study's findings that offering financial education will result in consumers making better financial choices. When financial education is offered in a structured format as recommended above it will ensure that financial education is administered effectively. This will make it possible that financial education can// be provided at any level by a person(s) who are qualified to provide financial education. The use of technology (AI) and formal financial education methods instead of awareness creation to reach as many people as possible is critical. Financial education at an earlier age can help the nation in changing their financial habits, streamline the economy, and assist government in achieving their targets of saving. Word-of-mouth and formal training becomes a learned culture and is easily adopted if it is normalised instead of it being treated like a science.

The twelfth recommendation of the study is that financial literacy should be presented in the language understood by customers. This means that financial education should be offered in all official languages in South Africa. However, the research discovered that the most common language that credit providers use when explaining financial choices to unsecured lending customers is English. The effect of using the language understood by customers is that it makes it easier for customers to understand what is being discussed, especially with regard to the terms and conditions of loan contracts. However, some customers might not understand English. If a customer does not understand fully, it can lead to poor financial decisions and non-adherence to the terms and conditions of the unsecured loan agreement that was not properly understood. Personal relationships are strengthened between customers and credit providers when the language used is understandable. The use of bank language or jargon should be avoided as this can often

lead to misunderstandings when credit providers assume that customers understand while it is not the case. The study therefore recommends that credit providers should endeavour to use the language understood by their customers during the loan application process and when financial education or financial advice is provided to the customer.

7.4.6 The input of market participants on consumer financial education needs to be taken into account to be able to embed financial education

The thirteenth recommendation of the study is that unsecured lending customers should be financially educated as financially literate customers are better equipped in taking advantage of financial opportunities and innovations. This indicates that it is essential to ensure that financial education is provided for as many people as possible to ensure they take advantage of financial opportunities and manage their finances better. Financially literate customers can approach the credit provider already prepared and will not commit to a loan unless they understand fully every aspect of the unsecured loan.

The fourteenth recommendation of the study is that credit providers should consider group lending as part of the unsecured lending product offering. Respondents in the study indicated that group lending can reduce defaults as the risk will be spread among the group members. The study also found that group lending can be a critical catalyst to mitigate against adverse selection and information asymmetry and that it can facilitate the needed finance to the economy, especially to those previously excluded from the economic mainstream and those with no assets to offer as collateral. Financial education can be effective in group lending when it is delivered by a member of the group or a community member. This is because borrowers in the group normally go to each other for advice and are likely to pay attention and follow the advice given by their counterparts instead of accepting advice from an expert who is not part of the group or community.

The fifteenth recommendation of the study is that unsecured lending should be mainly used to acquire assets instead of using it for consumption or living expenses. It was clear from the study's findings that unsecured loans are mainly used to acquire assets that banks are not willing to finance, such as repairing old cars and purchasing household appliances as well as paying for educational expenses and home renovations. Lending to self-employed people who have small businesses should be increased. The use of unsecured lending to buy material goods (such as clothing, appliances, and furniture) and supporting extended families should be avoided.

The sixteenth recommendation of the study is that credit providers should make use of their bank employees to offer financial education. This is because bank employees are perceived to have more knowledge in managing finances compared to their customers. Bankers work with financial

matters every day, are trained and can thus play a pivotal role in educating customers to make the best financial decisions. In cases where bankers face the same financial challenges as their customers and are not able to advise customers, these employees should be assisted.

The seventeenth recommendation of the study is that credit providers should formally educate their customers in managing their finances, and not create awareness only. Formal education will lead to better informed financial decisions by customers, less credit risk, a trusting relationship between the credit provider and the customer, and credit providers being willing to extend more debt to customers. It should be compulsory for customers to be formally educated. An assessment after the customer has received financial education should be conducted before a customer is offered any unsecured loan. In other words, it is recommended that for every unsecured loan provided by the credit provider the customer should be educated and should receive the latest or updated financial education information. The assessment after receiving financial education will assist the lender to make sure that the level of the customer's financial education is known. Financial education along with proper assessment (screening) are crucial in reducing defaults and to ensure that the customer understands the expected behaviour under the credit agreement.

5.4.7 A proposed financial education framework in the unsecured lending market to ensure that lending in this market remains sustainable

The final recommendation of the study is the use of a proposed comprehensive financial education framework that will assist in ensuring that lending in the unsecured lending market is sustainable. Figure 7.1 depicts the framework that should be implemented by the credit provider and followed by employees working in unsecured lending:

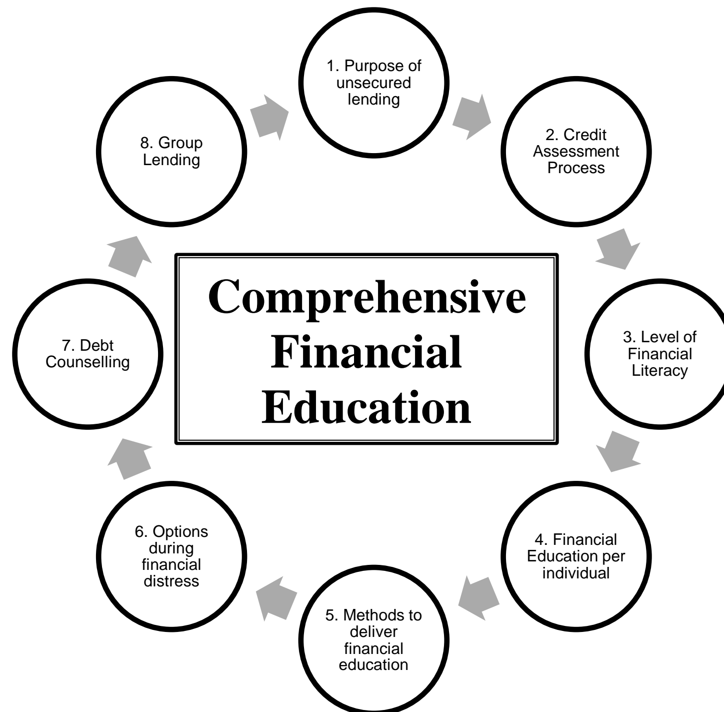


Figure 7.1: Proposed comprehensive financial education framework

7.4.8 Comprehensive financial education program

Comprehensive financial education forms the focal point of the financial education framework and consists of the following features:

- The meaning of financial education:
    - The financial education framework includes a clear definition of financial education to make sure that its meaning is well understood by individuals.
    - Financial education is briefly described as entailing the capability and confidence of consumers to employ their financial understanding to make sound financial decisions. Financial literacy is a practice during which individuals enhance their knowledge of financial concepts and products through objective advice, instruction, and information, developing their confidence and skills to increase their awareness of the opportunities and risks to make informed financial decisions; and knowing who to ask for assistance.
- Understanding the behavioural finance perspective:
- Behavioural finance is the cornerstone of the financial education framework, its central theme being to consider how personal and societal psychology influences financial decisions and general individual behaviour. Behavioural finance therefore examines the psychology of financial choices. The study found that feelings impact financial choices and

market participants often talk about how fear and greed play a role in steering financial markets.

- Behavioural finance links this examination of emotions to the part biases play in making decisions including the employment of experience and heuristics (rules of thumb) in making intricate financial choices. Behavioural finance therefore draws perceptions from psychological studies to apply them to financial decision-making.
    - Behavioural finance explains the human factor in financial decision-making, that it is plausible that some market participants in the unsecured lending are not completely rational. The two critical building blocks of the behavioural finance field that are highlighted in the financial education framework are 'limits to arbitrage' and 'psychology'. The former argues that it is difficult for rational individuals in the credit market to correct dislocations caused by irrational individuals and the latter describe the forms of deviations from full rationality that may be witnessed. In general terms, behavioural finance is used in the financial education framework as the application of psychology in the field of finance.
    - The credit provider can use artificial intelligence (AI) on its online application (i.e. banking app) to make it simpler for customers to access financial education. Through AI and the use of algorithms, the behaviour of customers can be influenced to manage their finances better. In the proposed financial education framework it is referred to as a 'personal cash flow manager', which the study recommends to be added on the banking application and the credit provider's online banking platform. This personal cash flow manager will be discussed further below.
- Understanding political economic perspectives:
    - The financial education framework promotes improved access to financial services, especially in emerging economies such as South Africa where access is still a major challenge.
    - The study found that financial education increases the concept of financial management in contemporary societies, resulting in economic and social differentiation. Consumers are continuously persuaded and compelled to save, borrow, and to insure themselves against unemployment, ill health, escalating house prices, or to prepare for the future, especially their young one's literacy and their own retirement.
    - The financial education framework incorporates important guidelines developed by the South African government via the NCA to follow sound lending practices and setting an example for consumer protection. Consumer protection has been the

focal point of the South African government, with the aim to avoid and eliminate consumer reckless lending and over-indebtedness. This is also the cornerstone of the financial education framework.

  - The financial education framework advocates the integration of combatting over-indebtedness and creating financial literacy into existing workplace programs. This study found that other approaches, such as regulation and voluntary initiatives could use data and literacy to bring about the desired amendments in consumer behaviour.

- Understanding economic anthropology:
  - The financial education framework was designed carefully, after considering how individuals consider and understand finance, including their own bases of calculations, approaches to interest rates, and the cost of credit, cross borrowings and saving and juggling.
  - The financial education framework acknowledges that, from an economic anthropology perspective, most individuals do not consider being over-indebted as an issue; the issue is when they cannot obtain credit. Most of the poor and illiterate rather use their money to circulate it within their community than using a bank; they also lend each other money to preserve social ties, or borrow each other items such as food, cattle or bricks.
  - In some societies in the world, social dynamics such as gender, religion, caste, and ethnicity have historically often influenced markets instead of the current market forces of supply and demand. Social dynamics was also considered when the financial education framework was developed.
- The role of employee assistance programs:
  - This financial education framework includes EAPs. From an over-indebtedness and credit management point of view, the literature has shown that there is a link between personal and financial issues and employee productivity. Work-related stress, burn-out, a lack of engagement, low morale, diminished productivity, and increasing sick leave days are the primary reasons for implementing wellness programs throughout the world. These workplace-related issues have tended to define EAPs.
  - Employee assistant programs have been used to help the recognition and resolving productivity problems linked to employees who are marred by personal issues. These concerns are related to health, marriage, finances, drugs, alcohol, emotional

and personal issues and legal matters, which may adversely affect an employee's work performance.

  - It is understood that financial literacy in the workplace improves financial behaviour and helps employees to make informed financial decisions. It also reduces over-indebtedness, garnishee orders, the repossession of goods, and home foreclosures. Employers also play a critical role in savings by providing retirement funds through monthly salary deductions. It is evident that employers are increasingly concerned about the overall well-being of their employees.
  - The personal cash flow manager mentioned above can be used effectively by the credit provider to offer financial education to employees during an EAP. Employees can access the banking app or online platform to obtain advice on managing finances based on their personal financial situation.

7.4.9 Purpose of unsecured lending

As a first step, the financial education framework points to the importance of understanding the purpose of the unsecured loan. It is explained as follows:

- What the loan is required for:
  - The importance of understanding the purpose of the loan during the loan application process is one of the most important conversations to have with individuals who apply for loans. The knowledge obtained can ensure that the credit provider offers an appropriate loan to the borrower.
- Type of loan required:
  - Once the purpose of the loan has been determined it is important for the credit provider to decide on a suitable loan for the borrower. The study recommends that unsecured lending is used in circumstances that are apt, such as paying for assets, education fees or small business funding instead of using it for consumption.
- Amount and tenure of the loan:
  - When the purpose and the type of the loan have been determined, an assessment of the borrower's repayment ability should be clarified. Should the borrower qualify based on the credit assessment, an amount needs to be determined and also the repayment term of the loan. Care should be taken to provide only the required amount for the purpose of the loan even in cases where the borrower qualifies for more. The term of the loan should be determined based on the purpose required, the customer's ability to repay and applicable consumer credit legislation.
- Banking app and Internet banking:

- The personal cash flow manager recommended by the study will make this information available online and through a call centre (voice) to ensure the customer have options of either going into the credit provider's premises to discuss the purpose face to face with bankers or going through an online or voice process.
- When a customer has indicated what the loan is required for, the online or call centre platform will recommend the type of loan that is suitable as well as the loan tenure.

7.4.10 Credit assessment process

The financial education framework entails a comprehensive and robust credit assessment process as recommended below:

- Comprehensive financial information and supporting documents:
    - It is vital for the credit provider to obtain comprehensive financial information and supporting documents from the customer during the loan application process. At a minimum the latest financial information of the borrower and personal information such as the borrower's identity document and proof of address should be obtained during the loan application process.
- Background of consumer including employment status:
    - Once comprehensive financial information and supporting documents are obtained, a background inspection on the borrower should be conducted to verify the information. Credit bureaus are usually approached for this purpose. Credit providers normally verify the employment status of the borrower by obtaining confirmation from the employer or by obtaining the individual's latest financial information when the borrower is self-employed.
- Affordability assessment according to NCA guidelines:
    - The credit provider should adhere to affordability assessment guidelines according to applicable credit regulations.
    - The NCA Amendment Bill provides standardised guidelines that are compulsory for all credit providers to use on how affordability assessments should be conducted on borrowers. A national credit register has been created to assist credit providers in particular not to grant credit recklessly. The register contains relevant credit information about a consumer. Section 69 of the NCA Amendment Bill contains details on the creation of such a register. In addition, the regulation of credit bureaus means that more accurate information is kept by these institutions and credit providers can rely on them.
- Loan costs (according to NCA guidelines on interest rates and administrative costs):

- The credit provider should ensure that costs of the unsecured loan are reasonable and based on guidelines prescribed by the NCA. The NCA regulates the fees that consumers can be charged. Initiation fees cannot exceed a certain prescribed amount (15 per cent, for example, when the NCA was promulgated) of the loan granted, while service fees also cannot exceed certain limits (R600 per annum or R50 per month, for example, when the NCA was promulgated). The latest cost guidelines issued by the NCR should be adhered to by credit providers.
    - The credit provider should ensure that initiation fees are paid either up-front with no interest charged or they can be part of the instalment repaid by the consumer. Service fees can be charged monthly or annually. If the loan is settled early and the annual fee has been paid, the unused portion of the fee needs to be refunded to the consumer.
    - Default administrative charges: The NCA allows credit providers to charge consumers a fee when consumers are in arrears with their credit agreements, subject to the charges not exceeding what it actually costs to notify the consumer (for example, the cost of posting a registered letter) and excluding telephone costs to the consumer; and
    - Collection costs: Costs a credit provider incurs when attempting to recover outstanding or overdue monies owed by the consumer where Section 101 of the NCA of 2005 stipulates that these costs cannot be more than the tariff allowed by the courts.
- Banking app and Internet banking:
    - When credit is assessed online or by voice the personal cash flow manager recommended by the study will be incorporated in the assessment as it will have details of the customer's income, spending patterns and details on loan amounts the customer can afford.

7.4.11 Assessment of an individual's level of financial literacy

The framework entails a crucial step of assessing the customer's degree of financial education when the loan is applied for. This process entails the following:

- Background of basic literacy including the customer's ability to read and write:
    - It is essential to assess the customer's level of financial education during the loan application process or after providing financial education to ensure that the customer understands the implications of taking out an unsecured loan and are able to manage their finances adequately and the payments during the loan tenure.

- Credit providers can assess the level of financial literacy by requesting customers to indicate whether they have taken out unsecured loans before, testing their understanding of their obligations and rights under the credit contract and whether they have the ability to write and read.

- Level of understanding of consumer legislation (e.g. the NCA and the CPA):
  - When assessing the customer's level of financial education, it is also important to ensure the borrowers understand their rights and obligations during the loan tenure. Credit providers can ensure this by explaining the terms and conditions of the unsecured loan as well as individual rights and obligations during the loan tenure.
- Level of budgeting and financial planning process:
  - It is also important for the credit provider to verify that the borrower has a financial plan and that the unsecured loan can be accommodated within the budget. It is also crucial for the credit provider to ensure that the borrower understands the importance of budgeting and planning their finances properly so that they are able to repay their loans and to meet other financial goals they might have.
- Level of understanding the function of credit bureaus:
  - It is also crucial that the credit provider explains to the borrower the function of credit bureaus and where the credit information can be accessed. This includes the fact that the borrower is entitled to a free credit profile update once a year.
- Level of understanding credit and savings agreements:
  - Credit agreements should be thoroughly explained to borrowers to ensure that they fully understand their rights and obligations under the credit agreement. Where credit agreements allow for savings, insurance and investments, this also needs to be explained to the borrower.
  - The use of a language that is well understood by the borrower is recommended when explaining credit agreements to them.
- Banking app and Internet banking:
  - The degree of financial education can also be assessed online or by the call centre (voice). The personal cash flow manager recommended by the study should make available an easy-to-understand questionnaire in all 11 South African official languages to assess the degree of financial literacy grounded on the principles detailed above.

7.4.12 Appropriate financial education per individual

The financial education framework includes ensuring appropriate financial education is provided per individual depending on their life stage or financial knowledge:

- Financial planning based on a customer's life stage:
    - Financial planning should take into account the specific life stage of the individual and should be linked to their financial and life goals. While young individuals might be starting out in life pursuing credit, investments and career planning, older individuals might be scaling down preparing for retirement. When schools, community groups, employers, credit providers, the government as well as other interested parties embark on financial education, they should make sure that financial planning forms the foundation of a financial education plan.
- Budgeting and appropriate credit consumption:
    - When financial literacy is offered, individuals need to be encouraged to compile and keep a budget in place to ensure they live within their means.
    - Appropriate credit consumption should be encouraged. Appropriate credit consumption means that individuals only consume credit they can afford to avoid over-indebtedness.
    - Credit providers should ensure that customers have a budget or help them prepare a budget that includes the unsecured loan repayment instalments and all expenses; the customer must understand that they must live within their means.
- Legislation protecting consumers:
    - Financial education should encompass consumer legislation such as the NCA and the CPA. It is important for individuals to understand their obligations and rights under the credit contract and ensure that they adhere to the loan contract with the lender.
    - It is also important for borrowers to know the options available should they be unable to pay back the loan, including specific knowledge of debt counselling.
- Importance of understanding credit agreements:
    - Borrowers should fully understand the credit agreements they are entering into. As discussed above, it is crucial that these credit agreements are explained in a language understood by the borrower. When financial literacy is offered it should include a thorough explanation of credit agreements such as consumer rights in cooling-off periods after the credit agreement has been accepted.
- The impact of culture and community on credit consumption:
    - The culture of the community the customer comes from should be thoroughly considered by those offering financial education. This is because the behavioural finance theory attests to the fact that individuals are influenced by cognitive biases in their decision-making. Many of these biases are shaped by the person's

background, education, and the culture of the community that the borrower comes from.
    - Understanding the culture of the community where the individual comes from will ensure that different forms of financial education can be used, including community groups that are recommended to the customer by the credit provider. Financial education coming from members of the community who are familiar with each other's social structures and community nuances is deemed to be effective.
- Banking app and Internet banking:
    - The recommendation is that the financial literacy framework must also be available online and through voice channels where customers will be able to access financial education on matters such as financial planning, budgeting, legislation, credit agreements and appropriate credit consumption
    - It is recommended that a questionnaire should be part of the personal cash flow manager to ensure that the financial education offered is understood.

7.4.13 Methods to deliver financial education

The financial education framework proposes that different methods should be used when offering financial education. A number of these methods are as follows:

- Using well-trained employees and online or voice platforms:
    - The credit provider should use its well-trained employees to provide formal financial education to both their colleagues and customers.
    - Financial education should be offered through formal presentations, both in person (such as classroom presentations) and through online platforms.
    - The credit provider's Internet banking platform should be used where employees and customers can read about and familiarise themselves with different product features, and the benefits and disadvantages of these products or solutions. As recommended earlier, a personal cash flow manager can be a valuable instrument in this respect.
    - Continuous professional development courses should be continued and offered to the commercial bank employees so that employees can be seen as fit and proper to offer financial advice and education to customers.
    - The commercial bank's Human Resources Department should offer financial education through its employee wellness and care programs.
    - More self-driven and mostly online, innovative financial education courses with strict completion deadlines should be introduced to employees.
- Using qualified financial managers/advisors, media and new online platforms:

- The credit provider should employ the services of a financial manager or advisor who is qualified or who works closely with an auditor/bookkeeper to financially educate employees and customers;
- Formal financial education programs with questionnaires can be made available on the Internet, radio and television programs. These programs should focus on financial education only and should not include the advertising of any products.
- Customers and employees should be encouraged to educate themselves financially by, for example, inspecting their credit scoring and paying their accounts up to date and on time.

7.4 14 Available options during financial distress

The financial education framework recommends that the credit provider should have options available for customers who experience financial difficulties:

- The meaning of default and financial distress:
  - It is essential for borrowers to know the meaning of defaulting under the credit contract and the meaning of financial distress. Understanding the credit agreement is crucial as default clauses and the implications of defaulting are usually covered in the credit agreement.
  - Borrowers should thus understand what the credit provider regards as a default and the options available to the borrower, which include their rights and obligations should they default. Credit providers should be very clear on these options so that borrowers understand fully the options at their disposal.
- Information about debt consolidation and debt restructuring:
  - Borrowers should be given adequate information about the consolidation and restructuring of debt. Credit providers should work hard to gain the support and trust of their customers, and encourage them to call on their assistance when needed. Similarly, credit providers should be committed to assist their customers, not only when they are doing well but also when they experience financial hardships. When customers cannot afford their instalments, an assessment should be done on what they can afford. The debt should be restructured as far as possible, or payments extended so that the customer can afford the payments.
  - Tools and guidelines for budgeting, income and expenditure assessments need to be available at banks for customers to use.

- Information about payment holidays and skip payments:
  - Should payment holidays or skip payments be available, credit providers need to ensure that their borrowers are educated and that they thoroughly understand the implications of these arrangements.
  - Should borrowers want to make use of these options, credit providers should inform borrowers so that the latter fully understand the possible impact it might have on their financial health and credit records.
- Information about interest and capital-only payment options:
  - Consumer debt is a liability or obligation caused by taking goods and services or money on debt against a commitment to later pay. The credit contract usually entails the principal repayments with the interest rate payable on the obligation or liability. Interest denotes the cost of borrowing money, usually calculated as a percentage of the money owed, meaning that the more and the longer money is borrowed the more interest is paid.
  - Regardless of how debt is incurred it is regarded as a financial liability. It is therefore critical that, before borrowing money, the borrower should have a thorough understanding and knowledge of the cost and consequences.
- Information about sequestration and voluntary defaulting:
  - In addition to the credit assistance processes offered through the NCA, the Insolvency Act of 2002 in terms of Section 74 of the Magistrates Courts' Act of 2010 offers administration, and sequestration orders.
  - Borrowers should be educated about the availability and the implications of sequestration and voluntary defaulting in cases where it is acceptable. Once again, it is critical that borrowers fully understand consumer credit legislation, specifically sequestration and default rights and obligations.

7.4.15 Debt counselling

The financial education framework makes provision for the use of debt counsellors as a crucial part of the debt management process. The process entails the following:

- Understanding how to find legitimate debt counsellors:
  - Customers should know that the NCR provides for debt counsellors' registration. Should customers need to verify the legitimacy of a debt counsellor it can be done through the NCR.
  - Section 86 of the NCA of 2005 is aimed at protecting the consumer through the use of debt counselling, which saves the customer from being blacklisted and making it possible for them to remain in the economy without going down the route of

litigation, judgments and execution sales. When contact is made much earlier with a debt counsellor, it is normally easier for them to assist the consumer and the recovery period can be reduced substantially.

- Knowing the role of debt counsellors:
    - The NCA makes provision for debt counselling for those over-indebted and in need of debt rehabilitation. Debt counselling is an alternative to a sequestration order.
    - Although Section 3(g) of the NCA of 2005 indicates that the Act aims to resolve over-indebtedness, the purpose is subject to the consumer's agreeing to all responsible financial obligations. The debt review process does not offer consumers discharge from pre-existing indebtedness unless it is found to be reckless and has been set aside by the courts.
- Acknowledging when to ask the credit provider for assistance and when to go for debt counselling:
    - As indicated above, credit providers should work hard to gain the trust and support of their customers and assist them as far as possible to ensure they repay their loans. Credit providers therefore need to encourage borrowers to first ask for their assistance before it is too late and they are defaulting. If all else fails, borrowers should be advised to go for debt counselling.
- Being familiar with all the pre-consultation, consultation and post-consultation processes:
    - Should the credit provider decide that the borrower's credit report indicates that debt remediation is required, the borrower should be referred to a NCR-accredited debt counsellor for immediate intervention.
    - The debt counsellor should understand the debt recovery process; be familiar with all the pre-consultation, consultation and post-consultation processes; consider all relevant factors when assessing their liabilities; know how to negotiate debt relief; be fully conversant with the NCA; and know when to give advice and when to refer the borrower to the courts to be declared insolvent.

7.4.16 Group lending

The financial education framework makes provision for group lending and recommends the following:

- Background on the workings of group lending:
    - Group lending entails providing credit to members of a group applying together.
    - Bangladesh, through Grameen Bank, popularised group lending, whereby group dynamics were reported to provide insurance against default. If one member of the group defaults, the whole group is denied future loans. Peer pressure and

comprehensive knowledge of each group member assists in the screening of the applicants.

    - There is recognition for the notion that there are ‘other-regarding’ preferences at work in all societies. These include phenomena such as innate human need for social status, to belong to or identify with a group, tendencies to behave altruistically, and a willingness to behave in instrumental reciprocity (for example, responding to kindness with kindness or rudeness with rudeness). The literature in the study indicates that financial decisions are significantly influenced by the requirements of the broader group more than it is driven by self-interest.
    - Stokvels: One of the methods many South Africans use to facilitate credit is stokvels, which mostly function informally. Members contribute to a fund and no collateral is relied on, but social pressure and monitoring is prevalent. Members know they rely solely on the stokvel in times of financial difficulty and therefore obey to the guidelines governing the stokvel. If a member defaults the member can be expelled until all arrears are paid. ‘Self-help’ community-owned and grass roots and -driven initiatives such as stokvels are not in short supply in South Africa. They are solidarity alliances with well recognised purposes and variations.
    - Group lending, including lending to stokvels, can mitigate credit risk in that group members will assist one another to repay the unsecured loan and share the risk.
- Using financial education in group lending:
    - Financial education can be effective in group lending when it is presented by a member of the group or community. The reason is that borrowers in the group normally go to one another for advice and are likely to pay attention and follow the advice given by their counterparts instead of listening to an expert who is not part of the group or community.
    - When individuals are overwhelmed with their financial matters they usually turn to friends for advice. For some consumers learning about finances may be best coming from informal networks of family and friends – those who have the knowledge of banking products and the charges of credit from experience, and who also understand the language spoken by the community.
    - Peer-to-peer support can be used effectively by providing financial education to a group, re-enforcing positive peer pressure that can keep the group on track in financial wellness. The importance of social influence on financial decision-making cannot be over-emphasised. Positive group, peer or social pressure can result in behavioural change, which can ultimately lead in successful financial education.

Even though group formation, training costs, and regular group meetings may present some challenges and costs, group lending can be a critical vehicle in unsecured lending, reducing information asymmetry and the risk of default.

- Considering behavioural finance theory in group lending:
  - It is recommended to link behavioural finance theory to group decision-making in order to avoid some of the biases that affect groups. This is because behavioural finance explains the irrationality in the decision-making process by drawing on the investigational evidence of cognitive psychology and the biases that are prevalent when groups make decisions. From a sociology perspective, a considerable amount of financial choices are made from social interactions instead of being formed in isolation. This attests to the fact that peoples' decision-making is influenced by external factors.

The framework outlined in this chapter is recommended for the commercial bank to adopt in the unsecured lending market to first and foremost formally train their employees working in unsecured lending and, secondly, to ensure that these employee use the framework to formally educate unsecured lending customers. As indicated earlier, the study found that there is no formal financial education offered in the unsecured lending market in South Africa and many financial education programs offered in South Africa are mainly awareness-oriented instead of providing formally structured financial education. The framework recommended for the commercial bank will pave the way for a formal provision of financial education in the unsecured lending market, but it can also be applied in other markets such as the secured lending and insurance sectors. It is recommended that employees working in the unsecured lending market be given certificates of completion once they have completed the training and that these training programs are updated and offered annually to employees on a compulsory basis. Similarly, it should be compulsory for all unsecured lending customers to receive financial education based on the principles of the framework before any unsecured loan is disbursed to the customer.

Once customers have received financial education, their level of financial education should be assessed to indicate their understanding of the topic. They should also be issued with a certificate of completion. This assessment should be based on the level of financial education as outlined in the framework. The customers should only be offered unsecured lending after they have been assessed to ensure they understand what they are entering into. To ensure convenience and efficiency, the financial education framework recommends that employees and customers be given options to either do financial education on a classroom basis (face to face), online (Internet and banking app) or through the commercial bank call centres (voice). This will result in numerous

people receiving financial literacy. The personal cash flow manager recommended by the study will ensure that customers are aware of their income and spending habits and that they can find advice through financial education to make sound financial choices.

7.5 CONCLUSION

This chapter outlined the study conclusions and recommendations. This study has demonstrated the importance of ensuring that financial education becomes part of the solution in overcoming the scourge of over-indebtedness in the unsecured lending market in South Africa. This is because financial education when used effectively can play a pivotal role in ensuring that lending in the unsecured market remains sustainable. The study adds value by adding to the body of knowledge on this topic in South Africa and its recommendations can also be useful for financial institutions, policy makers and consumers who rely on the unsecured lending industry.

In South Africa, financial education is being advocated as part of the overall development of the nation's skills. A lack of financial literacy and distorted financial information has largely disadvantaged consumers. Most consumers were found to lack adequate skills to understand, negotiate and manage financial agreements. Although many financial literacy methods and models have been implemented, there seems to be more focus on financial education awareness instead of a formal financial literacy program that can be taught in schools, universities, by employers, community groups and community organisations.

The role of consumer credit legislation as a central part of financial literacy has been emphasised in this research along with the evolution of consumer credit legislation. The study highlighted that consumer credit legislation has had a considerable influence on unsecured lending in South Africa and, in many cases, helped to spur growth in unsecured lending. The literature as well as the findings of this research recognise the need to explore other measures, not only legislation, to curb the credit risk of over-indebtedness, as legislation alone has proved to be inadequate. Consumer education methods and some of the many financial education initiatives that have been adopted throughout the world were also highlighted. Behavioural finance formed the theoretical foundation of this study. The study provided an in-depth analysis of consumer credit behaviour, political and economic perspectives, and government intervention in the individual credit industry as well as the behaviour of lenders in granting credit. Economic anthropology was also examined, highlighting the importance of designing financial education programs after considering how people think and perceive finance.

Employers are deemed to be key role players in contributing to the credit health of their employees through EAPs and other initiatives. In addition, it was clear from the study's findings and literature

review that the need for incorporating financial education in the school syllabus is paramount and that financial institutions can play a major role in educating consumers about healthy credit consumption. The government through the NCR was also highlighted as one of the key role players in financially educating individuals. Other methods that were underscored include group lending, ensuring good loan quality, and stokvels. These are only a few initiatives discussed but they give a good indication on what can be achieved from a consumer education point of view to ensure sustainability of the unsecured lending market. Whichever method is used, it is essential to deliver financial education in a language that the customer understands, drawing on word of mouth, and helping consumers to proceed according to their knowledge, relying on the principles of behavioural change. The use of AI to provide financial education online and on voice platforms and the recommended personal cash flow manager will make a considerable contribution in making sure that customers learn more about their financial circumstances and enhance their financial choices.

The financial education framework developed by this study is considered crucial, not only for the commercial bank in the study, but for the entire unsecured lending market in South Africa. The findings of the research confirm that financial education can be administered effectively to significantly reduce the credit risk in the unsecured lending market. It is therefore envisaged that the framework developed and recommended by this study will make a considerable contribution in ensuring that lending in this market remains sustainable.

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Appendix

1. Questionnaire

"A consumer credit education framework to manage credit risk in the unsecured lending market of a South African commercial bank questionnaire"

"This questionnaire is intended to study the credit risk of unsecured lending in the unsecured lending market and whether consumer credit education can be an effective tool to mitigate this risk. A commercial bank has agreed to authorize the researcher to use employees working in the unsecured lending market in the research. A confidentiality agreement has been signed between the commercial bank and the researcher detailing the care that will be taken in handling research responses and preserving the anonymity of respondents.

Responses to this questionnaire will be used to develop general findings and conclusions without specific reference to respondents, customers or confidential client information except where information is publicly available or approval has been granted to use the information.

Responses to this questionnaire should be completed with as much detail as possible supported by relevant statistics or data where applicable."

QUESTIONS

"Part 1: Demographic questions

1) Please indicate your gender

2) Please indicate your ethnicity

3) Please indicate your nationality

Part 2: Discerning over-indebtedness

4) Is it important to understand the purpose the customer requires the unsecured loan for during the loan application process?

Yes

No

5) If yes, why is it important for the bank to know the purpose of the unsecured loan?"

6) Which loan products are the easiest for customers to get loans from credit providers in Central South Africa?

7) Are there customers who applying for unsecured loans even when they are already over-indebted?

Yes

No

8) If yes, why do customers apply for unsecured loans even when they are already over-indebted?"

9) Are there customers who insists that they can repay the unsecured loan even if the credit assessment says otherwise?

Yes

No

10) If yes, why do customers insists that they can repay the unsecured loan even if the credit assessment says otherwise?"

11) What do you perceive that are the main causes of unsecured lending customers defaulting on their loans?

12) What do you perceive as the main reasons some unsecured loan applications are declined?

Part 3: Analysing the unsecured lending sector in Central South Africa

13) Who are the main providers of unsecured lending in Central South Africa?

14) What are the main reason(s) the credit providers in question 13 above are used by unsecured lending customers?

15) Which credit provider(s) is/are the easiest to get an unsecured lending in Central South Africa?

16) Are comprehensive financial information and supporting documents important when clients apply for a loan?

Strongly agree

Agree

Undecided

Disagree

Strongly disagree

17) What impact does comprehensive financial information have on customer financial education?

Part 4: An overview of the role of legislation in the unsecured lending sector in South Africa;

18) Do you perceive that unsecured lending customers understand fully the credit agreements they are entering into?

19) What impact does consumer credit legislation (NCA, CPA etc.) have in unsecured lending?

20) What impact does consumer credit legislation (NCA, CPA etc.) have in customer financial education?

21) What option(s) are available should customers have a problem in repaying the loan?

22) What is the impact of explaining options available should customers have a problem in repaying the loan on the loan repayment?

23) What is the impact of debt counselling on financial literacy of unsecured lending customers?

24) What methods if any, are used by the commercial bank to explain consumer rights and obligations to customers?

25) What is the impact of the methods used by the commercial bank to explain consumer rights to unsecured lending customers?

Part 5: Consumer education models in the unsecured lending sector

26) Do you assess the customers' level of financial literacy when granting them unsecured loans?

Yes
No

27) What is the impact of assessing the customers' level of financial literacy when granting them loans?

28) What are the methods used by customers to educate themselves about managing their finances?

29) Does the commercial bank offer financial education to their customers?

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

30) If yes, what methods does the commercial bank use to offer financial education to their customers?"

31) Does the commercial bank offer financial education to their employees?

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

32) If yes, what methods of financial education is offered to employees"

Part 6: Explore areas where South African consumers need to be educated in order for credit providers to lend more sustainably in the unsecured lending sector to lend more sustainably in the unsecured lending sector

33) Describe the impact that teaching customers about managing finances have on how they manage their credit?

34) Should financial education be administered formally (Formal administration at school; classes; workshops)?

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

35) Should financial education be administered by Informal Administration (Personal, family, friends, co-workers or fellow students)?"

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

36) Should financial education be administered at Community level (workshops; NGO's; community organisations)?

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

37) Should financial education be administered by Government Agencies?

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

38) Should financial education be administered by other means not indicated above?

Strongly agree
Agree
Undecided

Disagree
Strongly disagree

39) If you answered yes to any of the questions above please specify the reason(s) for your answer?

40) What is (are) most common language(s) that credit providers use when explaining financial choices to unsecured lending customers?

41) What is the impact of language that credit providers use when explaining financial choices to unsecured lending customers?

42) Are customers who are financially literate better off in taking advantage of financial opportunities or innovations?

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

43) Please provide a reason(s) for your answer on question 42 above

44) How do you perceive offering unsecured lending to groups of customers applying together (group lending)?

45) Does the culture of the community the customer comes from affect credit decisions by customers?
Strongly agree
Agree
Undecided
Disagree
Strongly disagree

46) What are the main goods and services, if any, that unsecured lending customers use unsecured loans for?"

47) Do you think bankers know more about managing finances than their customers?

Strongly agree
Agree
Undecided
Disagree
Strongly disagree

48) Please provide a reason(s) for your answer on question 47 above

49) What do you perceive is the impact of financial education unsecured lending customers' defaults?

50) What can credit providers do to reduce credit defaults in the unsecured lending market?