The Financial Vulnerability of South African Consumers during the Second Quarter of 2011

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Contents

Introduction

- The CFVI was developed during early 2009 and has been populated from Q2 2009 to Q2 2011.
- The index has become widely used as an indicator of consumer financial wellbeing.
- Research has shown that the index correlates strongly with a wide array of economic and socio-economic indicators/data.

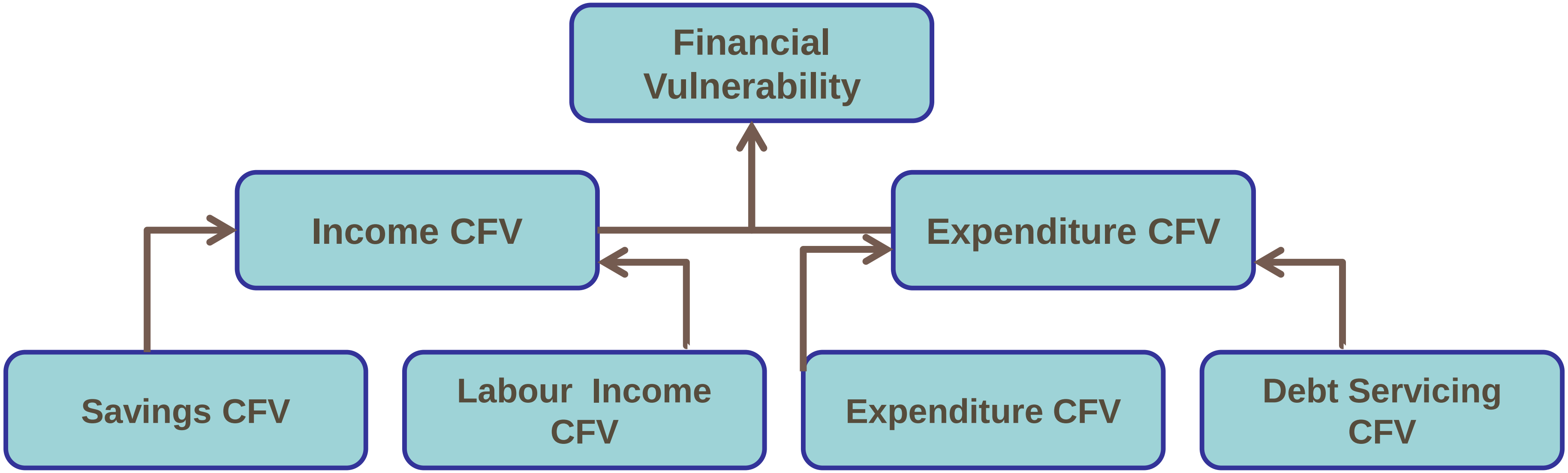
Revisiting the definition of financial vulnerability

- Consumer financial vulnerability can be defined as the state and/or feeling of being exposed financially, experiencing financial insecurity and/or an inability to cope financially. In this instance the feeling of being vulnerability is more important than the objective state.
- Consumer financial vulnerability could also be seen as financial vulnerability resulting from weak personal and household balance sheets brought about by macro- and micro-economic factors.

Empirical background

- Consumer financial vulnerability is measured by determining how consumers view their personal balance sheets and the level to which they experience financial vulnerability.
- Important predictors of financial vulnerability:
  - ***income*** (income growth, employment, wealth transfer)
  - **e*xpenditure*** (expenditure growth, arrears on expenditure)
  - ***savings*** (financial assets, saving money regularly)
  - ***debt*** servicing (debt service ratio, policy surrenders, applying for debt counselling).

CFVI Structure



Financial vulnerability=(Labour income+savings)-(expenditure+debt servicing)

Methodology

Index results based on:

- Consumer survey during Quarter 2 2009, representative national sample of 3229 consumers (1 495 female and 1 734 male) in 976 households.
- Key informant surveys during Quarter 2 2009 to Quarter 2 2011 encompassing 783 interviews.
- Finscope survey during Quarter 4 2010, representative national sample of 3 900 households.
- Questions aimed at understanding income, savings, expenditure and debt servicing vulnerability.

Financial vulnerability scores

0.0- 1.99	2.0- 3.99	4.0 – 5.99	6.0 -7.99	8.0 – 10
Financially very secure	Financially secure	Somewhat Financially vulnerable	Financially vulnerable	Financially very vulnerable

	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Overall vulnerability	5.17	5.44	5.17	4.72	45.4	4.79	4.23	4.39	4.46
Income vulnerability	5.78	6.03	5.81	4.88	4.67	5.27	4.62	4.16	4.52
Expenditure vulnerability	5.54	5.45	5.26	5.27	5.47	4.69	4.38	4.94	4.58
Savings vulnerability	5.74	5.90	5.4	4.6	4.19	4.93	5.09	4.78	5.33
Debt servicing vulnerability	5.78	4.76	4.51	4.51	4.34	4.32	3.53	4.30	4.12

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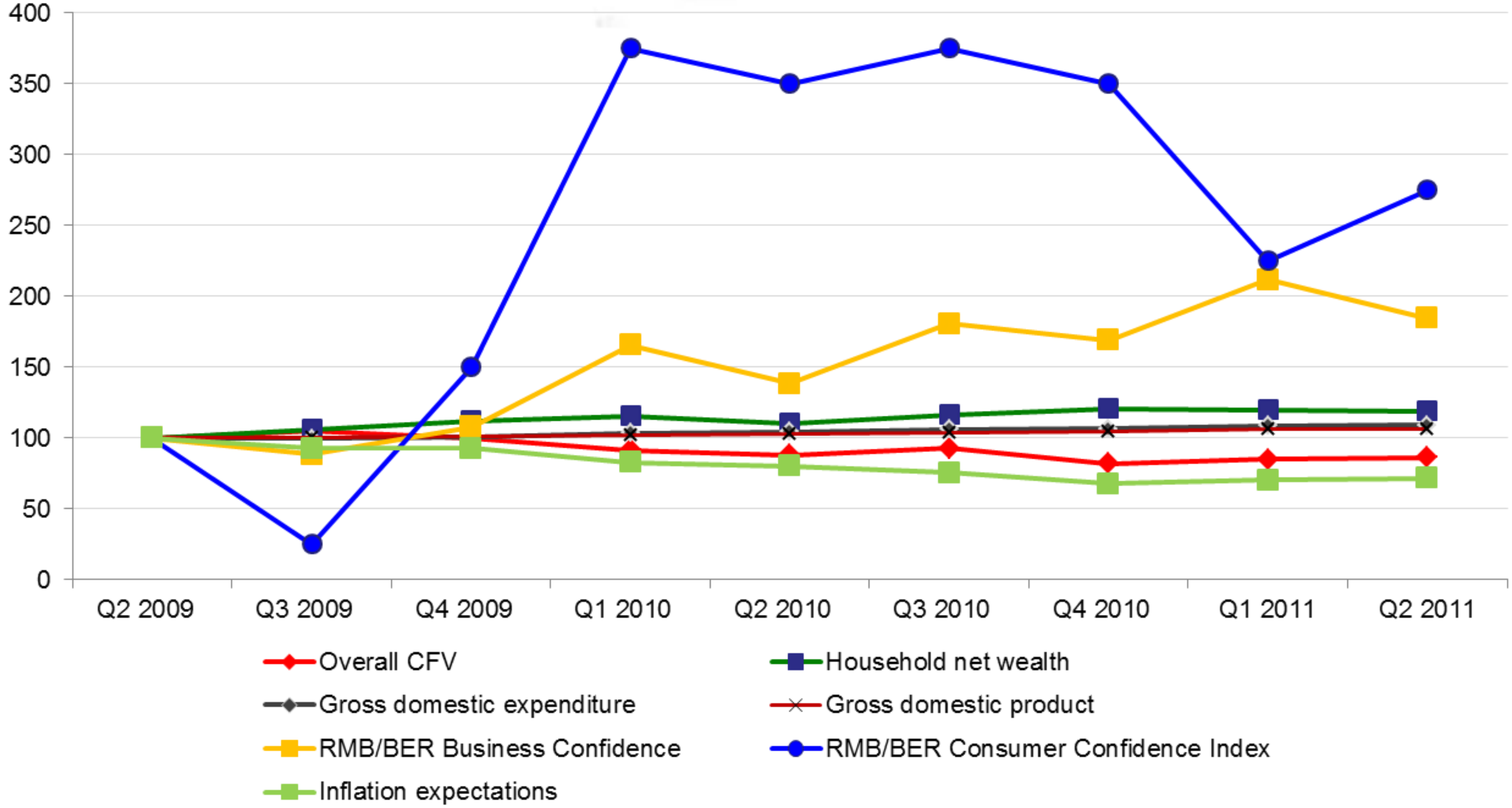
Overall CFVI



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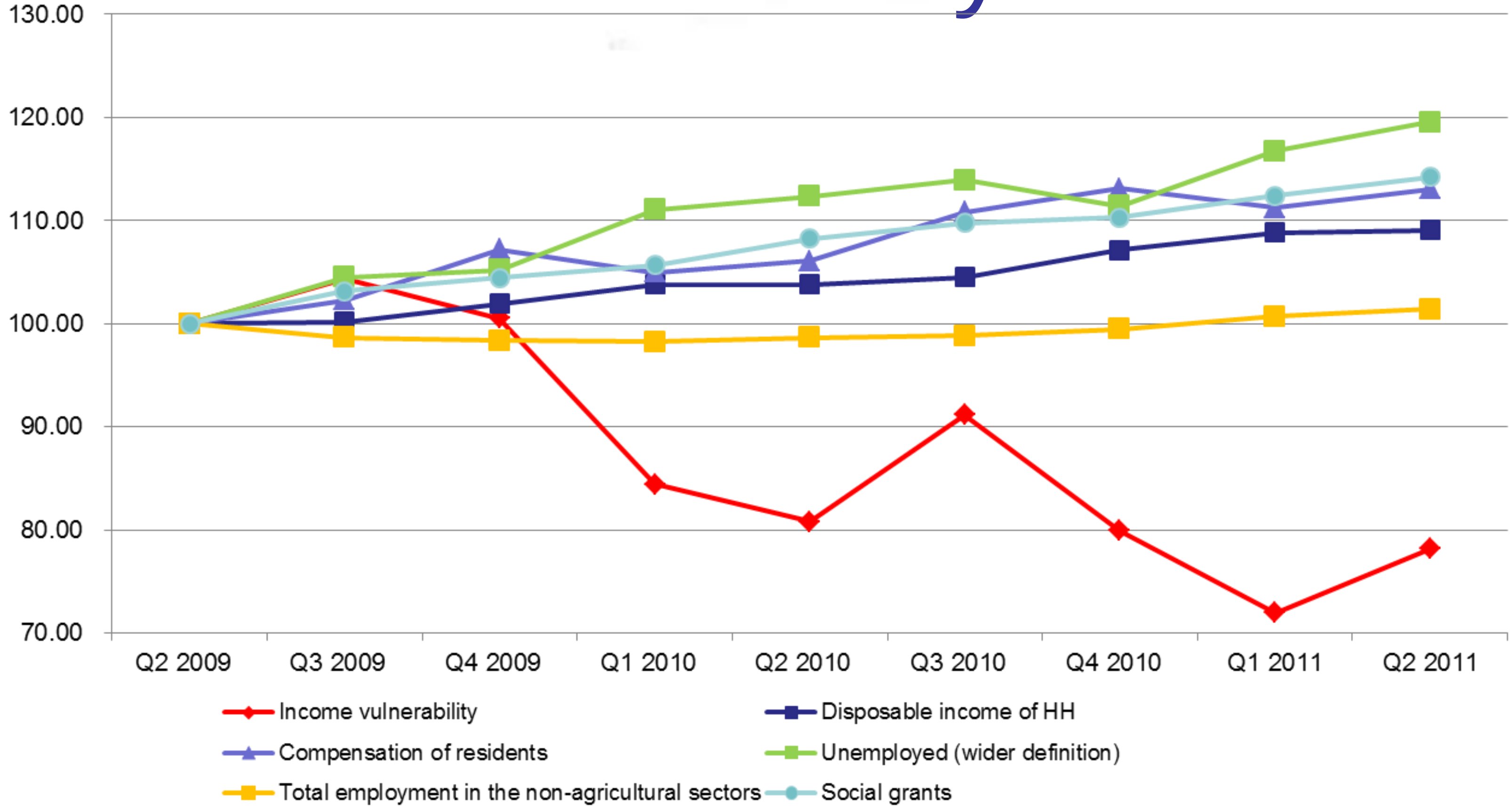
Income vulnerability



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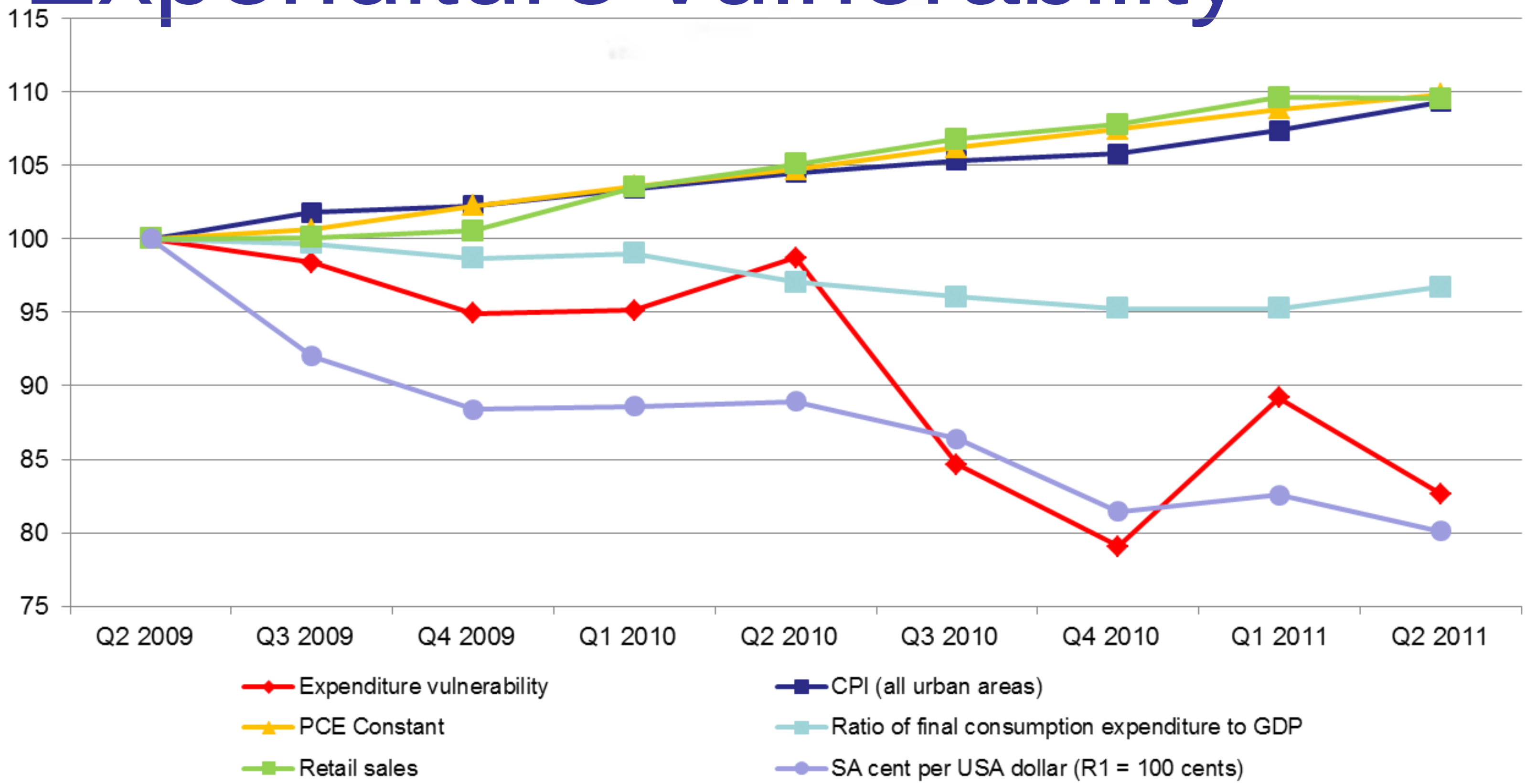
Expenditure vulnerability



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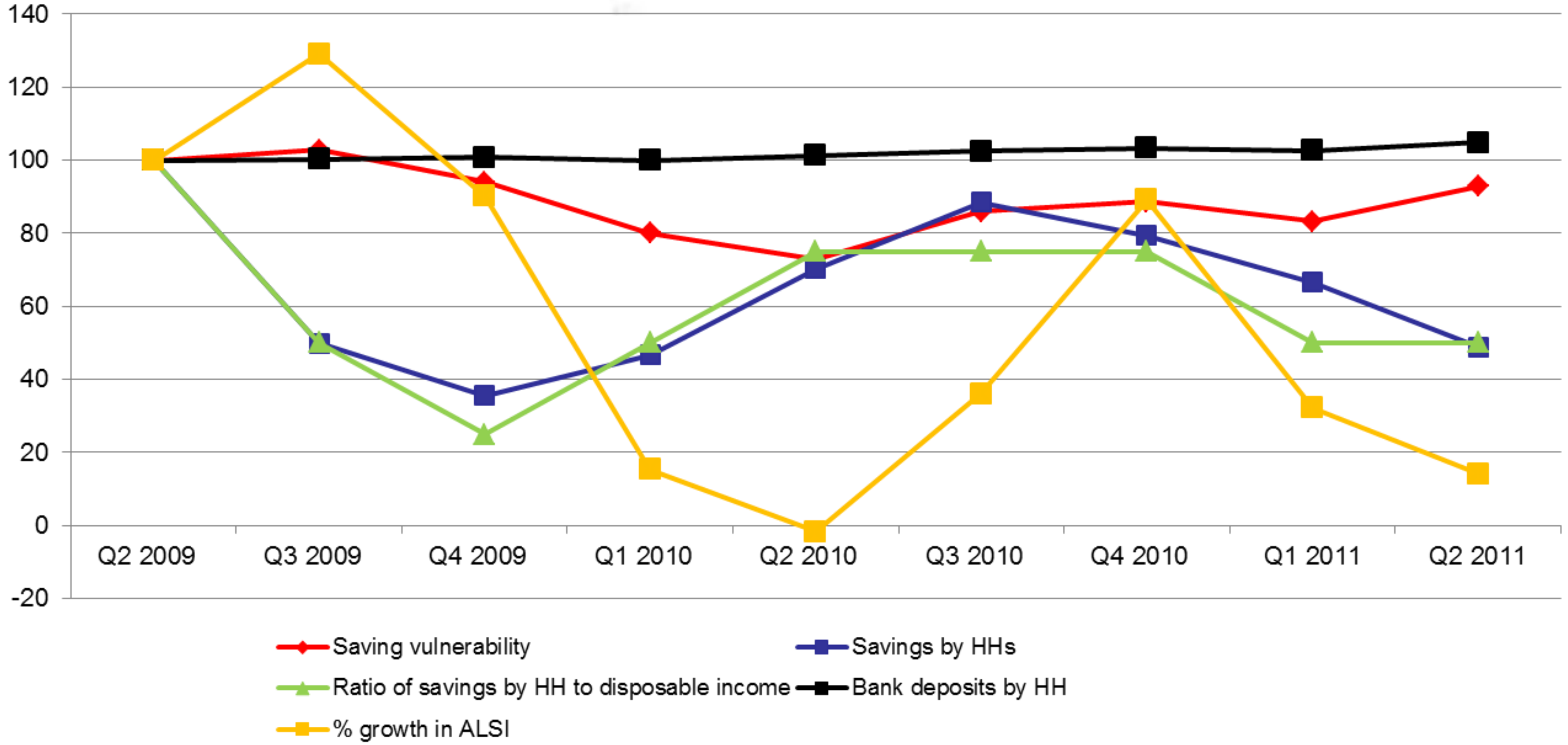
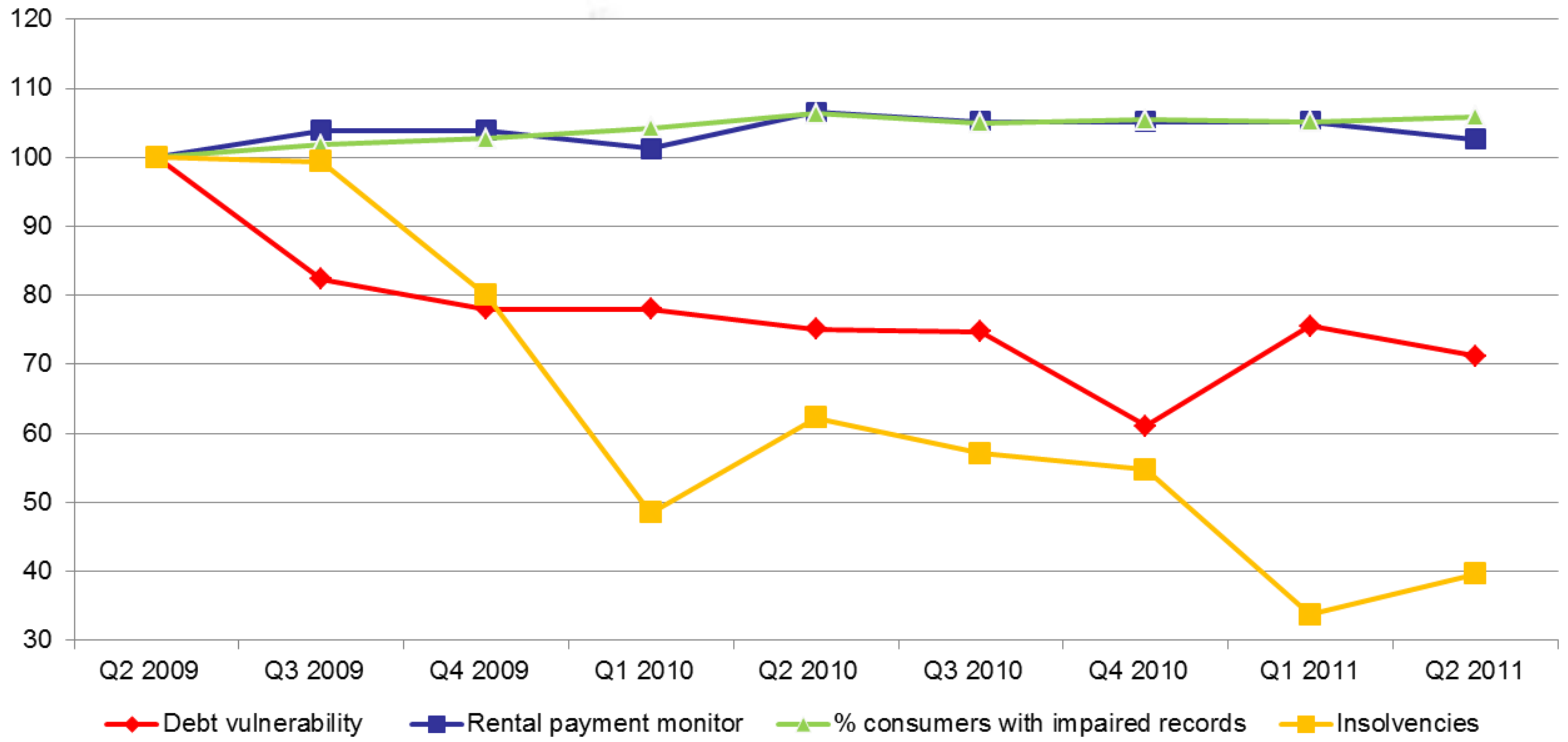
Savings vulnerability



Debt servicing vulnerability



Key informants' views

- 84.9%: consumers are not credit worthy due to their being over- indebted;
- 84.0%: consumers are not credit worthy due to impaired credit bureaux records;
- 81.1%: consumers are making arrangements to pay off debt over longer periods;
- 76.4%: consumers are enhancing their income with more credit facilities; and
- 74.5%: an increasing number of consumers are in arrears for three months or more.

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Reasons for Consumer Financial Vulnerability

- Consumers are spending more than they earn (76.4% of key informants);
- Bad financial planning (70.8% of key informants);
- Too much debt (64.2% of key informants);
- Not having sufficient savings to draw on (58.5% of key informants);
- Low income (57.5% of key informants); and
- Job losses (51.9% of key informants).

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Forthcoming attraction: Q3 2011

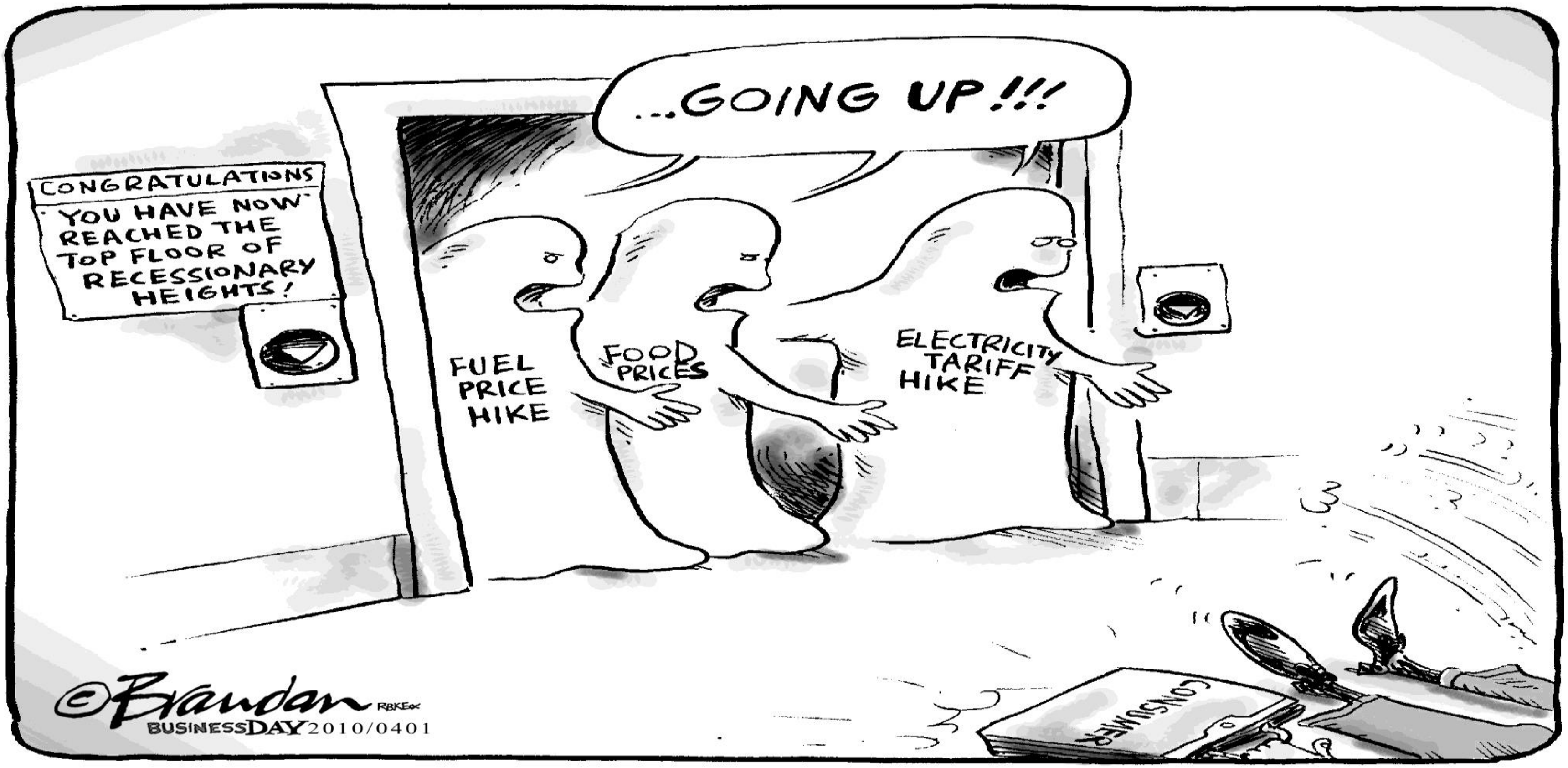
CFVI by:

• Province • Employment • Age • Population group	• Educational level • Profession • Income group • Source of income

Some more rainy days …..

- Low economic growth.
- Low employment growth.
- High levels of unemployment – millions are unemployable.
- High levels of poverty.
- Very unequal distribution of income.
- High levels of arrears on debt repayments.
- Very low savings rates.
- Social, political and economic uncertainty.

Thank you for listening.



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